What counts as welfare spending?

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Introduction

Debates over the federal budget often refer to the level of ‘welfare’ spending. However the term welfare is often poorly defined. This can lead to confusion.

The ambiguity of the term ‘welfare’ is a problem across English-speaking countries. For example, in a post on the House of Commons Library Blog, Rod McInnes writes:

The word ‘welfare’ does not have a single universally accepted definition in the context of public expenditure. For some people, the word is associated with cash handouts for working-age people who are workless or on low incomes. Others define the term more broadly to encompass other strands of benefit expenditure, or even services provided as benefits-in-kind by the ‘welfare state’, such as the NHS [National Health Service], social care or free school meals. The word ‘welfare’ may also be felt by some to carry a certain stigma, whereas others may consider it neutral rather than pejorative.¹

At its broadest welfare can be used to refer to all of the programs and services that make up the welfare state. This can include health and education, as well as income support payments such as the Age Pension, Carer Payment, Disability Support Pension and Newstart Allowance.

Welfare can also refer to the administrative category of ‘social security and welfare’. This category is used in budget papers and includes spending on aged care, child care, the National Disability Insurance Scheme (NDIS), family assistance payments and income support payments.

Welfare can also refer to a much narrower (and less clearly defined) category of spending on income support payments to people of working age. These welfare payments are means-tested benefits provided in cash. They

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go to people of working age who are not participating in paid employment or other activities such as education or vocational training. The term welfare can be applied loosely to spending that meets some or all of these criteria. It is a moral or political category rather than a legal or administrative one. It is often associated with the idea that recipients have not earned an entitlement to payments through contributions to the community.

Use of this political category of welfare has become increasingly common in Australian political debate. The category tends to include unemployment payments, such as Newstart Allowance, and payments to people of working age claiming support on the grounds of disability or single parenthood.

Statistics on welfare spending play a central role in debates over government policy. However, in public debate it is not always clear which category these statistics refer to. Sometimes statistics that refer to the broad category of social security and welfare are presented as if they referred to the narrower political category of welfare.

If public debate is to be informed by facts, commentators need to pay close attention to the way categories such as welfare are defined. When categories remain vague and ambiguous, the statistics can conceal as much as they reveal.

The welfare state

In discussions about the welfare state the term welfare is used very broadly to refer to government-funded services, such as education and health, as well as means-tested payments, such as Newstart Allowance and the Age Pension. As Luke Buckmaster from the Australian Parliamentary Library writes:

> At its broadest, welfare may refer to ‘well-being, happiness; health and prosperity (of a person or a community etcetera)’. It may also refer to arrangements aimed at ensuring or bringing about well-being. Thus, a useful definition of welfare is that it is that which ‘refers to the well-being of individuals or groups and, by implication, those measures which can help to ensure levels of well-being through provision of education, health services, managed housing, and social security benefits’. The term ‘welfare state’ refers to arrangements where provision of such measures is principally the responsibility of the state. Specifically, it refers to those policy arrangements supporting the substantial expansion of state responsibility for welfare in many countries following World War II.

Governments generally do not use the broad category of welfare state when reporting spending.3

Welfare as an administrative category

The Australian Government’s budget papers use the category social security and welfare. It is one of 14 major categories organised according to function. As the Department of Finance’s website explains:

> Reporting by function is an internationally recognised means of reporting government activities for comparison purposes (which can be mapped to the IMF’s Government Finance Statistics Manual 2001). It provides a useful means of understanding government outlays as it allows for the reporting of expenses according to their purpose.

Reporting by function rather than by program also enables comparisons of spending over time.

According to the 2015–16 budget papers, the Australian Government will spend an estimated $154.0 billion on social security and welfare in the 2015–16 financial year. This represents 35.4 per cent of total government spending.6

Social security and welfare includes both payments (social security and compensation and services to groups, such as veterans, the aged, children and families, the unemployed and people with disability.) Table 1 provides a breakdown by beneficiary group.

