



Institute for Governance
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IGPS Public Lecture

Divided Welfare? Tax funded welfare in Australia's targeted model

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Overview

- Our different reform stories
- Australia's accommodation
- Dual welfare, markets and targeting
- Retirement and tax concessions
- Housing: a changing story
- The politics of dualism

The end of the Settlement

- Setting: stagflation, fiscal crisis and the end of full employment
- Unwinding of a social compact: deregulation, privatisations, markets and workfare
- But different politics and important differences in outcome between countries

Two stories of reform

Australia

- Reform through Accord with unions
- 'Social wage' compensation
- Politics of compensation
- Emergence of 'affluence tested' welfare for older people and families
- Maintain tax rates, but with large deductions

New Zealand

- Reform by strong central government
- More radical inequalities
- Politics of retrenchment
- Older people defend entitlements, families subjected to workfare
- Flatten tax structure

The main social reforms

- Medicare:
 - Working with markets to contain costs, but new tax levy funds payments
- Retirement incomes
 - Occupational welfare as an alternative to taxation
 - Targeting public payments
- Families and kids
 - Targeting to minimise cost, but ‘affluence’ tested, not ‘means’ tested (except for child care rebate)

Changes to Social Spending

- Marketisation: working with the governance and institutions of markets
 - Accommodates private interests
 - Facilitates user payments
 - Competition used for discipline
- Targeting: reducing conflict over tax in face of neoliberalism
 - Increases 'efficiency' of taxation
 - Compensates for specific vulnerabilities

Division of Welfare

- Titmus' typology
 - Social welfare: direct spending and provision
 - Occupational welfare: via work
 - Fiscal welfare: via tax concessions
- Australia retains more progressive tax system, but combined with substantial concessional tax arrangements

Australia's dual welfare state?

1 st Tier	2 nd Tier
Direct spending is primary policy instrument	Tax expenditures and rebates are the primary policy instruments
Benefits are usually targeted based on need	Benefits usually supplement private welfare spending
Policy is delivered primarily through public provision	Spending subsidises private welfare providers
Distributional effect is highly redistributive	Distributional effect is less progressive or regressive

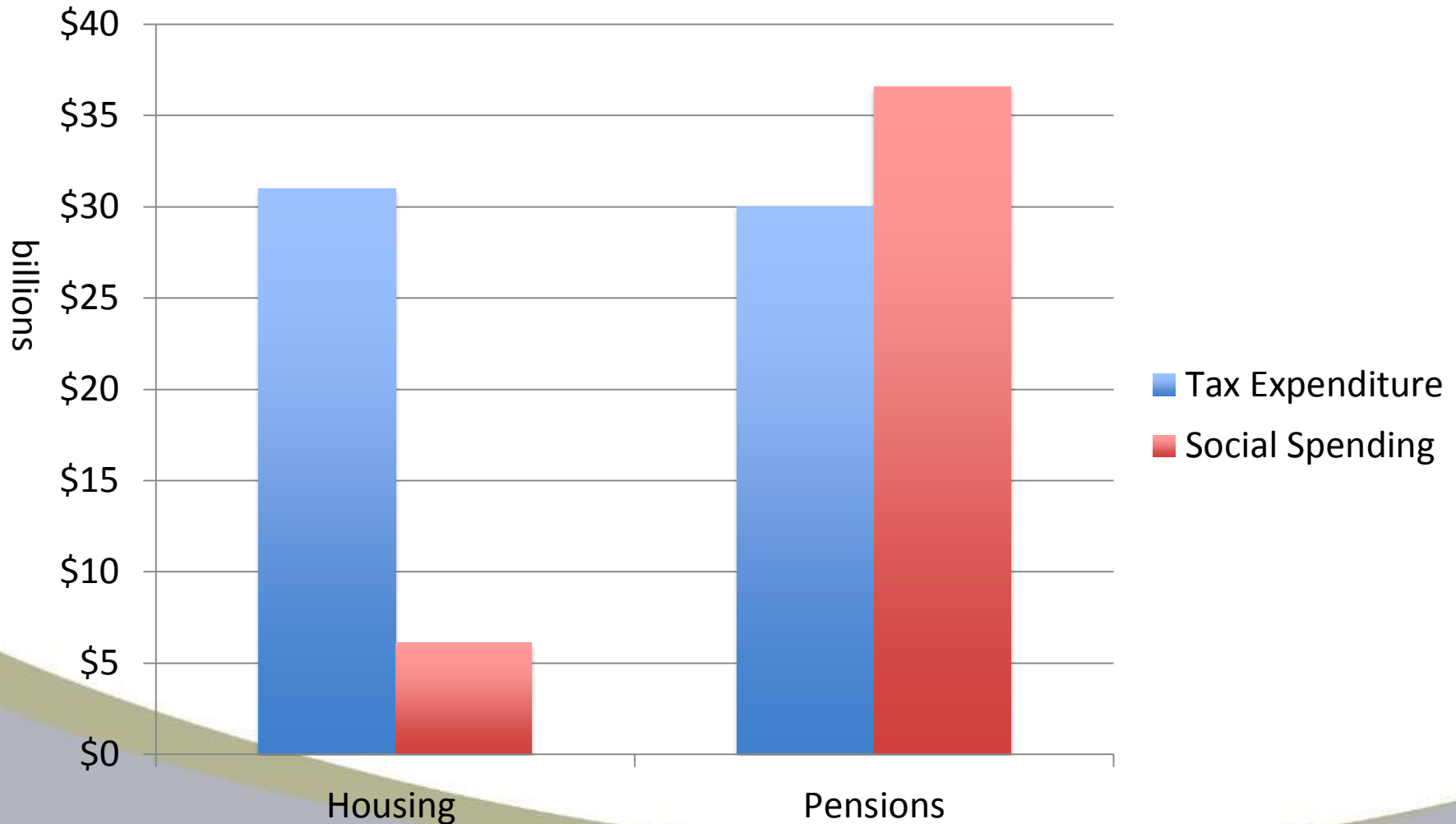
Housing, pensions and a savings welfare state

