

# *The Future of Welfare Law in a Changing World: Lessons from Australia and Singapore*

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## *Abstract*

This article analyses the Singaporean tradition of relatively low levels of public expenditure on social security and emphasis on family and personal responsibility through mandatory 'social account' investments and tax incentives to promote savings; and the Australian tradition of tax-funded, flat-rate and means tested social security payments for most contingencies. It is suggested that both countries have developed their own particular 'twists' on their historic and cultural inheritances (Singapore blending US-style neoliberalism with Confucian reliance on familial self-provision and low tax rates; Australia breaking from a contributory model due to a strong laborist influence). Tentative observations are offered about the degree of path dependence or otherwise of these models and their contribution to debate in countries contemplating 'parameter changes' to welfare to accommodate globalisation or fiscal challenges.

## **I Introduction**

With a population of approximately 4.3 million, a demographic profile of an ageing population (over 12 per cent above age 60)<sup>1</sup> and a work force of which almost a quarter are foreigners, the wealthy trading nation of Singapore might have been expected to be one of the first ASEAN nations to develop extensive and generous social security provisions. Instead, countries less blessed by economic and demographic forces, such as South Korea, led the way.<sup>2</sup> This reflects a broad divergence of East Asian models, with Northern Asian countries such as Japan, South Korea and Taiwan adopting fairly universalist 'social insurance' models, while 'in Singapore and Hong Kong, provident funds are the main anchor of the welfare state with a strong emphasis on public housing'.<sup>3</sup> Huck-ju Kwon has characterised this as fidelity to the model of a 'selective developmental welfare state', where social protection is used to favour particular developmental

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<sup>1</sup> Paguman Singh, 'Social Protection in ASEAN: Issues and challenges for ASEAN and its member countries' (ASEAN GO-NGO Forum, 2007).

<sup>2</sup> M Ramesh, 'Social Security in South Korea and Singapore: Explaining the differences' (1995) 29 *Social Policy & Administration* 228.

<sup>3</sup> Sarah Cook and Huck-ju Kwon, 'Social Protection in East Asia' (2007) 7 *Global Social Policy* 223, 226.

priorities,<sup>4</sup> though it reflects also the general Asian reliance on family provision and resistance to ‘hand-outs’.<sup>5</sup>

For its part, Australia (and New Zealand) also embraced social security models which broke from the social insurance model found in Europe and much of the developed world, instead favouring tax-funded but austere levels of payments for a range of social contingencies such as age, disability or unemployment, subject to meeting means tests to ration access.<sup>6</sup>

This article explores some of the reasons for the adoption of Australia’s model of a modified workers’ welfare state and Singapore’s model of family self-sufficiency first.

## II The Singaporean and Australian Welfare Systems

Any exercise in modelling of complex systems like social security, or the welfare state, is necessarily uncertain, since the models are constructed by mapping variance on a few selected variables.

Gosta Esping-Andersen’s work *The Three Worlds of Welfare Capitalism*<sup>7</sup> and its later applications<sup>8</sup> distinguished between three welfare models: a liberal (for example, US needs-based welfare); a corporatist conservative (for example, German ‘work-related’ welfare); and a ‘social democrat’ approach (for example, Nordic ‘welfare as citizenship’). These models are constructed by reference to a small number of variables, including: the degrees of ‘decommodification’ (divorce of welfare support from market participation); the stratifying effects of welfare provision; the respective amounts of policy work carried by the state, family and civil society; and by the relationship to what may be termed the ‘world of work’.<sup>9</sup>

In a similar way, any picture of the pattern of welfare in a given country is influenced by choices that have been made in what to count and what aspects to highlight.<sup>10</sup> As Richard Titmuss long ago observed,<sup>11</sup> a tax rebate (uncollected

<sup>4</sup> Huck-ju Kwon, ‘The Reform of the Developmental Welfare State in East Asia’ (2009) 18(S1) *International Journal of Social Welfare* S12, S13–S14.

<sup>5</sup> Marius Olivier, ‘Developing a Rights-Based Framework for the Regulation of Security in Old Age: Policy and Legal Considerations’ (Paper presented at the 8<sup>th</sup> Asian Regional Conference of the International Society for Labour and Social Security Law, Taipei, Taiwan, 31 October – 3 November 2005) 218.

<sup>6</sup> Terry Carney, *Social Security Law and Policy* (Federation Press, 2006) ch 2.

<sup>7</sup> Gosta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Polity Press, 1990).

<sup>8</sup> Gosta Esping-Andersen, *Social Foundations of Postindustrial Economies* (Oxford University Press, 1999); Gosta Esping-Andersen (ed), *Welfare States in Transition: National Adaptations in Global Economies* (SAGE Publications, 1996).

<sup>9</sup> Diane Sainsbury, ‘Immigrants’ Social Rights in Comparative Perspective: Welfare regimes, forms in immigration and immigration policy regimes’ (2006) 16 *Journal of European Social Policy* 229, 230.