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2. Footnote references have been omitted from this quotation and can be viewed in the source document: L Buckmaster, Money for nothing? Australia in the global middle class welfare debate, Research paper, 31, 2008–09, Parliamentary Library, Canberra, 12 May 2009, accessed 9 December 2015, p. 3.


6. Ibid., p. 5-10.

What counts as welfare spending?

Table 1: Summary of expenses—social security and welfare

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</tr>
<tr>
<td>Assistance to the aged</td>
<td>57,637</td>
<td>60,734</td>
<td>63,057</td>
<td>65,538</td>
<td>69,400</td>
</tr>
<tr>
<td>Assistance to veterans and dependents</td>
<td>6,790</td>
<td>6,592</td>
<td>6,405</td>
<td>6,193</td>
<td>6,016</td>
</tr>
<tr>
<td>Assistance to people with disabilities</td>
<td>27,724</td>
<td>29,545</td>
<td>34,157</td>
<td>42,950</td>
<td>53,067</td>
</tr>
<tr>
<td>Assistance to families with children</td>
<td>38,808</td>
<td>38,143</td>
<td>37,084</td>
<td>38,152</td>
<td>39,856</td>
</tr>
<tr>
<td>Assistance to the unemployed and the sick</td>
<td>10,810</td>
<td>11,515</td>
<td>11,591</td>
<td>11,445</td>
<td>12,048</td>
</tr>
<tr>
<td>Other welfare programs</td>
<td>1,527</td>
<td>1,494</td>
<td>1,529</td>
<td>897</td>
<td>1,017</td>
</tr>
<tr>
<td>Assistance for Indigenous Australians nec</td>
<td>2,148</td>
<td>2,112</td>
<td>2,161</td>
<td>2,151</td>
<td>2,105</td>
</tr>
<tr>
<td>General Administration</td>
<td>3,662</td>
<td>3,865</td>
<td>3,671</td>
<td>3,394</td>
<td>3,360</td>
</tr>
<tr>
<td>Total social security and welfare</td>
<td>149,107</td>
<td>154,000</td>
<td>159,654</td>
<td>170,719</td>
<td>186,869</td>
</tr>
</tbody>
</table>

* Expenses ‘Not elsewhere classified’


Each of these categories includes both payments and services. The four largest categories of expenditure are:

- **Assistance to the aged**: this category makes up 39.4 per cent of all social security and welfare spending (2015–16). The two largest expenses in this category are income support for seniors ($44.2 billion in 2015-16) and residential and flexible care ($10.2 billion in 2015–16).  
  
- **Assistance to families with children**: this category makes up 24.7 per cent of all social security and welfare spending (2015–16). The largest expenses in this category are Family Tax Benefit ($20.2 billion in 2015–16), child care fee assistance ($7.3 billion in 2015–16), and parents’ income support ($5.7 billion in 2015–16).

- **Assistance to people with disabilities**: this category makes up 19.2 per cent of all social security and welfare spending. The largest expenses in this category are income support payments to people with disability ($17.1 billion in 2015–16) and income support payments to carers ($8.1 billion in 2015–16). This category also includes the NDIS. The cost of the NDIS is projected to grow from $1.1 billion in 2015–16 to $19.2 billion in 2018–19.

- **Assistance to the unemployed and the sick**: this category makes up 7.4 per cent of all social security and welfare spending (2015–16). It includes income support payments to unemployed people, such as Newstart Allowance and Youth Allowance (Other).

**Welfare as a political category**

In the media and in political debate in Australia and overseas, the term welfare is often used in a much more limited sense. It generally refers to spending on means tested benefits that are provided:

- as cash (or ‘near cash’)

- to people of working age

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10. Australian Government, op cit., p. 5-30. The full implementation costs of the National Disability Insurance Scheme are still uncertain. For more detail on how the scheme will be funded, including the way the scheme combines Commonwealth funding and funding from states and territories, see: T Dale and L Buckmaster, ‘Funding the National Disability Insurance Scheme’, Budget review 2015–16, Research paper series, 2014–15, Parliamentary Library, Canberra, May 2015, accessed 10 December 2015.
12. ‘New cash’ benefits include those distributed through cashless welfare cards such as the BasicsCard used for Centrelink customers subject to income management and the Healthy Welfare Card that will be trialled in a limited number of locations around Australia.
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• to people who are capable of working
• to people whose current major activity is not:
  – work or
  – other form of participation that the government is attempting to encourage (such as vocational education).