- Economic reform and concerns over population ageing lead policy makers to focus on support for savings rather than provision
- Primarily expressed through superannuation in Australia (KiwiSaver in NZ)
- However, strong interaction with housing, which is already based on a home ownership model of social provision

Tax and Savings

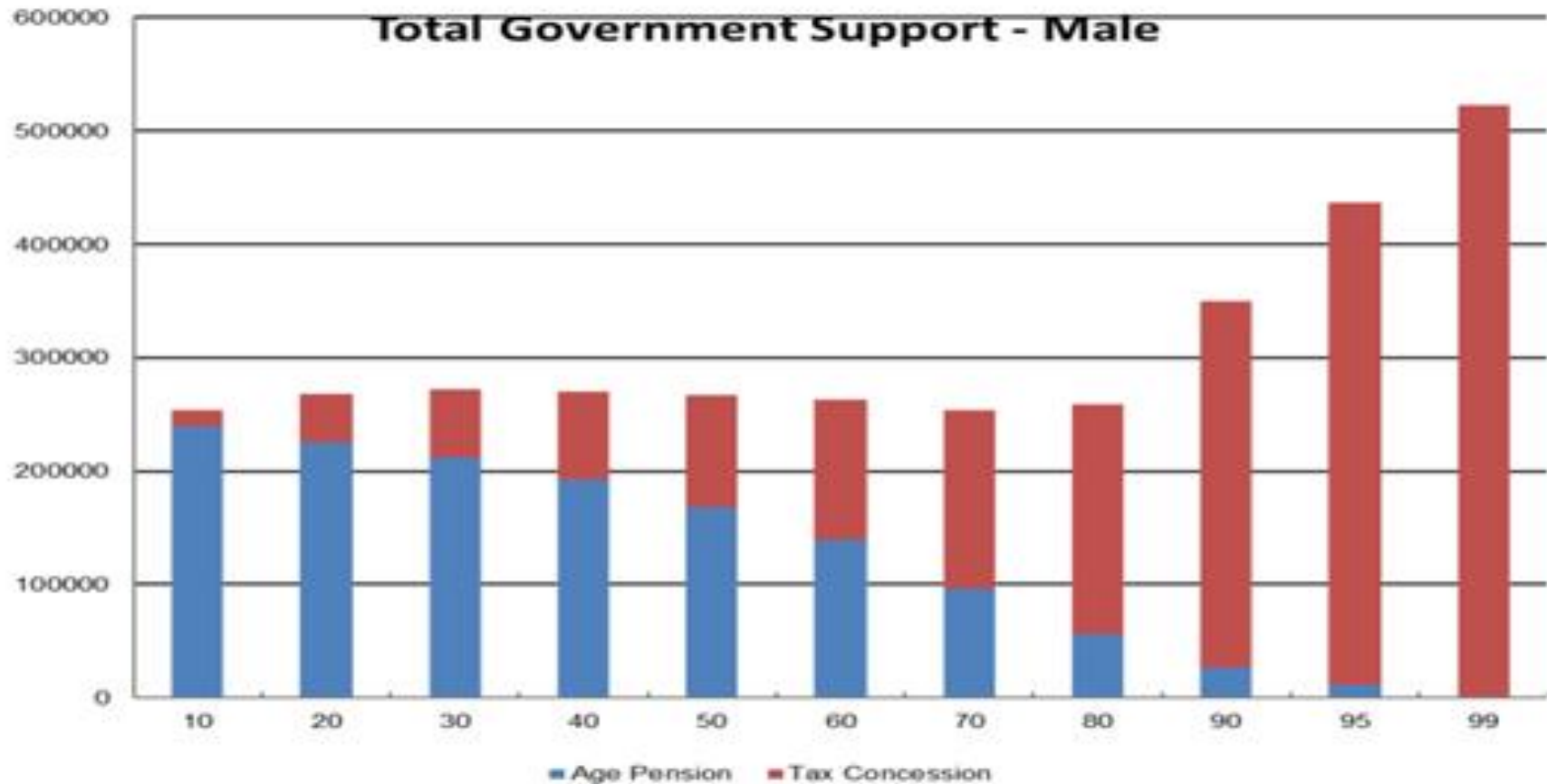
- Largest tax expenditures relate to savings:
 - Superannuation tax concessions (\$32.1b)
 - Housing Capital Gains Tax Concession (\$30b)
 - GST – Food exemption (\$6.2b)
 - GST – Health exemption (\$3.4b)
 - GST – Education exemption (\$3.4b)

