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## Should We Abolish the Department of Social Security?

Despite the mammoth budget of the Department of Social Security—\$9,700 million in 1980-81—many people still live in comparative poverty. The remedy is not to further expand the already huge outlays, but to make genuine “need” the only test for the receipt of benefits. The “negative income tax” concept should receive consideration.

In the current financial year, the Federal Government expects to spend \$9,700 million—27 per cent of total budget outlays—on the activities of the Department of Social Security. Despite this massive expenditure—almost 10 per cent of G.D.P.—there is constant criticism that our social security system is not making adequate provision for the genuinely poor and that what provision it does make is often inequitable, discourages people from entering the work force and is excessively costly to administer.

To alleviate poverty a social security system should allow for the coverage of all potentially poor people besides providing adequate support for those with insufficient private means. In spite of the mammoth expenditures of the Department of Social Security, the present system does not cover all poor people.

The suggestion that current pensions and other benefits may be inadequate is, of course, open to argument. Adequacy can be determined only in relation to an acceptable poverty line. But the choice of such a line is a highly subjective matter. However, if we accept what has become known as the Henderson poverty line\*—and both major political parties appear to have done so—

then we must conclude that some pensions and benefits are inadequate. For example, in November 1978 an unemployed single parent with three children received a benefit of \$90.20 a week, only 74 per cent of the poverty line of \$121.40 for a family of that size.

The coverage of the present system is not exhaustive, mainly because the system is based on the categorization of recipients. The categorization is on the basis of “disability” such as age, sickness and unemployment. There are, however, a number of people who do not fit into any official category but are living on incomes below the poverty line. According to the Poverty Commission about 25 per cent of all poor did not have any specific disability which would make them eligible for a pension or benefit.

On the other hand, whereas there are some poor not covered by the existing system, there are many beneficiaries who are not poor. The system is also inequitable because people in very different circumstances can enjoy similar benefits,

An example of this is the family allowance scheme where all children attract assistance

regardless of the financial circumstances of the family. In fact, five out of every six children belong to non-poor families.

A further inequity of the system arises when people in what appear to be similar circumstances receive different levels of assistance from the Department of Social Security. For example, a single aged pensioner receives 10 per cent more than a person on unemployment benefit, yet the only difference between the two may be a small age gap.

The fact that people in different economic circumstances may receive the same benefit is not only inequitable, it is also economically inefficient. It means that the resources available for social security are not concentrated where they are most needed. As a consequence it becomes difficult to alleviate poverty and ever-increasing amounts of money are allocated to the Department of Social Security. Indeed, expenditure on social security has been a major reason behind the rapid increase in the size of the public sector in Australia in the past ten years. In the ten years to 1978-79, Federal Government expenditures as a proportion of G.D.P. increased from 24 per cent to 29 per cent. The near doubling of proportion of G.D.P. directed to social security (from 4.2 per cent to 8 per cent) has accounted for one-third of the growth in Federal Government expenditure.

There are a number of reasons for this increase – for instance, the growth in the proportion of aged people in the population – but any move towards provision of universal instead of selective benefits will clearly add greatly to the costs of the system.

The problem of increasing cost will become more serious in the future. Even without new categories of beneficiaries, the

number of dependants on social security is growing faster (2.4 per cent last year) than the number of people in the workforce (about 1 per cent last year),

Also, any system that discourages work effort will increase the cost of providing social security. The categorization of benefits, for example education and rent allowance, by type of need (in addition to categorization by disability as discussed above) can produce a powerful disincentive to work. Individuals who receive more than one benefit may have all their benefits withdrawn simultaneously, following an increase in private income. The effect of this may be to leave the individual worse off than before the increase in private earnings from work.

The categorization of benefit recipients by “disability” has two further disadvantages,

First, the process of categorization is complex and costly to administer. Currently, it is costing over \$150 million a year just to run the Department of Social Security. (Exact figures are hard to come by since the Department does not publish figures for some major items such as rent, repair and maintenance). It appears that the cost of disbursing one dollar of social security is more than twice the cost of collecting one dollar of tax.

