



An Australian Entitlements Commission

A proposal for an independent commission to inform decisions about the adequacy of pensions and other income support payments

22 September 2008

Contact: Frank Quinlan
Executive Director

Catholic Social Services Australia
PO Box 326, Curtin ACT 2605
Telephone: 02-6285 1366
Mobile: 0409-655 460

Summary

This paper puts the case for the establishment of an independent Entitlements Commission to set and review pensions and other income support payments. In the absence of a credible standard of adequacy, decisions are made on an ad hoc basis and are prone to political whim.

The paper argues that despite the fact that Australia's income support system is more progressive than most other countries, it remains inadequate.

Adequacy is not just a problem for age pensioners and carers. It is a problem for anyone who has to rely on income support for extended periods of time.

The Entitlements Commission

An independent Commission would review the adequacy of pensions and other income support payments without political interference and "argy bargy".

An adequate standard of living is one that allows an individual to live in frugal comfort, maintain their dignity, and take part in the life of the community.

The Commission would operate at arms length from government in much the same way as the Fair Pay Commission, the Commonwealth Remuneration Tribunal and the Reserve Bank of Australia.

Its Terms of Reference would be public and its decision making processes transparent.

The Commission would be ongoing and the government would appoint members for a fixed period (for example, 4 years).

Before making each decision the Commission would call for submissions and hold public consultations.

In setting adequacy benchmarks the Commission should consider:

- the goods and services necessary to live in reasonable comfort, maintain dignity and take part in the life of the community;
- the contribution of in-kind government support provided through measures such as the Seniors Card, Medicare, public housing and subsidised transport;
- differences in the cost of living between income support recipients who own their own homes or have access to public housing and those who rely on the private rental market;
- differences in the cost of living for income support recipients in different geographical areas;
- differences in the cost of living for income support recipients living in different family/household types.

The Commission could include:

- Academics with expertise in poverty research and income support policy.
- Representatives of the community sector.
- Representatives of the business community with expertise related to cost of living issues.
- Retired MPs or senior public servants with relevant experience.

Discussion

In support of the call for an independent Entitlements Commission, the paper examines the history of the adequacy of Australia's income support system, exposing the ad hoc nature of decisions and the absence of an enduring set of principles to guide decisions about adequacy.

It paints a picture of a system inspired by short term political considerations.

It exposes a system where "deservedness" has played an important role, excluding people who were not of good character.

Successive Australian governments have avoided making any judgments about what an acceptable living standard for Australians might be.

The closest the Australian Government has come to answering the question was to commission the Social Policy Research Centre to assess the adequacy of income support payments using a budget standards approach.

The paper discusses the Whitlam reforms of the early 70s, noting that in 1974 deservingness was no longer a legal requirement for pension eligibility.

But after the change of government in 1975 the principle that payment should be based on need was dropped. The Fraser Government froze single rates of unemployment benefits to allow them to fall behind the pension rate. It was not until the Hawke Government took office that the principle of payment according to need, re-emerged.

The paper discusses the impact of the Social Security Review, commissioned by the then minister for social security, Brian Howe in 1986, in which Bettina Cass argued that there is no evidence that the basic income support needs of the unemployed are less than those of pensioners.

In 1995, Peter Baldwin, then Minister for Social Security, reaffirmed the goal of targeting payments according to need, and he also argued for tighter targeting of those payments.

The paper looks briefly at the key design principles of Australia's income support system, including a basic acceptable standard of living, equity, targeted payments, the promotion of participation and self provision and sustainability, with adequacy as the primary principle.

The paper discusses the historic justifications given by both sides of government for inadequate rates of payment, demonstrating that other objectives have overridden the objective of adequacy.

The paper discusses objections to setting adequacy benchmarks, commenting on the complexities of individual circumstances, the vagueness of adequacy and the arbitrariness of adequacy judgments. It discusses the importance of setting benchmarks for a budget standards approach to adequacy, the cost of a basket of goods and services, citing work by Professor Peter Saunders.

The paper also cites evidence presented to the recent Senate Community Affairs Committee's Inquiry into the Cost of Living Pressures on Older Australians.

Historically income support payments have been set in an arbitrary fashion. Policy makers have rarely taken a structured approach to balancing adequacy, incentive effects, affordability and sustainability. And even though the government has acknowledged that payments should be sufficient to support an adequate standard of living, there is currently no officially recognised standard of adequacy.

The technical issues involved in establishing credible benchmarks of income adequacy are well established. Appropriate methodologies have been developed for use in the Australian context.

The major hurdles are not technical but political.

Unless the community insists that government should meet standards of accountability, the system will not change.

| | | |
|-------|--|----|
| 1 | Entitlements based on need not politics | 7 |
| 2 | Current payments are inadequate..... | 7 |
| 3 | What gets measured gets done | 11 |
| 3.1 | Adequacy as an objective..... | 11 |
| 3.2 | Adequacy and the history of Australia’s income support system..... | 12 |
| 3.2.1 | Aid for the deserving: 1908 – 1951 | 12 |
| 3.2.2 | Ad hoc adjustments | 13 |
| 3.2.3 | The Whitlam reforms | 14 |
| 3.2.4 | The Social Security Review | 15 |
| 3.2.5 | Beyond the Safety Net..... | 15 |
| 3.3 | Attempts to set adequacy benchmarks..... | 15 |
| 3.3.1 | Linking pensions to an index of average earnings | 16 |
| 3.3.2 | Benchmarking using a budget standards approach | 16 |
| 4 | The problem of trade-offs..... | 17 |
| 4.1 | Key design principles of Australia’s income support system | 17 |
| 4.2 | Adequacy as the primary principle..... | 18 |
| 4.3 | Competing principles | 18 |
| 4.4 | Justifications for inadequate rates of payment..... | 19 |
| 4.4.1 | Examples of tradeoffs | 19 |
| 4.4.2 | Competing objectives and adequacy standards..... | 20 |
| 5 | Objections to setting adequacy benchmarks..... | 21 |
| 5.1 | The problem of individual circumstances | 21 |
| 5.2 | The vagueness of ‘adequacy’ | 21 |
| 5.3 | The arbitrariness of adequacy judgments | 22 |
| 5.4 | What if income support payments are already adequate | 22 |
| 6 | Creating benchmarks for income adequacy | 23 |
| 6.1 | Adequacy — a budget standards approach..... | 23 |
| 6.2 | A question of political will..... | 23 |
| 7 | Creating an Entitlements Commission — a proposal | 23 |

| | | |
|-----|--|----|
| 7.1 | Purpose of the Commission..... | 23 |
| 7.2 | Why establish an independent commission? | 23 |
| 7.3 | Proposed terms of reference | 24 |
| 7.4 | Composition of the commission | 24 |
| 7.5 | Operation of the commission | 25 |
| 8 | Conclusion | 25 |

1 Entitlements based on need not politics

Almost everyone recognises that income support payments to age pensioners are inadequate. And if this is true for elderly Australians it is also true for many other people of working age who depend on pensions and allowances to support themselves and their families.

While there is a growing awareness of the inadequacy of income support payments there is no credible standard of adequacy to guide decisions about the amount of support various groups of income support recipients ought to receive. In the absence of such standards, decisions tend to be made in an ad hoc way in response to political pressure.

Catholic Social Services Australia proposes the establishment of an independent Australian Entitlements Commission to set and adjust standards of adequacy. This body would operate at arms length from government in much the same way as the Fair Pay Commission, the Commonwealth Remuneration Tribunal and the Reserve Bank of Australia. Its terms of reference would be public and its decision making processes transparent.

An independent Entitlements Commission would depoliticise decisions about income support adequacy and consider the needs of all recipients regardless of their level of political influence. The current ad hoc process has contributed to the complexity and inconsistency of the income support system and has tended to overlook the needs of vulnerable groups who lack the ability to lobby effectively.