Total Federal Spending 2011/12



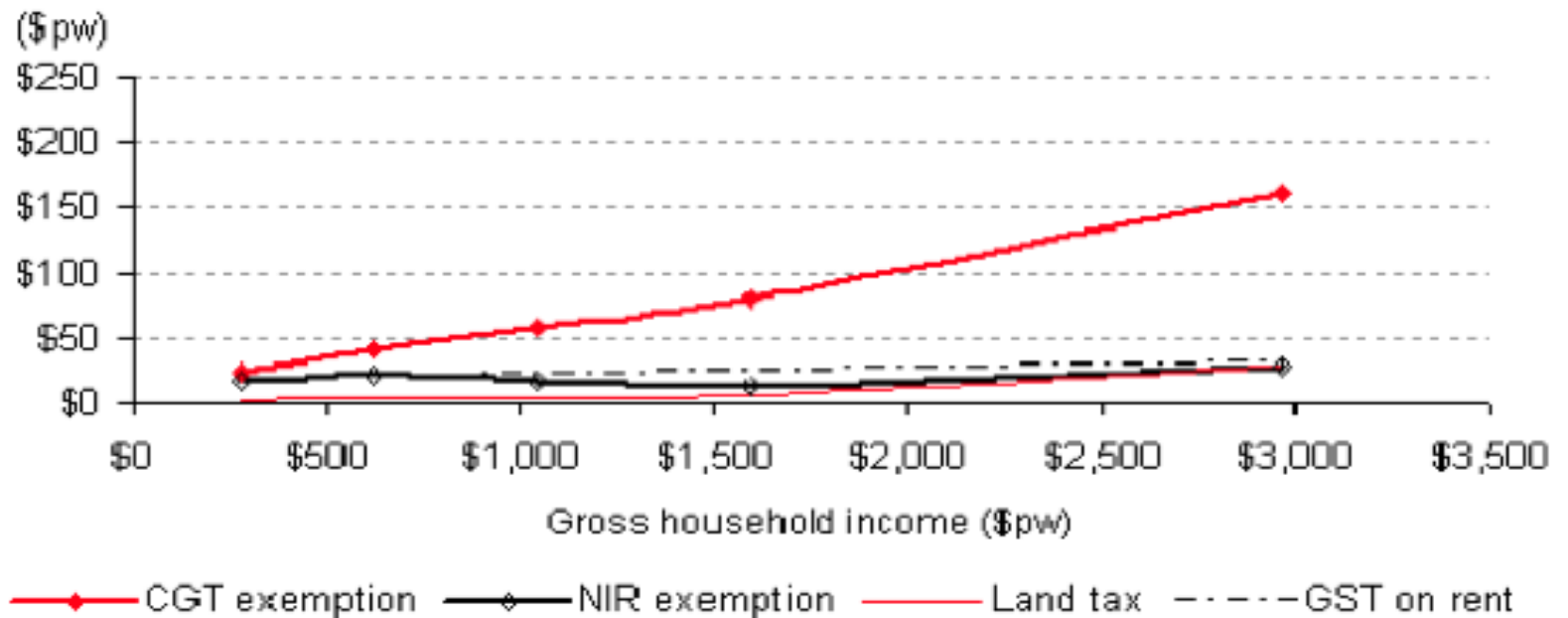
Source: Australian Treasury, Budget Papers & Tax Expenditure Statement; Productivity Commission, Report on Government Services

