



## **Strategic Issues Forum**

**THE STRATEGIC ISSUES FORUM REPORT**

# **The Role of the State and Individual Responsibility**

COMMITTEE FOR ECONOMIC DEVELOPMENT OF AUSTRALIA **CEDA**

**July 1986**

Major reconstruction of the welfare state.

Many members hold the view that current programmes should be questioned not simply in their particularity but in their fundamentals. This suggests that the fundamental requirement is to rethink the conceptual foundations of these programmes.

We note the extent to which proposals for restraining public expenditure involve deep cuts in welfare, education and health spending. For example the Australian Institute of Public Policy proposes expenditure reduction programme involves removing \$3.3 billion of welfare expenditure i.e. approximately 8% of the current welfare budget. We do not believe such a major contraction can be realistically contemplated - assuming it is desirable - without at the least a significant intellectual base. We note the extent to which the approach of the Reagen Administration in the United States has been nourished by a preceding, thorough appraisal of welfare state programmes. Widespread debate amongst the various interest (including business) with a stake in welfare expenditure, stretching over several years, preceded action by the administration. These critiques and analyses have created awareness throughout relevant policy communities and amongst informed opinion generally of deficiencies and of the possible remedies.

We believe that a review of the conceptual foundations of programmes in Australia would now be timely. In the past, the major development of the welfare state has been preceded by public enquiries. The ethos and foundations of our present system were established by the Beveridge Report in the immediate post-war in the United Kingdom. The philosophy of this report was largely imported into Australia at that time when both

political parties accepted an extended role for the federal government in welfare, income security, housing and later health and education. The second major phase of development occurred after the Henderson Report in the 1970s.

A further thorough going review of the effectiveness of the current array of programmes in the context of opportunities for increasing capacity for self-provision, privatisation and voluntarism is timely. This review should not be confined simply to the welfare and income security area. We envisage a review that embraces health, education and housing programmes. The terms of reference should point the review towards ways to incorporate liberal (in the broad, not party political sense) values in programme design. More research also needs to be sponsored by private sector organisations (such as The Business Council). The essential point is for business organisations to recognise their stake in debates about welfare expenditure. American experience demonstrates the necessity to ground proposals for change in well conceived empirical research. Political parties cannot usually risk the radical thinking and specialised research that is required. Government departments have a vested interest in the *status quo*.

Without such approaches we doubt that major reconstruction can be achieved. We have become impressed by the enormous inertial forces sustaining existing programmes, and underwriting a paternalist role for government. According to the 1984 A.B.S. Household Survey, 21% of voters receive government pensions. A further 19% of voters are employed in the public sector. This means 40% of Australian voters are dependent, in some degree, on political largesse. The Assets Test episode points to the difficulties to achieving strategic programme change. We are attracted to

the idea of a positive reconstruction emphasising voluntarism and self-provision. Some participants are impressed by the analysis of programme effects that has been undertaken by Charles Murray. His evidence relates only to the United States. Comparable work needs to be sponsored in Australia.

#### Specific Changes to Programmes

The previous section suggested a thorough going revision of the conceptual foundations of the current array of programmes. Irrespective of whether such a review occurs, we believe that a number of specific measures are warranted. We do not in the following paragraphs review possible changes to the supporting parents benefit. We understand the government already plans action to encourage parents to accept their responsibilities in this area. We have also not suggested steps that might be taken to reduce fraud and cheating. Evidence suggests this now occurs on a substantial scale. We understand that the government has action in hand to address this problem.

The following sections contain suggestions for the development of new programmes in the following areas

- . Health maintenance organisations as a device for restricting the growth of health expenditure;
- . Associating training/work requirements with unemployment benefits as a way of protecting the economic independence of citizens
- . Encouraging choice and diversity in education;
- . Integrating income security arrangements with the tax system;
- . Programme scrutiny and review;

. Privatisation.