In a country as wealthy as Australia, nobody should be left to survive on an inadequate income. The fact that so many people are, says more about our priorities than our capacity to afford a decent safety net. Inadequacy is the result of trade offs. We sacrifice adequate incomes for the vulnerable when we value other objectives more.

If we value transparency and accountability we should insist that our governments make trade offs explicitly rather than covertly. In a transparent and accountable process, policy makers would provide a definition of adequacy, set benchmarks and — if income support payments are not adjusted to meet them — provide a justification.

2 Current payments are inadequate

There would be little need for an Entitlements Commission if income support payments were paid at an adequate level. Unfortunately, they are not. Australia's income support system is efficient and highly progressive, but it is not generous. Many recipients (and not just age pensioners and carers) endure years of their lives at a standard of living that, by any reasonable community standard, is not acceptable.

When the Senate Community Affairs References Committee conducted an inquiry into poverty and financial hardship during 2003–04, non-government senators acknowledged that “for many people the assistance provided by the income security system is barely adequate to ensure a reasonable standard of living and that serious gaps persist that need to be addressed.”

As a result, the majority report recommended a substantial increase in all income support payments. The majority report called for a gradual increase in the rate of both pensions and allowances to a rate that is substantially higher than the current benchmark of 25 per cent of Male Total Average Weekly Earnings currently applied to pensions.

Government Senators saw the situation differently at the time. “It is a statement of fact”, they wrote, “that Australia has one of the best and most generous income support systems in the world.” The

suggested that if some Australians endure an unacceptably low standard of living, it may well be because they drink too much, gamble too much, or are illiterate, disabled or mentally ill.¹

As a number of commentators, have pointed out, Australia's income support system is far more generous to those on low incomes than it is to those on middle or high incomes. It is a highly progressive system. Compared with other developed countries a far greater share of the benefits flow to those on the lowest incomes. While many other OECD countries offer social security benefits to medium and high income earners, Australia's system is more tightly targeted, and rightly so.

But, as the OECD's Peter Whiteford² argued, it is a mistake to equate relative generosity with adequacy:

It is essential to note, however, that the fact that Australian benefits for poor families are generous compared to many other countries does not in itself mean that benefit levels are adequate, or that there is not a case for increasing them. Adequacy of benefits can only be defined by reference to the living standards that Australian benefits afford in Australia, and political and social judgments about what is an acceptable living standard for Australians. The fact that benefits for the Australian poor are higher than benefits for the Italian poor does not help anyone in Australia pay the rent or any other bills (Whiteford 2005).

Successive Australian governments have avoided making any judgments about what an acceptable living standard for Australians might be. Some of the arguments used to divert attention have included:

- a job is the most effective solution to the problem of poverty and that they intend to significantly reform the welfare to work system;
- income support adequacy must be balanced against incentives to work and the sustainability of the social security system (especially given the aging of the population);
- the government provides a range of other payments and in-kind benefits that have, or will be, made more generous; or that
- payments have not declined in value because they are automatically indexed to keep pace with increases in the cost of living.

While these are all relevant to the discussion, they are not an answer to the key question of adequacy. The closest the Australian Government has come to answering the question was to commission the Social Policy Research Centre to assess the adequacy of income support payments using a budget standards approach. While the researchers succeeded in developing a

¹ In their report *Balancing the picture on poverty*, the government senators wrote:

The problems of those affected by poverty are not easily defined, categorised or resolved. Their problems are not solved by simply throwing more money at them, expanding non-effective approaches or setting up more Government committees.

Issues of poor educational attainment, physical and mental health problems, family breakdown, drugs, alcohol, gambling, smoking, illiteracy, disabilities, and indigenous heritage have all been identified, in one form or another, as important drivers of poor outcomes (Australia Parliament Senate Community Affairs References Committee 2004).

² Peter Whiteford worked as Principal Administrator in various Divisions of the Directorate for Employment, Labour and Social Affairs at the OECD in Paris. In 2008 rejoined the Social Policy Research Centre (SPRC) at the University of New South Wales.

set of standards (along with a 670 page report), a change of government meant that the project was abandoned.³

There is a growing awareness in the community that many age pensioners are struggling to make their incomes stretch to cover the basics of food, transport and accommodation. The pension rate for singles is \$546.80 a fortnight. Groups representing pensioners and seniors have highlighted cases of extreme hardship, particularly among single people who do not own their own homes. Evidence presented to the recent senate inquiry into the cost of living pressures on older Australians painted a vivid picture of how difficult life on a pension can be.

With the cost of housing, petrol and groceries rising, many working Australians feel a great amount of empathy for elderly people and carers who are struggling to make ends meet. Even though their incomes may be much higher, they too feel as if they are struggling.

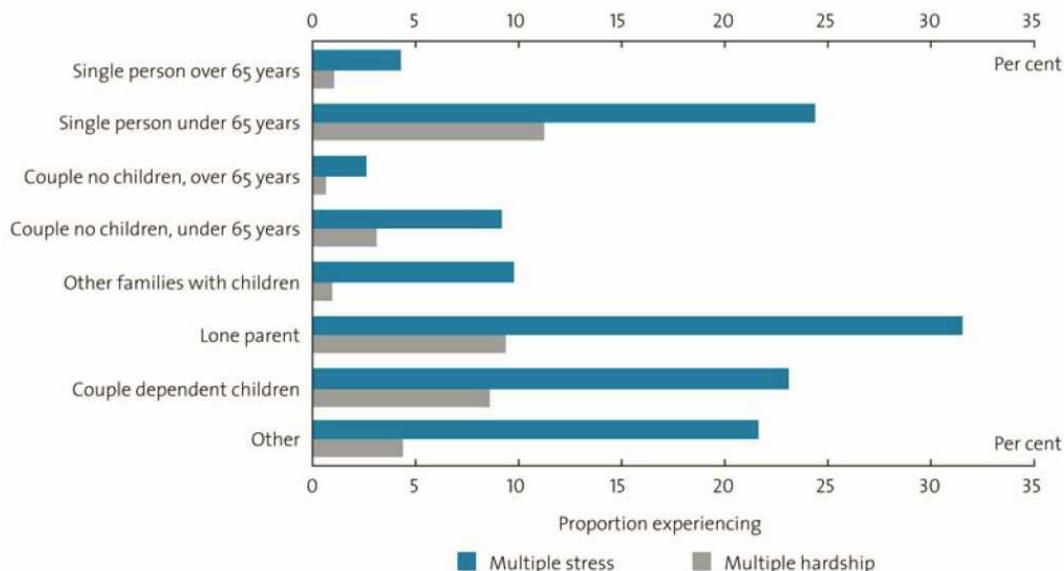
But if seniors, carers and working families are doing it tough what about single parents, people with disabilities and those on allowances such as Youth and Newstart? The single rate of Newstart Allowance is currently \$437.10 per fortnight. And while it might come with a modest rate of rent assistance and the Family Tax Benefit (FTB) for those with children, allowees miss out on many of the additional supports available to seniors and pensioners. There are no annual bonuses or allowances for telephones or utilities.

