

# Australia's Policy Towards The Aged, 1890-1972

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## DESIGNING SOCIAL SECURITY SYSTEMS: LEARNING FROM AUSTRALIA AND OTHER COUNTRIES

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### SUMMARY

Social protection systems reflect each country's history, culture and social values, as well as its economic capacity. But, once first established, they can be very hard to redesign as expectations are locked in, and the scale of the systems makes major change a difficult and risky management challenge. This paper describes alternative designs of social security systems and how each addresses the two core objectives of poverty alleviation and income maintenance. Drawing on the 'pillars' typology or framework, the paper describes how different systems are being adjusted to meet changing demographic profiles and economic pressures. It focuses in particular on Australia, which has always emphasised 'foundation pillar' programmes aimed at poverty alleviation and has only recently given emphasis to income maintenance. In doing so, it has chosen a very different approach involving mandated contributions into mostly fully funded schemes where individuals rather than the government and future generations of taxpayers bear most of the risks. Australia has also restructured its schemes for public sector employees. What possible lessons are there for countries at the early stages of design and implementation of a social security system? Copyright © 2014 John Wiley & Sons, Ltd.

KEY WORDS—social security; pensions; poverty alleviation; income maintenance; World Bank; 'five-pillar strategy'; ILO; demographic change; risk; funding; Australian case

### INTRODUCTION

Many social security systems were first established in first world countries in the late 19th or early 20th centuries. The different designs chosen were influenced by each country's prevailing culture and social priorities and its economic capacity at the time, but the choice was a real one. In Australia, for example, around the turn of the 20th century, there were debates about the merits of social insurance along the German lines, charitable relief along the lines of the British poor laws and a basic pension entitlement system, which might be supplemented by voluntary savings.<sup>1</sup> The choice by Australia was for a flat-rate means-tested pension financed through general revenue, a radically different approach to that adopted by most European and North American countries.

Whatever the basic design choice each country made at the beginning, with few exceptions that choice has not been reversed or fundamentally revised. Changes have been at the margins consistent with the original design framework or to supplement the basic framework. Each country has found itself 'path dependent', addressing emerging social or economic challenges via incremental measures as the political and financial commitments

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<sup>1</sup>Two Australian colonies, New South Wales and Victoria, enacted legislation in 1900 to introduce non-contributory age pensions for those aged 65 years and older, drawing closely on New Zealand's 1898 legislation. The Commonwealth of Australia was established as a federation in 1901 with the power to legislate for old age and invalid pensions, a power it exercised in 1908 with the national pension system coming into place in 1909. The introduction of the NSW scheme followed a report by a Select Committee of the Legislative Assembly on 'State Insurance or Old age and Invalidity Pensions' and a major study by one Member (J. C. Nield MP, 1898, 'Report on Old Age Pensions, Charitable Relief and State Insurance in England and the Continent of Europe'). The national scheme was largely based on the recommendations of a Royal Commission on Old Age Pensions in 1905–1906, which broadly endorsed the design of the State (previously the colonial) schemes it replaced (Kewley, 1969, 1973; Whiteford and Stanton, 2002; Herscovitch and Stanton, 2008; Murphy, 2011).

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