Dual Welfare: how we support retirement



Dual welfare for housing

Figure 1: Tax expenditures by household income and tenure, 2005-06

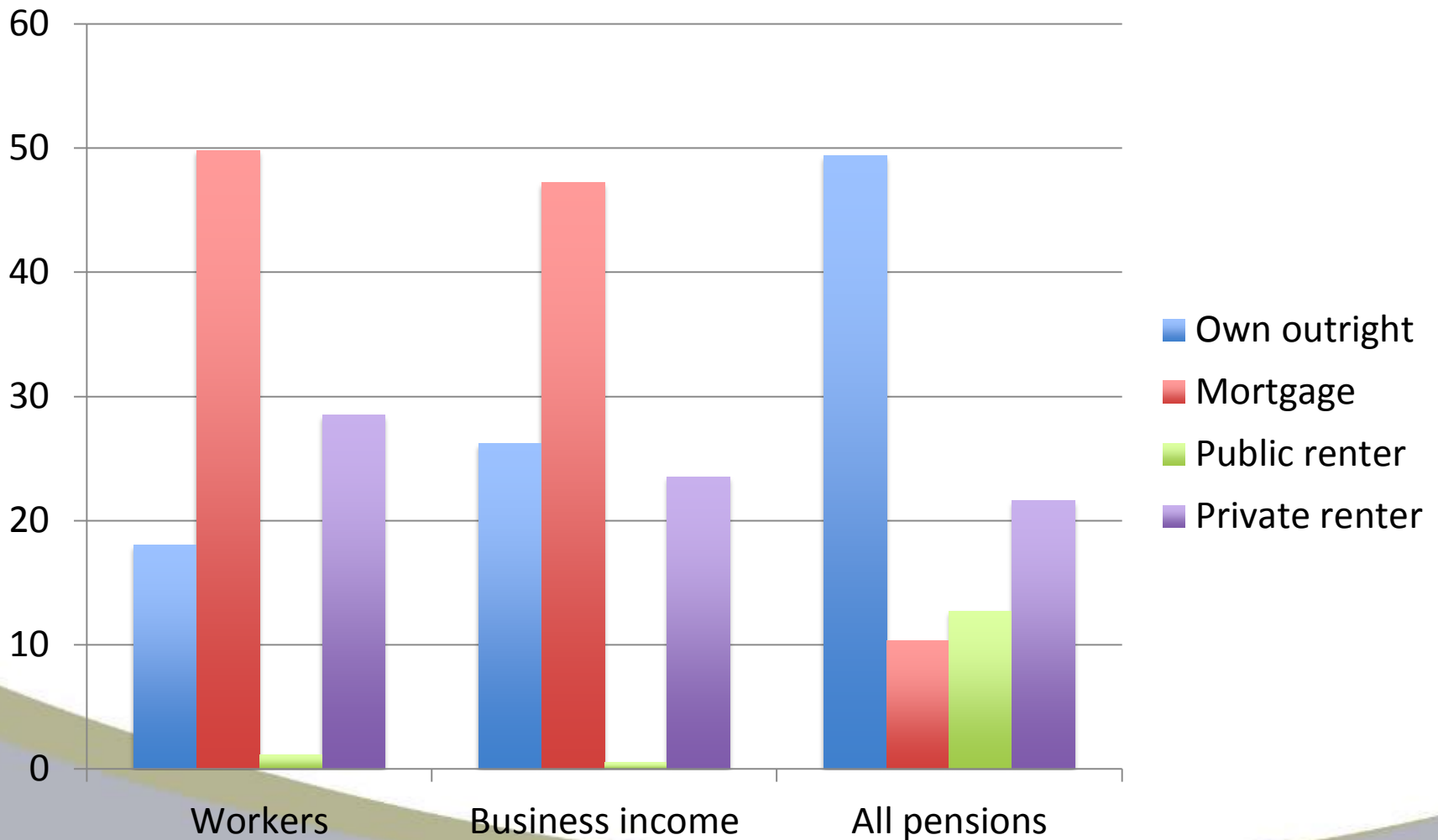


Source: AHURI, Tax Expenditures and Housing

Australia's housing story

- Overall home ownership rates in Australia are above average
- Uniquely home ownership obtained by low-income retired households in Australia
- Thus, home ownership is much more closely tied to age than income in Australia