Data from the Household, Income and Labour Dynamics in Australia (HILDA) survey shows that it is not just age pensioners who are 'doing it tough'. This chart from the Department of Families, Housing, Community Services and Indigenous Affairs, shows that reports of financial stress and hardship are even more common among single parents and working age couples with children.⁴

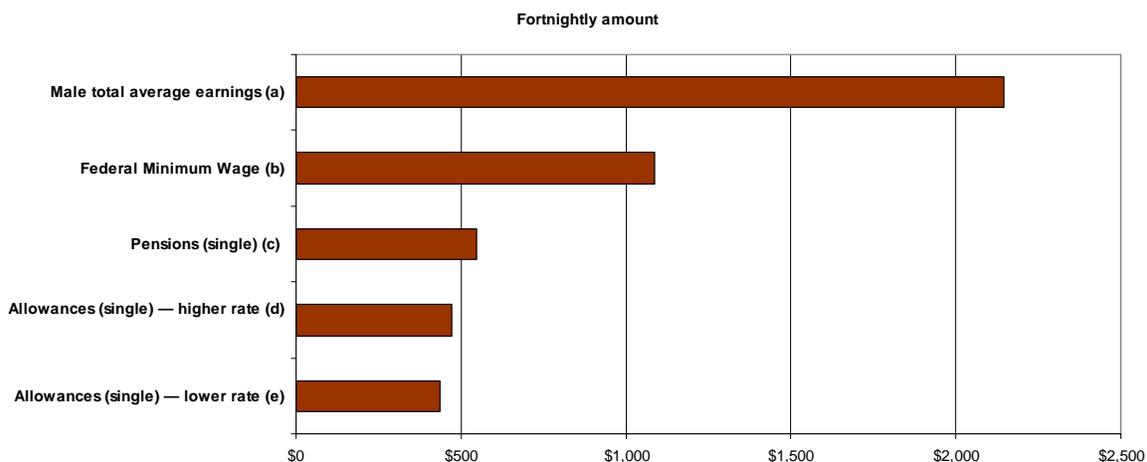
³ To see how far advanced the project was before the government abandoned it, see the Department of Social Security (DSS) research paper *Development of Indicative Budget Standards for Australia* (Saunders 1998)

⁴ According to the departmental paper:

Hardship relates to the incidence of: missing a meal, going without heating, having to sell or pawn an item, or seeking help from a welfare organisation, because of a shortage of money. Financial stress includes these items as well as being unable to pay electricity, gas or phone bills on time, not being able to pay mortgage or rent on time or asking for financial help from family or friends. Multiple stress or hardship involves a person reporting two or more of these items over the previous 12 months.



Adequacy is not just a problem for age pensioners and carers. It is a problem for anyone who has to rely on income support for extended periods of time. As the chart below shows, income support payments are well below the minimum full time wage for adults.



- (a) All employees total earnings for May 2008 (original). Source: ABS Average Weekly Earnings Australia 6302.0.
- (b) July 2008 Decision. Source: Australian Fair Pay Commission.
- (c) Maximum single adult rate as at 1 July 2008. Includes Age Pension, Disability Support Pension, Carer Payment, Parenting Payment Single, Bereavement Allowance, Wife Pension, Widow B Pension and Service Pension.
- (d) Maximum single adult rate as at 1 July 2008. Includes Newstart Allowance, Parenting Payment Partnered, Sickness Allowance, Mature Age Allowance, Widow Allowance and Partner Allowance. Higher single rate applies to: a person with a dependent child; or a person aged 60 or more and on income support for at least 9 months; and to partnered people separated due to ill-health, infirmity or because the partner is in gaol.
- (e) Lower single rate applies to singles not covered by the higher rate. Source: Pension Review Background Paper, FaHCSIA.

Because many people suspect that single parents and the unemployed are responsible for their own problems, they prefer to tune out or gloss over their stories. Even people with disabilities are sometimes considered suspect — with musculoskeletal disabilities referred to derogatively as ‘Mediterranean back’ or episodes of major depression dismissed as ‘lack of motivation’. It is common to hear people talking about ‘the dole’ as if it were an addictive drug that perpetuates disadvantage rather than alleviating its symptoms. But logically, it is hard to accept that money takes on special drug-like powers when it is deposited by Centrelink or that joblessness is only psychologically destructive before the age of 65 (or 63 for women born before 30 June 1944).

In reality there is probably more diversity within income support categories as there is between them. Some mature aged Newstart or disability support recipients have worked almost all of their adult lives while some age pensioners have worked only intermittently if at all. It is impossible to generalise about the 'deservingness' of entire groups.

The rate of income support payments should be based on need rather than stereotypes about the deservingness of various groups. Judged against this criteria, it is not just pensions that are inadequate.

3 What gets measured gets done

Before the last federal election Peter Garrett confronted the climate change sceptics in the Australian Government attacking them for refusing to set targets on greenhouse gas emissions. "It is perhaps the last line in the sand for the climate sceptics", he said, "they know that what gets measured gets done and that real targets will lead to real action" (Garrett 2007).

Australia also has a problem with people who are skeptical about the problem of inadequate income support payments. When policy makers do not want to take action on a problem, they refuse to measure it or set targets. Without publicly available performance indicators it is easier to treat the adequacy of income support payments as if it were purely a matter of opinion.

The Australian Government claims that our income support system is designed to support "a basic acceptable standard of living, accounting for prevailing community standards" (Harmer 2008 p 4). But there are no benchmarks for adequacy — no performance indicators.

The lack of adequacy benchmarks is a long standing problem. The Australian Government has had responsibility for income support since the creation of the first Commonwealth pensions for old age and invalidity almost 100 years ago. But in almost a century of policy making, there have been only two occasions that the Australian Government has taken steps to research what it costs income support recipients to live at an acceptable level.

During the early to mid 1970s, the Commission of Inquiry into Poverty (Henderson Commission) established a poverty line and recommended that pensions and benefits should be raised above it. The Commission was not a partisan creation. It was established by the McMahon Government in 1972 and expanded under the Whitlam Government. But by the time the Commission reported, the Fraser Government was attempting to reduce expenditure. The Henderson poverty line was never officially endorsed and was not accepted as a benchmark for policy making.

During the 1990s, the Keating Government looked again at the issue of adequacy. Under Minister Peter Baldwin, the Department of Social Security began a project to develop adequacy benchmarks for income support payments (DSS 1995). As part of the Adequacy Project, the department commissioned a unit at the SPRC to establish benchmarks using a budget standards methodology. But despite successfully establishing a set of benchmarks, these were not endorsed by the government or incorporated into a process for setting and adjusting payment rates. Again, a change of government and a new set of priorities intervened.

3.1 Adequacy as an objective

According to many commentators, support for an adequate standard of living is the *primary* objective of the Australian income support system. For example, Peter Whiteford and Kim Bond have written that:

The most important objectives of government assistance are to alleviate poverty and to assist individuals to maintain adequate living standards. Other important objectives include encouraging self-provision and avoiding undesirable incentive effects (Whiteford 2000).

This view is occasionally reflected in government publications. For example, in a fact sheet, the former Department of Families and Community Services has defined an income support payment as “a primary payment to ensure an adequate standard of living, such as a pension, allowance or student assistance.” (FaCS 1999).

The government’s background paper for the pension review also endorses this view. The paper claims that the first key design principle underpinning the system is that it “supports a **basic acceptable standard of living**, accounting for prevailing community standards.” (Harmer 2008 p 4).

3.2 Adequacy and the history of Australia’s income support system

Australia’s income support system has developed gradually over time. Beginning with pensions for the aged and disabled, it gradually expanded to include single parents, the unemployed and students. But it would be a mistake to think of its development as some kind of teleological process underpinned by an enduring set of principles.

On some occasions, changes to the system were inspired by short term political considerations. On others they were the first steps towards more sweeping reforms that never took place. For example, since 1954 payments to blind pensioners have been exempted from means testing. This anomaly is a relic from a time when some politicians hoped to abolish means testing for all pensioners.

It is debatable whether the system as a whole has been intended to support people according to their level of need. Judgments about deservingness have often played an important role.

3.2.1 *Aid for the deserving: 1908 – 1951*

The first income support payments were targeted at the aged and people with disabilities. This was not just because these groups were considered the most in need of assistance, but also because they were considered the most deserving.