Second, the process of categorization by disability, and the complex criteria and variety of agencies which it involves, may compel individuals applying for benefits to undergo a thorough investigation not only to ascertain whether they qualify for benefits at all but also to determine which categories of benefits they are entitled to receive. The potential beneficiary may feel that he or she is being stigmatized and suffer a loss of personal dignity.

\* \* \* \* \*

The inescapable conclusion is that the present structure has not provided Australia with an efficient and economical system of social security. The universal elements of the system and the categorization of beneficiaries are the main weaknesses. A system where **all** payments are **on** the basis of economic need alone would appear to have overwhelming advantages. One scheme worthy of consideration is known as the "negative income tax".

Under such a scheme those with an income above a certain threshold will pay tax, as most people pay now. People with an income below the threshold would, after satisfying a work test, receive payment (the negative income **tax**) from the Government. The negative income tax would not depend on the individual's age, health, employment or **any** other status. At the same time no one would receive a benefit simply because of their particular status.

Such a re-structuring of the system would not only go further towards alleviating poverty in Australia, but would do so in a more equitable, economically sensible and administratively efficient manner, and with less stigmatization than the present system.

A negative income tax would do more to alleviate poverty than the present system because, in the absence of categorization, all persons in need will be eligible for assistance. **Also**, with a highly selective system a given social security budget would be directed exclusively to those in need, and is therefore more likely to provide adequate benefits.

The absence of categorization, and the consequent similar treatment of people in similar circumstances, would make the system **more** equitable.

**In** the first instance, the negative income tax could replace or incorporate the old-age

pension, service pensions, invalid pensions, widow pensions, supporting parent benefit, unemployment and sickness benefit, guardian allowance, mother's allowance and the family allowance. But, in addition, the scheme could incorporate areas currently not covered by the Department of Social Security: for example, the Tertiary Education Assistance Scheme, and Secondary and Adult Allowances administered by the Commonwealth Education Department as well as some State Welfare Department benefits, such as those for deserted wives.

Since work disincentive arises mainly from the multiplicity of programmes, and the lack of co-ordination between them, the more programmes that are incorporated into the negative income tax the more likely is the disincentive to work to diminish.

Also, since the high cost of administering the present system is, at least in part, due to the categorization of disability and type of need, the negative income tax can be expected to be much less costly to run.

Once considerations other than economic status have been removed from the social security system, there would no longer be a need for separate departments to administer the collection of income tax and the disbursement of benefits. Indeed, with many individuals moving several times in one year from a position of positive tax-payers to one of negative income tax recipients, there would be substantial gains in efficiency from a closer co-ordination of the two activities.

In the absence of categorization and with positive and negative transfers handled by one department, every one from the very wealthiest to the poorest would deal with the same department, thereby removing the stigma sometimes attached to assistance

received from the Department of Social Security.

Some activities of the Department of Social Security cannot be incorporated into a negative income tax. In particular, these are activities that involve counselling and assistance and rehabilitation. Whether or not a negative income tax is introduced, these activities are probably better provided from a point closer to where they are needed. **As** such they are probably best transferred to State or Local Governments.

There would, of course, be problems in the integration of the Social Security and Taxation Departments. In particular, the tax system and the Social Security system

use different concepts of income and income units and different assessment periods. Social Security assumes that income is shared within the family (man, wife and dependant children) while income tax is levied more or less on an individual basis, with little regard for the family circumstances of the tax-payer.

Even if the activities of the two Departments are not combined there is a strong case for a common approach to the income unit. The transfer of social security payments to the Taxation authority might then produce a long overdue review of our approach to the unit of taxation.

\* **Footnote:** Although using the Henderson poverty line for purposes of illustration we believe that it is open to serious criticism as an acceptable measure of poverty.