The term welfare tends to be applied loosely to spending that meets some or all of these criteria. It is a moral or political category rather than a legal or administrative one. It appears to be associated with the idea that recipients have not earned an entitlement to payments by paying social insurance contributions or making some kind of contribution to the community.

In Australia, it is common for politicians and commentators to talk about welfare payments as ‘handouts’ and payments to categories of people who are seen as having made a contribution as ‘entitlements’. For example, this is why Liberal Party MP, Bronwyn Bishop, has argued that means-tested payments to veterans are not welfare:

... we in the opposition believe we have a contract with our veterans. We say, ‘You men and women who serve our country and put your lives on the line, we will look after you for the rest of your lives.’ That is a contract that we make. It is not welfare. What we give to them is an entitlement. 13

Similarly, in his first speech to the Parliament, Liberal Party MP, Tony Abbott, argued for a new government payment to people caring for children, which he called a ‘family wage.’ He argued that this payment would be: ‘quite different from welfare. It is a recognition of responsibilities, not need. It is a payment for services, not a handout.’ 14

Another part of what shapes the political category of welfare is the moral intuition that if a person is capable of working, it is a wrong for them to be idle at taxpayers’ expense. 15 Linked to this is the idea that, aside from any financial considerations, people are better off working than relying on income support (hence the phrase ‘the best form of welfare is a job’). 16

One of the negative connotations of ‘welfare’ in the political sense is that it refers to programs that encourage passivity and discourage work and active participation. 17 Many supporters of the NDIS resisted the idea that it should be seen as welfare because the scheme is designed to enable people to participate. For example, News Limited columnist, Tory Shepherd, insisted that the NDIS is: ‘not welfare, it’s helping people with disabilities participate in life. That means many may be able to work, and pay taxes that may end up paying for your care when you’re old and incontinent.’ 18

In its 2009 inquiry report on paid parental leave, the Productivity Commission made a similar argument for paid parental leave. The Commission suggested that the scheme should not be characterised as welfare because it was designed to support people in their role as employees and would facilitate workforce attachment. 19

Payments to people who are unable to work (people with severe and permanent disabilities) or not expected to work (such as the aged) are often excluded from the welfare category because participation in paid work is not seen as a moral obligation for these groups. As David Ellwood, United States (US) academic and former government official, writes:

15. For an example of how moral judgements inform thinking about income support policy, see: P Saunders, ‘Lest we forget the moral principle of fairness’, The Australian, 18 August 2015.
16. For example, reporting on a debate within the Australian Labor Party about raising the rate of unemployment payments, journalist Stephanie Peatling reported: ‘many Labor MPs are against an increase, saying the best form of welfare is a job.’ S Peatling, ‘Gillard feels pressure to lift dole’, Sydney Morning Herald, 20 May 2012, accessed 9 December 2015.
17. Ministers have often promoted welfare reforms by arguing that they will deal with the problem of ‘passive welfare’. For example: J Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs), Tony Abbott announces copycat policy on welfare reforms, media release, 28 July 2010, accessed 9 December 2015.

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It is not that Americans forget that a large share of ‘welfare’ goes to the aged and disabled. They do not consider that money to be "welfare." Welfare, as the public uses the term ... means cash, food, or housing assistance to healthy nonaged persons with low incomes. That kind of welfare is what the public objects to, regardless of its size.20

In public debate, the negative connotations of the term welfare are often part of its meaning. This is especially true in the US. When public opinion researchers survey Americans whether they favour more spending for welfare they are much less likely to support it than if they are asked if they favour more spending on ‘the poor’.21

The risk of confusion
The administrative category social security and welfare and the political category welfare refer to different things. However, when ‘social security and welfare’ is abbreviated to ‘welfare’, there is a risk that the public will become confused.