By 1908 New South Wales, Victoria and Queensland had all created their own pension schemes. But with the passage of the *Invalid and Old-age Pension Act* of 1908, the Commonwealth took over this responsibility. According to Terry Carney and Peter Hanks:

Those programmes were heavily infused with the values and philosophy of ‘social deserts’. Need, of itself was seen as an entirely inadequate justification for attracting government support. Public moneys were to be expended only on citizens of long standing who, by their endeavours in years past, had laid the foundations for community well-being. Support was extended to the aged and to invalids on the basis that they had contributed to community prosperity, and were now unable to participate in productive activity, or that, through no fault of their own, they were denied that opportunity to participate (Carney 1994 p 32-33).

Legislation for the Old-age Pension specifically excluded claimants who were not of good character. The rate of the pension was set at an amount that the Commissioner of Pensions determined as “reasonable and sufficient” and a means test was applied.

In practice, political considerations often determined the pension rate. For example, in 1940, the Menzies Government agreed to increase pension rates. The opposition also pushed it to adjust pension rates automatically each quarter to take account of increases in the cost of living. This was an attempt to take the politics out of adjustments to pensions.

After the change of government in 1941 the Labor Government continued the practice of automatic adjustment. But in November 1943 politics returned when the cost of living measure fell and the pension rate was reduced. The government quickly came under pressure from pensioner organisations and was forced to reverse the reduction. After reconsidering the issue the government decided to abandon automatic indexation.

In 1942 the Widow's pension was created, closely followed by unemployment, sickness and special benefits in 1944. As with recipients of the age pension, widows were also required to be "of good character and deserving of a pension". All the new payments included a means test.

3.2.2 *Ad hoc adjustments*

Pension rates were increased fairly regularly from the end of the Second World War. However, unemployment benefit rates were generally increased only when recessions drove up unemployment and put the government under political pressure. In 1952 the government doubled the rate of the benefit and increased it again in 1957, 1961 and 1962. 1961 had been an election year. Following the election the Menzies Government announced economic measures designed to stimulate the economy. These included increases in unemployment and sickness benefits (Kewley 1965 p 276).

The 1950s also saw the creation of one of the most enduring anomalies of the Australian income support system. For years there had been talk about removing means tests on pensions. In 1952 the government allowed blind pensioners to receive a part pension — £3 — free of the means test. Then in 1954 they removed the means test entirely. In 1952 the Minister for Social Services said:

... we have planted something that will grow and that the people of the Commonwealth will respond with an expression of their willingness to bring to fruition a complete scheme whereby no man will be debarred from pension because of his thrift or his industry (Townley in Kewley 1965 p 310).

While the seed that Athol Townley planted never grew into anything much larger, it never went away either. Blind pensioners remain exempt from the means test.

During early 1972 the McMahon Government came under increasing pressure to raise pension rates. While noting that pensions had been rising significantly faster than the consumer price index or average weekly earnings, William Wentworth (Minister for Social Services) told cabinet that:

... there is a general feeling in the community and in the pensioner group that the pension is inadequate, that pensioners are in a state of relative poverty, and that a substantial increase in pensions is not only warranted but, indeed, is expected (Wentworth 1972).

Not surprisingly the minister recommended that pensions should be increased, noting that the amounts he proposed "would be the minimum acceptable to the community and electorate at the present time."

In the same year there was a much more ambitious proposal to link pension rates to movements in per capital Gross National Product to enable pensioners "participate in increasing national prosperity" and remove the issue of rate adjustments from the political arena. This proposal was rejected on advice from Treasury who warned that "Adoption of the Minister's proposal would have very serious budgetary consequences" (Treasury 1972).

It was no secret that Treasury's assessments of affordability were the most significant limit on the growth of income support payments. In a 1973 submission to the Commission of Inquiry into Poverty, the Australian Council of Social Service (ACOSS) argued that:

There are indications that a subjective judgment of the community's ability to pay has generally been a more significant factor in setting a minimum income level than the amount needed to maintain some acceptable standard of living (ACOSS 1973: 243).

Poverty was becoming a more significant issue as the 1972 election loomed. Mounting public pressure led the McMahon Government to set up a Commission of Inquiry into Poverty headed by Professor Ronald Henderson.

3.2.3 *The Whitlam reforms*

The election of the Whitlam Government in 1972 saw significant increases in the rates of income support payments. The poverty inquiry was expanded, and there was a discussion about replacing the income support system with a more streamlined and comprehensive guaranteed income scheme. Under Whitlam, the Australian Government replaced the principle of payment according to deservingness with the principle of payment according to need.

In opposition Whitlam had promised to raise the level of pensions to 25 per cent of average weekly earnings. He justified the benchmark by saying that the Chifley Government had set the pension at this level in 1949 (Whitlam 1985: 359). This was a politically advantageous rationale as it suggested that pensions had been adequate under Labor, but that subsequent conservative governments had allowed them to become inadequate.

Whitlam also promised to decouple the objective of adequacy from competing objectives. In a 1972 speech he said that:

The basic pension rate will no longer be tied to the financial and political considerations of Budgets. All pensions will be immediately raised by \$1.50 and thereafter every Spring and Autumn, the basic pension rate will be raised by \$1.50 until it reaches 25 per cent of average weekly make earnings. It will never be allowed to fall below that level (Whitlam in Kewley 1980 p 55).

Once in office the Government moved quickly to put these promises into effect. In March 1973, not only were pensions increased, but unemployment and sickness benefit were also increased to bring them into line with pensions. Payments were increased again in September. Bill Hayden's July 1973 cabinet submission explained the reasoning behind the decision:

The proposal envisages that the rates of unemployment, sickness and special benefits should be increased by the same amounts as the pension. The principle that common needs deserve common rates of assistance was established when benefit rates were raised to the same level as pension rates under amendments to the Social Services Act made in March last (Hayden 1973).

As Minister for Social Security, Hayden sometimes seemed overwhelmed by the expectations created by Labor's election promises. Before the election Whitlam had promised to remove the means test on age pensions (Whitlam 1972). In office, Hayden was now responsible for implementing this despite the fact that it would be hugely expensive. In a submission to cabinet he wrote:

... we have the situation that the abolition of the means test during the life of the present Parliament was promised in the Election Policy Speech and there is a widespread public expectation of action in that direction. Although on the basis of need, perhaps other groups have a stronger case for additional Government assistance, the proposals [advanced in the submission] are, I feel, the minimum that could be adopted if we are to maintain the faith of the electorate in our willingness and ability to honour our commitments (Hayden 1973).

In this case, a popular election promise trumped the emerging principle of targeting according to need.

The Whitlam government also removed the requirement that pensioners must be of good character and be "deserving of a pension." In a cabinet submission, Bill Hayden wrote:

Although I am informed that these provisions have not been invoked by the Department for a number of years, while they remain in the Act they are anachronisms and reflect undesirable moralising attitudes inherited from the 19th century and which are contrary to the philosophy of the present Government.

It is recommended that these provisions be repealed (Hayden 1974).

And in 1974 they were. Deservingness was no longer a legal requirement for pension eligibility.

3.2.4 *The Social Security Review*

After the change of government in 1975 the principle that common needs deserve common rates of assistance was dropped. The Fraser Government froze single rates of unemployment benefits to allow them to fall behind the pension rate (Cass 1988).

It was not until the Hawke Government took office that the principle of payment according to need, re-emerged. In 1986 Brian Howe, the Minister for Social Security, commissioned a review of the social security system under the leadership of Professor Bettina Cass.

Cass argued that “There is no evidence that the basic income support needs of the unemployed are less than those of pensioners”. The review’s report on income support for the unemployed concluded that:

There is absolutely no justification which can be given for providing a lower rate of payment to single individuals, whether short-term or long-term unemployed, who must not only support themselves, but engage in active job search and maintain the mobility and social contacts necessary to ensure against labour market marginality (Cass 1988 p 292).