Tenure type by main source of income

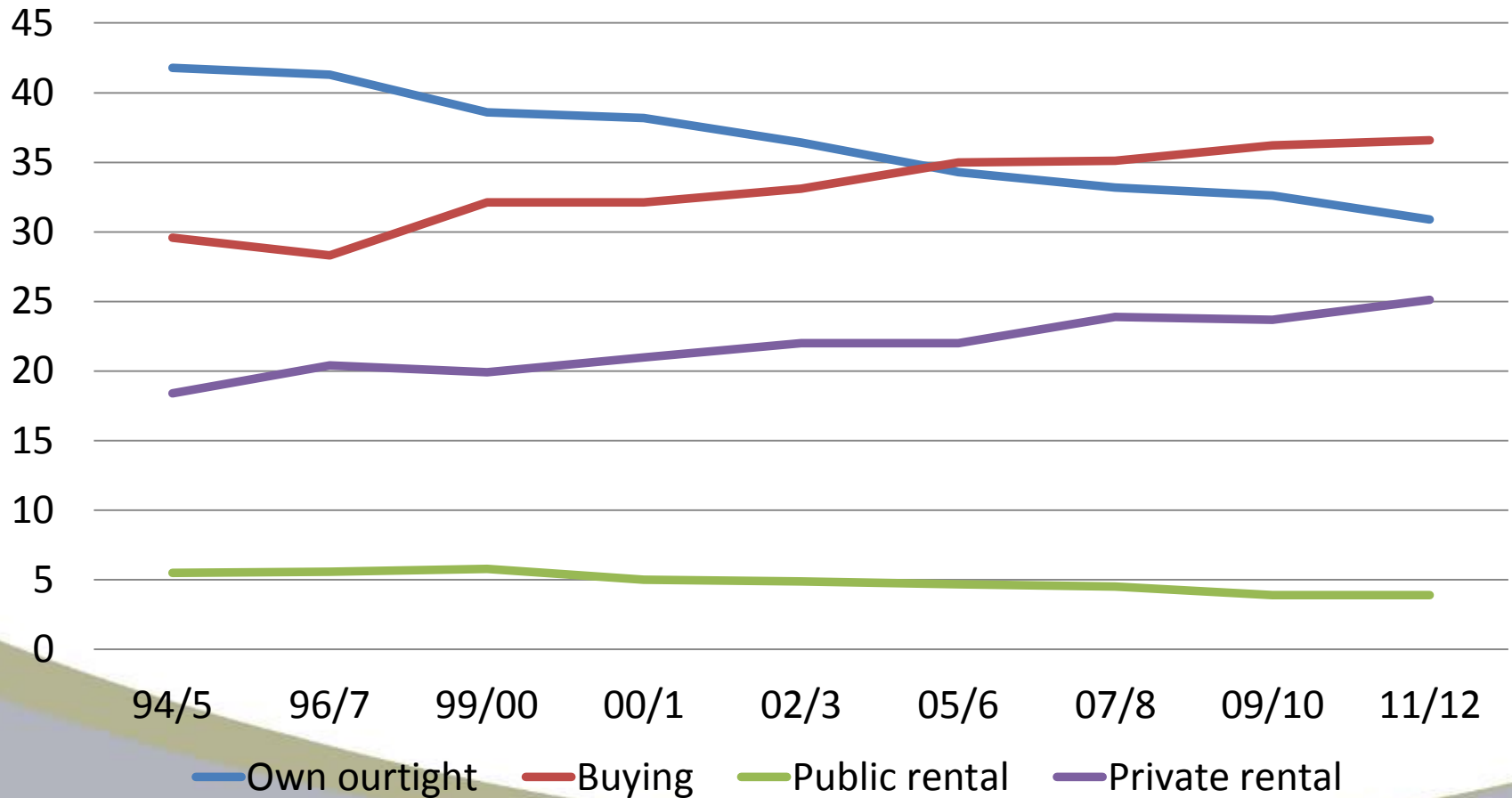


Two stories of savings

- Economic textbook: savings is a function of age. We save while working, gaining more wealth. Then we run down our savings in retirement, becoming less wealthy
- Piketty: As growth slows, inequality grows because old stocks of capital become relatively more important than new savings
- Q: Are the institutions that underpin high home ownership still in place?