### Health Maintenance Organisations

As already noted, health expenditure has been one of the fastest growing area of Commonwealth expenditure. In the past ten years it has grown by approximately 33%. Despite repeated changes to insurance scheme covering health expenditure the system remains 'service' driven rather than 'health' driven. The current Opposition proposes modifications to the health insurance arrangements to encourage more private provision and the sale of Medibank Private. Whatever their merits, neither of these measures is likely to relieve the pressure on health expenditure.

The arguments for Health Maintenance Organisations are set forth in detail in our associated discussion paper. We believe that this approach offers the most attractive route for containing health expenditure. We urge governments to encourage their development.

### Work/training requirements with welfare

We note that in 23 of America's 50 states welfare recipients now work, accept training or provide evidence of their effort to obtain a job. California for example, has a workfare scheme known as GAIN (Greater Avenues to Independence) which has attracted support from all political parties. American schemes vary to suit local employment conditions. These programmes have been developed in the United States with support across the political spectrum. Such schemes in Australia would require co-operation from the union movement. American unions have not objected to workfare schemes providing the programmes pose no threat to existing

jobs. This can be attained by the requirement that welfare workers not be used in any department or activity where regular employees have been laid off. We urge investigation of a scheme tailored to Australian needs and circumstances.

#### Encouraging choice diversity and equity in education

An earlier Strategic Issues Forum review proposed a modified voucher system for dispersing educational funds and fees for tertiary students. The arguments do not need rehearsing. The degree of centralisation of the Australian education system is remarkable. We believe it inhibits choice and diversity to an excessive degree. The original argument for homogeneous systems - the pursuit of equality in an environment in which income levels were widely divergent - has been rendered obsolete by relative income movements since 1870.

#### Income security, the tax system and self-provision

The government currently has an enquiry underway to review income security arrangements. We accept the great complexity of achieving change. We understand that the Australian system is already needs based to a greater extent than other systems. We accept that the less universal the system, the greater the resultant poverty traps are likely to be.

The Institute for Fiscal Studies in the United Kingdom concluded its study 'The Reform of Social Security', by arguing: 'the pursuit of a single, properly integrated tax and benefits system provides the only promising direction of reform.'

In this context we urge the current enquiry into income security in Australia to consider development of the system in this direction. In addition we believe the following criteria should guide selection of approaches:

- . self-provision should be encouraged to the maximum degree;
- . universal government based systems should be avoided; diversity of provision with the private sector playing a major role should be sought;
- . government supplements should be narrowly needs based
- . reduction in the age of retirement should be voluntary and should not add to taxpayer liability

For reasons developed in the following section of this report, we do not believe the current income security review will lead to significant programme development unless it is associated with a major effort to build a political coalition that can provide the 'muscle' necessary to achieve change. The Assets Test episode (a much more limited exercise) provides strong evidence of the difficulties in achieving strategic programme change. Unless the lessons of this episode are absorbed the current review is likely to prove abortive.

#### Programme scrutiny and review

The current scale of welfare state programme suggests the need for enhanced scrutiny and review. Yet the various public mechanisms for scrutiny and review have not been excessively active in comparison with the scale of spending. For example, the Public Accounts Committee of the Parliament has undertaken an enquiry into 'Medi Fraud'. This enquiry

usefully demonstrated the capacity of a Parliamentary based mechanism to focus public attention on abuse. The Public Accounts Committee has also investigated the Pharmaceutical Benefits Scheme and the Supply of Pathology Services. However of the 55 reports tables since 1981, only 4 concern the efficiency of welfare administration. The Auditor General has undertaken 28 efficiency audits since 1980. Only 3 relate to welfare administration (Commonwealth Nursing Homes Programmes, Administration of Widows Benefit and Supporting Parents Benefit, administration of disability pensions). These enquiries concern administrative efficiency, not the underlying rationale of programmes. The Senate Estimates Committee and the Senate Social Welfare Committee have undertaken no evaluation reviews of particular programmes in the last 10 years. The Senate Social Welfare Committee has conducted 13 enquiries in the past ten years. One concerned the need for evaluation in the welfare area (1979). The committee has not followed this up with evaluation reviews of particular programmes. The Expenditure Committee has conducted 3 welfare reviews in the past 5 years: 2 concerned aged care and 1 concerned nursing home efficiency. Beyond income security, most health, education and welfare spending actually occurs at the state level. Expenditure constraint imposed by the federal government has obliged some action at the State level (e.g. hospital closure programme in New South Wales). There is no evidence that scrutiny and review of the effectiveness of spending at either state or federal levels has even remotely paralleled the increasing scale of public spending.