By the late 1980s, the idea that the age pension should be available without a means test had dropped off the agenda. Even in the mid-1970s, Ronald Henderson was arguing that improving the adequacy of payments was a far more important objective (Henderson 1975 p 47).

3.2.5 *Beyond the Safety Net*

In 1995, Peter Baldwin, then Minister for Social Security, reaffirmed the goal of targeting payments according to need. In a paper titled *Beyond the Safety Net* Baldwin showed how the Social Security Review had resulted in substantial improvements in payment levels — particularly for low income families with children. But he also argued that these improvements were achieved, in large part, by tighter targeting.

This process was not without political pain, as anyone who recalls the reintroduction of the pensions assets test in 1985 will attest (I was berated at a meeting of the Pymont/Ultimo branch of the ALP over this, despite the fact that not one person in the room would have been within cooee of the assets test threshold!) (Baldwin 1995 p 10).

While Baldwin wanted to ensure that payments were adequate, he was sceptical about the poverty line established by the Henderson Commission. Drawing on the theoretical work of Amartya Sen and empirical work of Australian researchers Peter Travers and Sue Richardson (Travers 1993), he argued that the level of income that was ‘adequate’ could vary significantly depending on a person’s circumstances. For example, elderly people who own their own homes are better off than many other people on similar incomes who do not (Baldwin 1995 p 38).

Constrained by a budget, Baldwin was keen to look for opportunities to help age pensioners make better use of their assets and to help unemployed and disabled people take more advantage of work opportunities and techniques to make their low incomes stretch further.

3.3 **Attempts to set adequacy benchmarks**

Most changes to payment levels have been the result of automatic indexation or government’s response to political pressure. But in a number of cases, governments have attempted to define benchmarks for adequacy. Currently pensions are indexed to 25 per cent of male total average weekly earnings.

3.3.1 *Linking pensions to an index of average earnings*

During the last year of the McMahon Government, Cabinet discussed the idea of automatically adjusting pensions in line with movements in per capita gross national product. A Treasury analysis of the proposal was unfavourable and Cabinet rejected the idea (Treasury 1972).

Opposition leader, Gough Whitlam had a different proposal. He pledged to lift age pensions to 25 per cent of average weekly earnings arguing that:

Under the Chifley Labor Government the single pension was 25% of average weekly earnings. They have now fallen below 20%. The pension for a married couple was half average weekly earnings. Now it is barely one-third. And of course the point about using average weekly earnings as the appropriate bench-mark is that it is the true guide to the increased wealth of the community, the tax resources available to the community and the cost of a decent life in modern times. How can it be argued that we cannot afford to do to-day what we were able to do a quarter of a century ago (Whitlam 1972).

The Henderson Commission adopted a similar approach, arguing that both pensions and benefits should "be updated frequently and regularly by an amount that prevents the beneficiaries from falling behind the rest of the population." The Commission suggested using either an index of average earnings or an index of per capita gross domestic product (Henderson 1975 p 47).

Whitlam never succeeded in lifting pension rates to the target. But the commitment was retained by the Hawke Labor Government and pensions (not just age pensions) reached the benchmark of 25 per cent of male total average weekly earnings (MTAWE) in 1990.

While the Hawke Government made a political commitment to link pensions to MTAWE, this commitment was not entrenched in legislation. In 1997 the Howard Government reaffirmed the commitment and put it into law. Noting that many older Australians were concerned that the cost of living was increasing faster than pensions, the government strengthened its pledge that pensions would be indexed to keep pace with rising community living standards:

The Government also recognises that many seniors are concerned that their cost of living may rise faster than the consumer price index. To address this, the Government will guarantee that the Age Pension will increase in line with the higher of the consumer price index, increases in male total average weekly earnings or the living cost index for age pensioner households. These arrangements will ensure that the Age Pension keeps pace with increases in prices and improvements in community living standards (Australian Government 2008).

While pensions have increased in value in real terms, allowances have not. The principle of payment according to need appears to have been abandoned.

3.3.2 *Benchmarking using a budget standards approach*

In 1993 Peter Baldwin announced that the Department of Social Security (DSS) would conduct a study to develop new benchmarks for adequacy. This was a wide ranging study which recognised from the beginning benchmarks must be developed from a combination of normative and empirical judgments. In a 1995 paper the department explained that:

Statements regarding the adequacy of incomes are, necessarily, influenced by community views and attitudes. They reflect judgements regarding the legitimate aspirations of individuals, the role of the individual within the society, and the relationship between the individual, the community and the state.

As such, there can be no absolute statement regarding adequacy. The notion of adequacy must be placed in context with regard to both subject and purpose (DSS 1995p 5).

While adequacy benchmarks are conceptually distinct from poverty lines, the department realised that there was little hope of maintaining this distinction in public debate. Creating a benchmark would create a strong expectation that payments would not fall below it.

Even in the early stages of the project, it was clear that political considerations were making it difficult to keep the objective of adequacy conceptually distinct from other government objectives. The 1995 paper argued that:

... assessments of adequacy may be influenced by broader fiscal objectives, labour market incentives or judgements about community goals (DSS 1995: 37).

Conceptually this claim is nonsense. Broader fiscal objectives and labour market incentives are separate but competing objectives that governments must balance against adequacy. Policy making is all about trade-offs.

But perhaps it is unreasonable to expect a department to put their minister in the position of having to admit that income support payments have deliberately been set at a rate that is inadequate.

Interestingly, the recent departmental background for the pension review has updated the SPRC's budget standards and used them to make the point that pension adequacy has improved (Harmer 2008 p 18).

4 The problem of trade-offs

At first glance, Gough Whitlam's promise that "the basic pension rate will no longer be tied to the financial and political considerations of Budgets" might seem reckless and irresponsible. Obviously, no government can ignore budgetary constraints or politics and function effectively. But what the promise represents is the determination to put adequacy first, even if this means trade offs in other areas. And when governments do make trade offs, they should do so explicitly. This is what accountability requires.

4.1 Key design principles of Australia's income support system

According to the government's background paper, Australia's income support system is underpinned by five key principles:

It supports a **basic acceptable standard of living**, accounting for prevailing community standards. Payments are not related to past earnings and do not compensate for pain, suffering or loss of amenity.

It is **equitable**. It treats people in similar circumstances similarly. Those with additional costs are given greater assistance either through transfer payments or services to help them achieve a similar living standard. In some circumstances, these additional costs are recognised across a range of income levels.

It **targets payments** to those not able to fully support themselves. Those with their own resources and therefore the capacity to support themselves do not have the same need for transfers. Income and assets tests are used to reduce payments for people with private resources.

It **promotes participation and self-provision** through a combination of:

- services and assistance to help people deal with disadvantage (including disability, caring, improving skills and seeking work)
- incentives to work to provide for current needs and for retirement—for example, through contributions to superannuation
- obligations to work and to seek suitable work for those who are expected to, and the use of private savings to support themselves for those with savings.

It is **sustainable**. The broad community accepts that those who receive social security payments are in genuine need and that the overall system is affordable across the economic cycle and in the long run, given the ageing of the population (Harmer 2008).

The government's background paper recognises that "these principles must be balanced against each other, because there are significant tensions between them."

4.2 Adequacy as the primary principle

According to most commentators, support for an adequate standard of living is the *primary* objective of the Australian income support system. For example, Peter Whiteford and Kim Bond write that:

The most important objectives of government assistance are to alleviate poverty and to assist individuals to maintain adequate living standards. Other important objectives include encouraging self-provision and avoiding undesirable incentive effects (Whiteford 2000).

This view is occasionally reflected in government publications. For example, in a fact sheet, the former Department of Families and Community Services has defined an income support payment as "a primary payment to ensure an adequate standard of living, such as a pension, allowance or student assistance." (FaCS 1999).