A changing story?

Tenure Type All Households

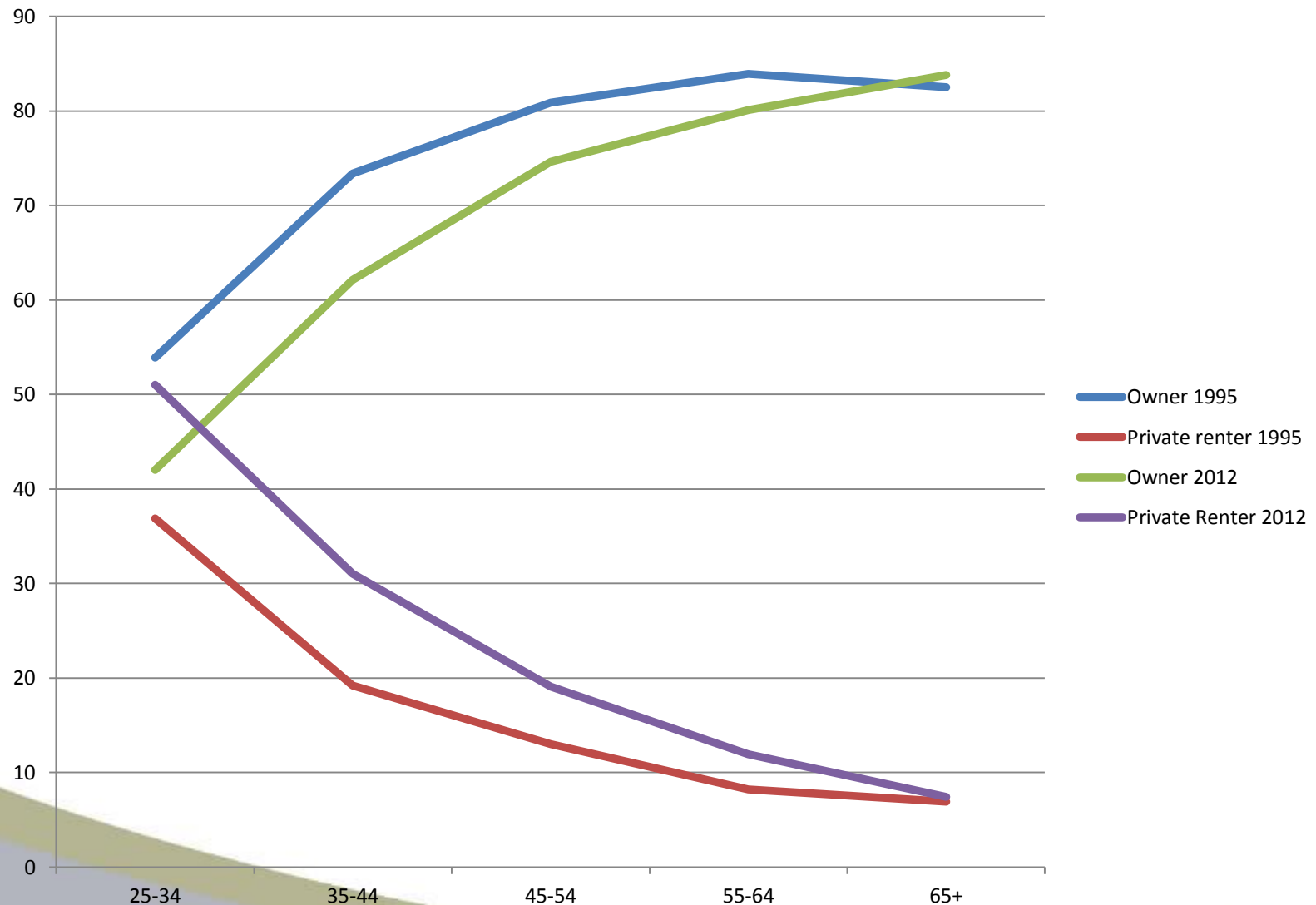


Little Change for Current Retirees

Housing tenure for individuals aged 65+ years, 2001 to 2012

Housing Tenure	1995 (%)	2011/12 (%)	Change (%)
Owner	77.5	76.3	-1.2
Mortgagee	5	7.5	+2.5
Private renter	6.9	7.4	+0.5
Public renter	7.4	4.7	-2.4