The obvious mechanism at both state and federal levels through which additional scrutiny and review might be attained is parliamentary committees. A number of steps might be taken. We would like to see the Public Accounts Committee interest in this area expanded. We would like



to see Senate Committees undertaking strategic reviews of major programmes. We believe enquiries should encompass the effectiveness and underlying rationale of programmes. We would like to see a staff available to Parliamentary Committees sufficient for the task.

#### Privatisation and Contracting-Out

We urge exploration of the scope for privatisation. As evidence presented in the Discussion Paper makes clear, this has been a major thrust in the much lower resourced British health and hospital system. We see no reason why it should not be pursued in Australia. We suggest contracting targets might be set in conjunction with more research and publication of performance data concerning the hospital system.

#### Strategic Programme Change

Strategic programme change confronts any government with the need to overcome powerful interest groups. We endorse Samuel Brittan's observation:

'Interest groups have acquired a stranglehold over the political process - whether these are the unions, the professions, the farm lobby, the pensions industry, the home owners' lobby, the heavy exporters lobby, council employees and the rest. The fact that most of us belong to one or more of these lobbies does not reduce their perverse effect. But the commitment to defend, keep and protect goes into areas which makes no economic sense from any point of view.'

We suggest that in pursuing strategic programme change any government needs to devise strategies and institutional arrangements that will enable it to deal with interest group power. The Assets Test, the Tax Summit and the aborted Students Fees episode are salutary reminders of thno are

difficulty of attaining policy change. We recommend a much greater use of parliamentary, particularly Senate, committees to spearhead strategic programme change. Obviously no institutional mechanism by itself can guarantee effective outcomes. But at least three advantages in such an approach can be identified.

First, without some degree of bi-partisanship significant programme change appears unattainable. This is perhaps the most important advantage of basing strategic programme reviews in committees of the parliament. Providing an issue is explored sufficiently far ahead (i.e. perhaps 2 years before it enters the current agenda) there may be the chance to define the scope for bi-partisan action. Bi-partisanship was possible in the case of financial deregulation. It did not occur in relation to the Assets Test or the consumption tax. We believe much more effort needs to be applied to define areas of agreement and disagreement. On both the Assets Test and the consumption tax the present Opposition when in government had failed in attempts to introduce similar initiatives. This suggests the price paid by Australian society to sustain unmodified the hitherto desirable ritual of adversary politics.

Second, committees have the power to require departments to provide evidence in public. They can summon not simply the sponsoring department but other department such as Treasury and Finance that may have perspectives and interests different from the operational departments. Committees could also take evidence from state instrumentalities where this is appropriate.

Third, committees of the parliament have the capacity to engage interest groups in public. They can engage interest groups who are

supportive of the approach contemplated by the government, interest groups who are hostile to that approach, and interest groups who remain undecided. Providing the government discloses its forward planning, (and provided this information is sufficiently precise including a precise array of policy options), interest group evidence would indicate likely subsequent reaction. Such information is invaluable if Ministers are to later take decisions that are sensitive to the likely politics of policy making, in particular the scope for varying alliances between interest groups by trade-offs or compensation. At the moment, the government approaches major policy change without this essential information.

These three advantages - exploration of the scope for bipartisanship, engagement of all relevant ministers and departments in a public setting and engagement of all relevant interest groups in a public setting - point overwhelmingly to the potential contribution of parliamentary committees to strategic policy making.

Ministers and public servants have not so far recognised these considerations. The current income security review needs to enter the public domain at a relatively early point if significant strategic change is to be obtained. We urge the government to encourage the formation of a Senate Committee Enquiry as soon as it has formulated broad positions to elicit interest group reactions.