4.3 Competing principles

Not all of the five principles conflict with the principle of payment according to need or conflict to the same degree.

Applying the principle of equity (or fairness) complements the principle of payment according to need by ensuring that those whose level of need is the same, receive the same level of assistance. As the background paper explains, the goal is to give each recipient the amount they need in order to "achieve a similar living standard".

Targeting is about applying the needs principle in a cost effective way. By applying means tests and work tests, the income support system can be designed to exclude claimants who are able to support themselves — that is, it attempts to exclude claimants who do not need income support in order to reach a basic acceptable standard of living. So, for example, person who is able to earn a income through paid employment but who *chooses* not to, does not have the same level of need as a person who is unable to work.⁵

In principle there is no conflict between targeting according to need and the application of the needs principle. But in practice, the system will make mistakes. If targeting is tight, it will exclude some people in genuine need. If it is loose it will make payments to people who do not need them. Creating a system which was able to investigate each claimant's individual circumstances and customise payments exactly according to need is unlikely to be cost effective. Giving decision makers a high level of discretion about payment rates would almost certainly lead to inequitable outcomes.

Unlike the principles of targeting and equity, the principle of promoting participation and self-provision can conflict with the needs principle. It may be that reducing income support payments to inadequate levels will encourage some people to save more for retirement or search for work more aggressively. After all, in many third world countries there are no income support programs and people scrape together a living by picking through garbage dumps, searching for scrap metal or

⁵ While straightforward in principle, attempts to exclude claimants who are voluntarily unemployed can be difficult in practice. Targeting a small number of voluntarily unemployed is also likely to result in the unnecessary harassment of many more involuntary unemployed.

other forms of subsistence-level self-employment. And in many countries it is common elderly people move in with their adult children when they are unable to afford to feed, clothe and house themselves. The question is whether we want to encourage this kind of self-provision at the expense of denying vulnerable people an income that is enough to enable them to live decently as members of our community.

The principle of sustainability has two components — political and fiscal. Political sustainability is about the public's support for the income support system. Public opinion tends to be more favourable towards the elderly, carers and working couples supporting families than it is to unemployed young people or single women with children. Public attitudes are heavily shaped by stereotypes about different groups of claimants and judgments about deservingness. Governments can increase support for the income support system by biasing assistance towards 'deserving' groups such as age pensioners.

Fiscal sustainability is about the burden today's decisions will have on tomorrow's budgets. For example, if the population is aging, making large increases to the age pension will have significant consequences for future budgets, especially if pensions are indexed against a measure of average male earnings.

Concerns over political sustainability encourage spending on pensions and payments to families with children while discouraging additional spending on payments such as Newstart and Youth Allowance. This makes it more difficult for governments to achieve a system that is equitable and targeted according to need. Concerns about fiscal sustainability tend to work in the opposite direction, strongly discouraging increases to pensions.

4.4 Justifications for inadequate rates of payment

As the background paper to the Pension Review explains, ensuring that recipients have the ability to maintain an adequate standard of living is not the government's only objective. In some circumstances other objectives might override the objective of adequacy. For example:

- **Maintaining incentives to work:** Policy makers may decide to set payments to working age recipients at an inadequate level in order to encourage recipients to take up opportunities for paid work.
- **Affordability:** Policy makers may decide that adequate income support payments are not affordable within current budget constraints. They may decide to trade off income support adequacy in favour of other objectives such as lower taxes, higher rates of economic growth, or high spending on other programs.
- **Sustainability:** Policy makers may decide to set income support payments at an inadequate level now to avoid creating affordability problems in the future. For example, since it is politically more costly to reduce Age Pension rates than to increase them, policy makers may decide to limit increases now in order to avoid having to reduce payment rates as the population ages.

4.4.1 Examples of tradeoffs

For working age payments the most important trade off has been between adequacy and work incentives. According to one very old school of thought, it is *impossible* to preserve work incentives and maintain payments at an adequate rate. The French thinker Alexis de Tocqueville argued this point in 1835:

Man, like all socially organised beings, has a natural passion for idleness. There are, however, two incentives to work: the need to live and the desire to improve the conditions of life. Experience has proven that the majority of men can be sufficiently motivated to work only by the first of these incentives. The second is only effective with a small minority. Well, a charitable institution indiscriminately open to all those in need, or a law which gives all the poor a right to public aid,

whatever the origin of their poverty, weakens or destroys the first stimulant and leaves only the second intact (de Tocqueville 1997: 55).

If de Tocqueville was right, then financial incentives alone are not enough to encourage work. Even if jobs are available and wages are substantially higher than income support payments, many people will make no effort to work or save for retirement if income support payments are set at an adequate level. For these people, the only way to preserve work incentives is to threaten them with severe hardship.

Obviously de Tocqueville's fears were exaggerated. Today, even in countries where benefit levels are extremely generous, the majority of people choose to work. Commentators like Clive Hamilton now worry that a desire to "improve the conditions of life" is causing many people to *overwork* (Hamilton 2003). However, the idea that adequate income support will undermine incentives to work continued to influence income support policy into the 20th century and is often used to justify the disparity between the rates of pensions and those of unemployment allowances. As a report for the Hawke Government's Social Security Review noted

... the underlying rationale for keeping the level low was to deter unemployment. No government from the time of the *Social Services Consolidation Act* until 1972 showed any intention of providing benefits which would be sufficient for beneficiaries to live on (Jordan 1975). The fear was expressed that if people could live on unemployment benefit many would choose to so, despite the work test (Cass 1988 p 18).

Up until 1972, governments maintained unemployment and sickness benefits at a lower rate than pensions. After 1972, the Whitlam Government both substantially increased the rate of payments and aligned unemployment and sickness benefits with pensions. But with the next change of government the gap was allowed to reopen.

It is important to recognise that there are a number of ways to address the problem of work incentives. Rather than reducing income support payments to those out of work, policy makers can choose to increase payments available to those in low paid work or increase the job search and training obligations imposed on income support recipients. Unless we accept de Tocqueville's argument that many people lack a strong enough desire to live above a subsistence level, this means that the problem of work incentives is really a problem of affordability.

When income support payments are reduced below adequate levels the negative impacts of motivating recipients who *are* able to find work fall on those who *are not* able to find work. All recipients are made to suffer in order to change the behaviour of a few. When work incentives are increased in other ways the impacts are met by the community as a whole.

4.4.2 *Competing objectives and adequacy standards*

The presence of competing objectives is sometimes invoked as if it were an argument against establishing adequacy standards. For example, when the UK Select Committee on Work and Pensions rejected a proposal to use budget standards as an adequacy benchmark, they give this rationale:

One reason for the Department's reluctance to use budget standards is an anxiety that they will in some way be used to fix social assistance and other scale rates, and some advocates believe they can be used for this purpose. However, the Committee recognises that benefit levels cannot be determined by budget standards. Ministers have to have regard to a range of factors in fixing benefit levels including the resources available and incentive effects (Select Committee on Work and Pensions 2004).

However, if it is unreasonable to quantify adequacy because Ministers must take affordability and incentive effects into account then why is not equally unreasonable to quantify incentive effects and affordability? The most powerful motivation for not setting adequacy standards is that they would force governments to acknowledge these trade offs.

If policy makers are committed to transparency and accountability they will make these trade offs explicitly rather than covertly. In a transparent and accountable process, policy makers would provide a definition of adequacy, set benchmarks and — if income support payments are not adjusted to meet them — provide a justification.

5 Objections to setting adequacy benchmarks

5.1 The problem of individual circumstances

In the past, Australia has resisted providing a definition of adequacy or setting benchmarks for adequacy. Under the previous government, the Department of Families, Community Services and Indigenous Affairs gave this rationale:

The adequacy of Australians' retirement incomes has been the subject of considerable debate over recent years. Much of the debate has centred on setting a benchmark for an adequate retirement income. However, the adequacy of retirement incomes depends on an individual's own circumstances, needs and expectations and accordingly the Australian Government has not set a 'one-size-fits-all' benchmark (FaCSIA 2007).