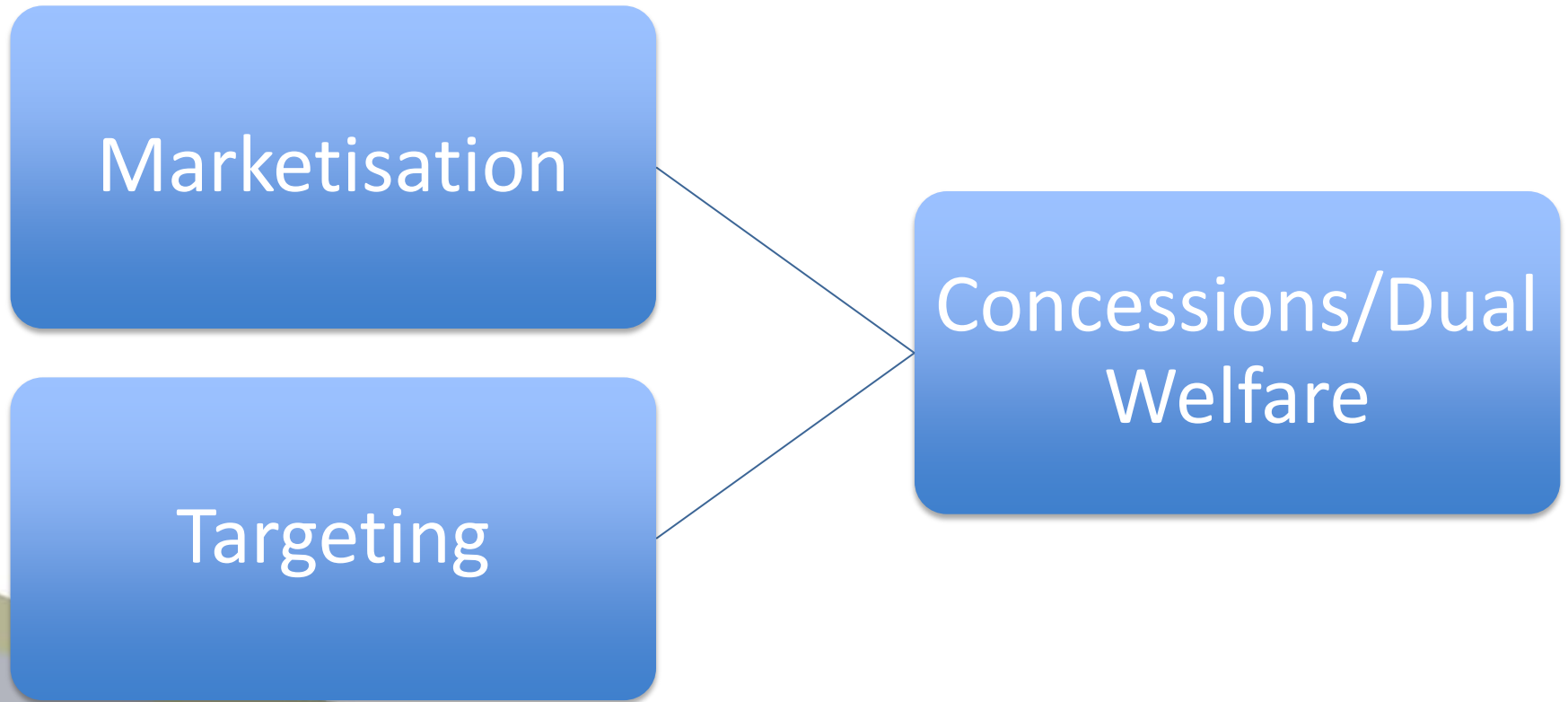
Is home ownership falling for younger people? Housing tenure by age, 1995 & 2012