One risk is that people will see projections for increases in the broad category of social security and welfare spending and assume that these are driven by projected increases in the narrower political category of welfare. Unless the category is clearly defined, people may assume that the statistics refer to working age payments, such as Newstart Allowance and the Disability Support Pension.

Recent media reports and commentary increase the likelihood of this kind of confusion. For example, in a recent media column suggesting that ‘the national welfare bill’ is set to increase to $277 billion by 2025,22 the author asserted: ‘With the Disability Support Pension payments and Newstart Allowances set to blow out astronomically, these areas must be the first to be reviewed and reformed.’23

The projections in the column refer to the administrative category of social security and welfare. But the column makes no reference to spending on aged care, child care, the NDIS, carer payments, or the age pension. By focusing on Newstart Allowance and the Disability Support Pension, the column suggests that the $277 billion figure refers to welfare in the political sense. The column offers no statistics that back up the claim that the Disability Support Pension and Newstart Allowance are ‘set to blow out astronomically.’

In contrast to such claims, a recent publication by the Parliamentary Budget Office (PBO) shows that most of the growth in spending within the social security and welfare category is projected to take place in elements that are not usually seen as ‘welfare’ in the political sense.24 Elements projected to grow faster than Gross Domestic Product (GDP) over the next ten years include:

- **NDIS**: the NDIS is the single largest contributor to growth in spending in the social security and welfare category, with spending of under $1 billion in 2014–15 projected to grow to $32 billion in 2025–26. According to the PBO’s projections, spending on the NDIS will reach 1.1 per cent of GDP in 2025–26.25
- **Child care**: the second largest contributor to growth in spending in the social security and welfare category is child care. Spending is projected to grow from 0.4 per cent of GDP in 2014–15 to 0.7 per cent of in 2025–26.
- **Aged care**: population ageing will see demand for aged care rise. Spending is projected to grow from 0.9 per cent to 1.1 per cent of GDP.
- **Carer income support**: the PBO projects a strong increase in the number of recipients of carer payments. Spending is projected to grow from 0.5 per cent to 0.6 per cent of GDP.26

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23. Ibid.
25. The full implementation costs of the NDIS are still uncertain. For more detail on how the scheme will be funded, including the way the scheme combines Commonwealth funding and funding from states and territories, see: T Dale and L Buckmaster, op. cit.
26. PBO, op. cit.
Some social security and welfare spending elements are projected to fall as a proportion of GDP. These include job seeker income support (from 0.7 per cent to 0.5 per cent of GDP) and parenting payments (0.4 per cent to 0.3 per cent of GDP). Spending on the Disability Support Pension is projected to be stable at 1.0 per cent of GDP.27

In contrast to the impression created by the column, experts argue that spending on the income support payments that most people think of as welfare is not increasing rapidly. For example, according to the Australian National University’s Peter Whiteford, Australia:

... does not have a welfare crisis. The proportion of GDP spent on social security cash payments peaked at around 9% of GDP in 1996. It also attained this level in 2000 when compensation for the GST was provided. According to the most recent OECD figures, it was around 8.7% of GDP in 2013.

Similarly, as the McClure review interim report pointed out, the percentage of the working-age population receiving income support peaked in 1997 at 24.9%, before falling to 16.6% in the 2008, rising to 17.6% in 2010 following the global financial crisis and then easing back to 16.7% in 2013.28

Because the social security and welfare category is so large and diverse, it is important to drill down into the data before drawing conclusions about any particular element of the category.

**Conclusion**

None of the above implies that public concern about the level of spending on working age payments, like Newstart Allowance and Disability Support Pension, is misplaced. Australians are entitled to ask whether more people on working age income support payments could be supporting themselves and their families through work. However, if public debate is to be informed by facts, there needs to be closer attention to the way categories such as welfare are defined. When categories are vague and ambiguous, statistics can conceal as much as they reveal.

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27. Ibid.