However, the same departmental submission asserts that the Age Pension "is meant to support a modest but adequate standard of living in retirement ...". Taken together these two assertions suggest that, ideally, pension rates should be set on a case by case basis according to "an individual's own circumstances, needs and expectations".

It is unlikely that policy makers ever intended to pay pensioners different rates depending on their different expectations. So if the Age Pension really is intended to support an adequate standard of living, this standard of living needs to be defined independently of individual expectations. It is up to policy makers to establish what this standard of living is.

The problem of individual circumstances arises because different individuals may need different incomes in order to reach the same standard of living. For example, recipients who own their own home will need less income than those who rent privately. Similarly, recipients who are physically unable to drive may need a higher income in order to achieve the same level of mobility as those who are able to drive their own car.

While it is not possible to adjust payment rates to take account of all these factors, it *is* possible to estimate what proportion of the recipient population are unlikely to be able to achieve an adequate standard of living at prevailing rates of payment.

In some cases it may be more efficient to help recipients with special needs using targeted interventions to supplement income support payments. For example, income support recipients who face extra costs as a result of participation in intensive job search, education, training or voluntary work could be eligible for a participation supplement. This idea was canvassed by the Reference Group on Welfare Reform headed by Patrick McClure (McClure 2000 p 29)

5.2 The vagueness of 'adequacy'

Critics of benchmarks rightly point out that the concept of adequacy is inherently vague. While it might be possible to say that \$1000 per week is more than adequate and that \$10 per week is inadequate, this does not imply that there must be some specific dollar figure which marks the line between adequacy and inadequacy.

According to the critics it is reasonable to hold governments accountable for improving the adequacy of payments but it is not reasonable to set a benchmark and then say that policy makers have failed if payments are set a few cents a week below it.

While it is true that adequacy is a matter of degree so too is disability. The vagueness of the concept of disability does not prevent policy makers from setting a benchmark (using impairment tables), gathering statistics on the number of people with a disability and establishing a Disability Support Payment which requires that recipients be disabled in order to be eligible.

Setting a benchmark involves making judgments. What is most important is not that the judgment is beyond reasonable dispute, but that it is made on the basis of relevant considerations (eg cost of housing, cost of transport) and not on the basis of irrelevant considerations (eg policy makers willingness to allocate resources, effect on work incentives).

5.3 The arbitrariness of adequacy judgments

Judgments about the adequacy of a standard of living involve value judgments. However this does not make them entirely arbitrary or undermine their legitimacy. John Veit-Wilson argues that:

There cannot be a free-floating and universally acceptable criterion of 'adequacy'; it can be argued only in terms of answers to real-life questions such as *adequacy for what?*, *adequacy for how long?*, *adequacy for whom?* and *who says?* (Veit-Wilson 1998 p 21).

Once these kinds of questions are answered, the task of setting income benchmarks is largely a technical one. But *until* they are answered, any benchmarks that are set will be arbitrary.

Adequacy judgments are less arbitrary when they are made in a structured and transparent way and normative judgments are clearly distinguished from positive judgments.

One approach to bolstering the legitimacy of normative judgments is for policy makers to rely on the judgments prevailing in the general community rather than their own personal views. Some researchers have attempted to do this for poverty measures (for example, see Hallerod 1994).

Professor Peter Saunders of the Social Policy Research Centre (SPRC) studied the history of the 'budget standards' approach to setting adequacy levels and argues that budget standards are unlikely to be as arbitrary as many critics allege:

The results suggest, for example, that the budget standard developed in the 1920s to guide the setting of a basic wage, when updated by movements in prices and real incomes, is virtually identical to that developed by SPRC almost 80 years later.

Some will argue that this similarity is nothing more than a coincidence, given the differences in how the budgets were originally constructed and what items were included. It is nonetheless remarkable that the results produced by a methodology that has been widely condemned for being arbitrary should turn out to be even remotely consistent over such a long period. At the very least, this suggests that the claims that budget standards are necessarily arbitrary should be treated with a degree of caution. The fact that two studies separated by eight decades of substantial economic development and massive social and attitudinal change produce such similar results suggests that, in practice, the use of normative judgements does not automatically make a budget standard inherently arbitrary, as many critics have argued (Saunders 2006).

5.4 What if income support payments are already adequate

If the current levels of income support payments were obviously adequate then there would be little to be gained from establishing a more precise benchmark. However the evidence suggests that this may not be the case.

The Social Policy Research Centre recently reported on research into poverty, deprivation and social exclusion. The concluded that:

Improvements are needed in existing income support provisions, which are currently at levels where deprivation is high, indicating that they fail to provide adequate levels of support (Saunders, Naidoo, and Griffiths 2007).

This study did not rely on the researchers' personal judgments about adequacy but on judgments made by a sample of the general public.

6 Creating benchmarks for income adequacy

It is difficult to evaluate the success of a government program if its objectives are not measurable. So if the objective of income support payments is to ensure that recipients are able to enjoy an adequate standard of living, policy makers cannot be held accountable unless they define what adequacy means and establish benchmarks.

6.1 Adequacy — a budget standards approach

A considerable amount of research has already been undertaken on adequacy benchmarks. In Australia the SPRC has applied the budget standards approach to the Australian context. This work originated with DSS' 1990s Adequacy Project. As Peter Saunders explains:

The budget standards method begins by articulating a standard of living in terms of its consumption and activity patterns, and specifies the needs that must be met in order to maintain that standard. It then goes on to identify and price the basket of goods and services required to meet these needs, and adds up the resulting expenditures to produce the total family budget needed to achieve the presumed standard of living. If a family was provided with this level of resources (either as cash or as access to the identified services free of charge), it would have the opportunity through consumption of goods and services, to achieve the standard of living to which the budget standard corresponds. Whether the family actually chooses to purchase this bundle of consumption items will depend upon the tastes and preferences of family members. However, if the family does not have access to all of the resources implied by a particular budget standard, then it will not be able to meet all of the needs on which that standard is based (Saunders 2006).

The methodology for this approach is well established and Australian research on budget standards is well regarded internationally (for example see Fisher 2007).

Despite commissioning work on budget standards the government did not end up applying the approach to the setting of income support payment rates. The SPRC's Peter Saunders has argued that, under the previous government, attention shifted away from adequacy and towards issues such as the factors that drive dependence on income support (Saunders 2004).

6.2 A question of political will

The technical issues involved in establishing credible benchmarks of income adequacy are well established. Appropriate methodologies have been developed for use in the Australian context. The major hurdles are not technical but political. Unless the community insists that that government should meet standards of accountability, the system will not change.

7 Creating an Entitlements Commission — a proposal

7.1 Purpose of the Commission

The purpose of the Entitlements Commission would be to set and adjust benchmarks for the adequacy of income support payments.

7.2 Why establish an independent commission?

If the government is to be held accountable for maintaining income support payments at an adequate level, standards of adequacy should be set independently and transparently.

The Fair Pay Commission, Commonwealth Remuneration Tribunal and the Reserve Bank of Australia are examples of decision making bodies that operate at arms length from the political process. Their independence allows them to focus on the relevant technical considerations and

ignore the pressures of electoral politics and public opinion. At the same time, the values that underpin their decision making are set by government. While their autonomy allows them to consider technical issues dispassionately it does not allow them to impose their own vision.

Establishing an Australian Commission for Entitlements as an independent body would give the commissioners a license to disregard political considerations and focus on issues relevant to income support adequacy. This would enhance public confidence in the resulting adequacy benchmarks.