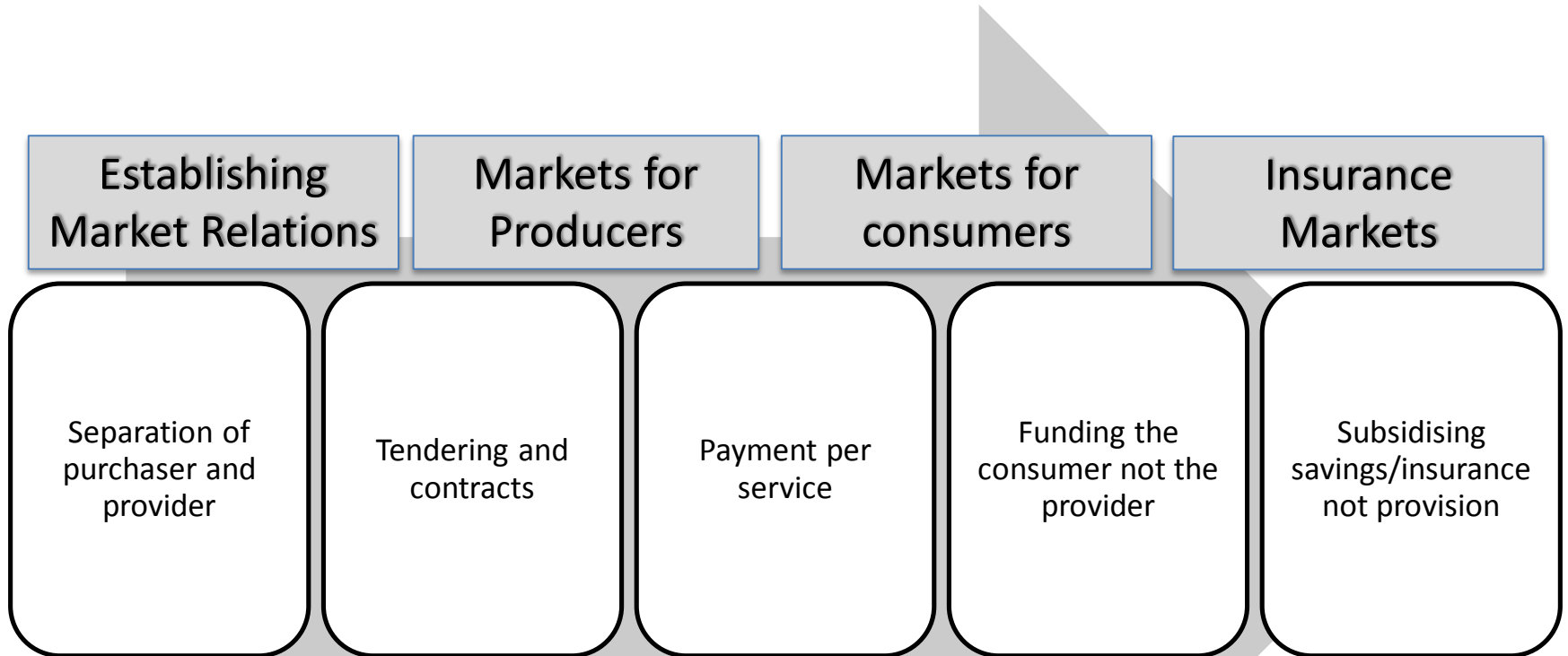
How is private rental changing? Housing tenure by age, comparison with previous projections

Age group	Census 2001	2011/12 (%)	Projected 2026	Difference
25-34	51	42	51	-9
35-44	69	62	67	-5
45-54	78	74	68	+6
55-64	82	81	76	+3
65+	82	85	82	+3
Total	70	68	69	-1

But where does it lead?



Modes of Marketisation



Dualised welfare of provision

- New social programs entrench a two-tiered marketised structure into key areas of social provision
- Support for private sector involves subsidies to the purchase of private alternatives (PHIR; Super tax concessions)
- This support is both expensive, and creates new powerful constituencies of private providers and more affluent consumers

New Modes of Social Payments

Means-Tested

- Newstart
- Rent assistance
- Parenting payments?
- Disability payments?

Affluence tested

- Pension
- Family payments

Affluence targeted

- Superannuation
- Private health
- Child care?

New Partisanship?

- Market restructuring is associated with a decline in partisanship and ideology
- Convergence on marketised forms of social provision
- But ongoing partisanship over redistribution
- Politics of marketisation: new interests have low visibility means to support dual welfare
- Politics of targeting: as the target gets smaller, political power reduces