7.3 Proposed terms of reference

1. In keeping with this objective the Commission's role would be to establish adequacy benchmarks for income support payments. In setting these benchmarks the commission should consider:
 - 1.1. the goods and services necessary to live in reasonable comfort, maintain dignity and take part in the life of the community;
 - 1.2. the contribution of in-kind government support provided through measures such as the Seniors Card, Medicare, public housing and subsidised transport;
 - 1.3. differences in the cost of living between income support recipients who own their own homes or have access to public housing and those who rely on the private rental market;
 - 1.4. differences in the cost of living for income support recipients in different geographical areas;
 - 1.5. differences in the cost of living for income support recipients living in different family/household types.
2. The objective of the income support system is to create a safety net to support a standard of living below which no member of the community should have to fall. The safety net is *not* designed to:
 - 2.1. reduce inequality of income (although it may have that effect);
 - 2.2. enable working aged individuals to voluntarily withdraw from paid employment or social participation.
3. An adequate standard of living is one that allows an individual to live in frugal comfort, maintain their dignity, and take part in the life of the community. An adequate income is a necessary but not sufficient requirement for attaining an adequate standard of living.
4. The Commission will operate transparently and publicly explain and report on the evidence and reasoning behind its decisions.

7.4 Composition of the commission

The commission could include:

- Academics with expertise in poverty research and income support policy.
- Representatives of the community sector.
- Representatives of the business community with expertise related to cost of living issues.
- Retired MPs or senior public servants with relevant experience.

The commission would be ongoing and the government would appoint members for a fixed period (for example, 4 years).

7.5 Operation of the commission

The commission would make determinations annually according to a predetermined methodology. To ensure transparency the commission would publish a written justification of each decision.

The commission's first task would be to produce a discussion paper outlining the methodology it proposes to use. In preparing this paper it should consult widely and call for submissions from government departments and interested parties.

After a process of consultation the commission would finalise and publish its methodology. This methodology will include operationalised definitions of terms such as 'frugal comfort', a list of the data the commission will draw on to make its decision and an outline of any analytical procedures it will use (eg determining the composition of a 'basket of goods', equivalence scales, geographical categories).

Before making each decision the commission will call for submissions and hold public consultations.

8 Conclusion

Historically income support payments have been set in an arbitrary and politicised fashion. Policy makers have rarely taken a structured approach to balancing adequacy, incentive effects, affordability and sustainability. And even though the government has acknowledged that payments should be sufficient to support an adequate standard of living, there is currently no standard of adequacy.

There are two major reasons for establishing an Australian Entitlements Commission. First, if standards are not set, adequacy is likely to lose out to other more easily measured objectives. And second the current ad hoc, politicised process has contributed to the lack of fairness, complexity and inconsistency of the income support system and has tended to overlook the needs of vulnerable groups who lack the ability to lobby effectively. An independent commission could help turn this around.

ACOSS. 1973. *Poverty: The ACOSS evidence*. Sydney: Australian Council of Social Service.

Australia Parliament Senate Community Affairs References Committee. 2004. *A hand up not a hand out : renewing the fight against poverty : report on poverty and financial hardship*. Canberra: Senate Community Affairs References Committee Secretariat.

Australian Government. 2008. *Budget Overview: Commonwealth of Australia*.

Baldwin, Peter. 1995. *Beyond the safety net : the future of Social Security : a paper*. Canberra.

Carney, Terry; Hanks, Peter. 1994. *Social security in Australia*. Melbourne: Oxford University Press.

Cass, Bettina. 1988. *Income support for the unemployed in Australia : towards a more active system*. Canberra: Australian Government Publishing Service.

de Tocqueville, Alexis. 1997. *Memoir on pauperism*. Chicago: Ivan R Dee.

DSS. 1995. *Developing a Framework for Benchmarks of Adequacy for Social Security Payments*, edited by D. o. S. Security: Australian Government Publishing Service.

- FaCS. 1999. Research FaCS Sheet Number 10 - Income support recipients at June 1999, edited by Department of Families and Community Services: Commonwealth of Australia.
- FaCSIA. 2007. Inquiry into the cost of living pressures on older Australians: Submission, edited by Community Services and Indigenous Affairs. Department of Families: Commonwealth of Australia.
- Fisher, Gordon. 2007. An Overview of Recent Work on Standard Budgets in the United States and Other Anglophone Countries. Washington: U. S. Department of Health and Human Services.
- Garrett, Peter. 2007. Address to Foreign Correspondents Association.
- Hallerod, Bjorn. 1994. A New Approach to the Direct Measurement of Consensual Poverty: Social Policy Research Centre.
- Hamilton, Clive. 2003. *Growth fetish*. Crows Nest, N.S.W.: Allen & Unwin.
- Harmer, Jeff. 2008. Pension Review: Background Paper, edited by H. Department of Families, Community Services and Indigenous Affairs: Commonwealth of Australia.
- Hayden, Bill. 1973. Cabinet Submission No. 404: Social Security Proposals - 1973/74 Budget.
- . 1973. Cabinet submission no. 484: Age pensions - abolition of the means test: 1973/74 Budget. Canberra.
- . 1974. Cabinet Submission No 950: Amendments to the Social Services Act Canberra.
- Henderson, Ronald. 1975. *Poverty in Australia : first main report, April 1975*. Canberra: Australian Government Publishing Service.
- Jordan, Alan. 1975. Long term unemployed people under conditions of full employment. Canberra: Australian Government Commission of Inquiry into Poverty.
- Kewley, T. H. 1965. *Social security in Australia: The development of social security and health benefits from 1900 to the present*. Sydney: Sydney University Press.
- . 1980. *Australian social security today : major developments from 1900 to 1978*. Sydney: Sydney University Press.
- McClure, Patrick. 2000. *Participation support for a more equitable society : final report of the Reference Group on Welfare Reform*. Canberra: Department of Family and Community Services.
- Saunders, Peter. 2004. Updated Budget Standard Estimates for Australian Working Families in September 2003. Sydney: Social Policy Research Centre.
- . 2006. The Historical Development of Budget Standards for Australian Working Families. *Journal of Industrial Relations* 48 (2):155-173.
- Saunders, Peter; , Yuvisthi; Naidoo, and Megan Griffiths. 2007. Towards New Indicators of Disadvantage: Deprivation and Social Exclusion in Australia. Sydney: Social Policy Research Centre.
- Saunders, Peter; Chalmers, Jenny; McHugh, Marilyn; Murray, Colette; Bittman, Michael; Bradbury, Bruce. 1998. Development of Indicative Budget Standards for Australia. Canberra: Budget Standards Unit, Social Policy Research Centre, University of New South Wales.

Select Committee on Work and Pensions. 2004. *Work and Pensions - Second Report*: United Kingdom House of Commons Work and Pensions Committee.

Travers, Peter; Richardson, Sue. 1993. *Living decently : material well-being in Australia*. Melbourne: Oxford University Press.

Treasury. 1972. Treasury analysis of submission no. 818.

Veit-Wilson, John. 1998. *Setting adequacy standards : how governments define minimum incomes*. Bristol: Policy Press.

Wentworth, WC. 1972. Increases in basic pension rates.

Whiteford, Peter;. 2005. The welfare expenditure debate: economic myths of the left and the right revisited. In *Australian Social Policy Conference 2005: A Quarter-Century of Social Change*. University of New South Wales, Sydney: Social Policy Research Centre.

Whiteford, Peter; Bond, Kim. 2000. Trends in the incomes and living standards of older people in Australia. In *Policy Research Paper*. Canberra: Department of Family and Community Services.

Whitlam, Gough. 1972. Text of broadcast by the leader of the opposition, Mr Whitlam, for Macquarie Network.

———. 1985. *The Whitlam government 1972-1975*. Ringwood, Vic.: Penguin.