<sup>10</sup> Patterns of welfare provision for immigrants within Australia, Canada and certain EU jurisdictions are a case in point: Terry Carney and Gaby Ramia, ‘Welfare Support and “Sanctions for non compliance” in a Recessionary World Labour Market: Post-neoliberalism or not?’ (Paper presented at the XIX World Congress on Labour and Social Security Law, Sydney, 1–4 September 2009).

<sup>11</sup> Richard Titmuss, *Social Policy: An Introduction* (Allen and Unwin, 1974).

revenue) has the same impact as an equivalent ‘benefit’ paid back to a taxpayer (now therefore counted in Australia’s national accounts). The economic transfer effect on an individual may also be the same whether made in cash, or in kind (as with the quarantining of half of some Australian welfare payments in indigenous communities<sup>12</sup>), or made by a government payment direct to welfare providers of services such as housing (as in Singapore, as a means of removing personal incentives favouring dependency).

So the short point is that the ever changing mix of responsibilities of the state, family and civil society (non-government agencies) remain quite fluid: these three pillars of welfare as they have been termed<sup>13</sup> are however somewhat hidden from view at times (especially family provision), and may alter their respective shares dramatically over the course of history. An example of such dramatic change was Britain’s replacement of the self-provision approach of the 19<sup>th</sup> century by the welfare state of the 20<sup>th</sup> century.<sup>14</sup>

### A Singapore

As Mukul G Asher and Amarendu Nandy of the School of Public Policy of the National University of Singapore (‘NUS’) explain,<sup>15</sup> the Singaporean system concentrates mainly on a compulsory savings vehicle pitched mainly at retirement needs, supplemented by limited social assistance schemes, tax provisions and, since 2007, a Workfare Income Supplement scheme catering to low waged *citizen* workers.<sup>16</sup>

Writing in 2001, Asher and Wasana Karunaratne of the NUS summarised their assessment of the local system as follows:

The main elements of Singapore’s social security system are the following.  
First, there is near exclusive reliance on mandatory, publicly managed,

<sup>12</sup> The original scheme provided for quarantining to apply in three ways: to designated geographic areas (utilised in the Northern Territory), to individuals identified by a collaborative decision-making body (in Queensland), or individually: Jo Sutton, ‘Emergency Welfare Reforms: A mirror to the past?’ (2008) 33 *Alternative Law Journal* 27. The application of the *Racial Discrimination Act 1975* (Cth) to these measures was suspended when they were enacted. To allow reinstatement of the Act, government proposed to extend the measures to the non-indigenous community: Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (2009 Measures) Bill 2009. The package of Bills were enacted in the Budget session of Parliament; and assented to on 29 June 2010: Senate Community Affairs Legislation Committee, Parliament of Australia, *Report: Social Security and Other Legislation Amendment (Welfare Reform and Reinstatement of Racial Discrimination Act) Bill 2009; Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (2009 Measures) Bill 2009; and Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (Restoration of Racial Discrimination Act) Bill 2009* (2010) xi. The package of Bills were enacted in the Budget session of Parliament; and assented to on 29 June 2010.

<sup>13</sup> Robert Goodin, ‘Whither the Welfare State?’ (2000) 48 *Growth (Melbourne)* 57, 59.

<sup>14</sup> Geoffrey Finlayson, *Citizen, State and Social Welfare in Britain, 1830–1990* (Clarendon Press, 1994).

<sup>15</sup> Mukul G Asher and Amarendu Nandy, ‘Singapore’s Policy Responses to Ageing, Inequality and Poverty: An Assessment’ (2008) 61 *International Social Security Review* 41, 42.

<sup>16</sup> *Ibid* 55–6.

Defined Contribution (DC) system based on portable individual accounts. The main vehicle for this system is the Central Provident Fund (CPF) to which only Singapore citizens and permanent residents can be members. ... The second element, the Supplementary Retirement Scheme (SRS), [is] essentially a tax advantaged voluntary savings scheme, ... implemented from April 2001. ... The third element concerns the pensions arrangements for civil servants.<sup>17</sup>

The Central Provident Fund (the 'CPF') is a colonial institution introduced by the British in 1955. It originated as a self-funding provident fund but evolved towards a pay-as-you-go (PAYG) system which broadened its coverage from a savings vehicle or retirement income scheme for those exposed to the workforce to include other benefits. Compulsory employee and employer contributions are now invested in three earmarked personal accounts, which provide modest<sup>18</sup> earning-related retirement payments (the 'Special account') and other benefits such as hospital and medical costs (the 'Medi-save account'), or home ownership, investment, insurance and education loans (the 'General account'). Other rules refine the scheme in various ways, including by setting limits on withdrawals from the retirement fund after age 55 (the CPF Minimum Sum), and insisting on minimum contributions to the medical fund in certain circumstances (Medisave Required Amount). However in terms of social policy, this scheme overlooks those excluded from the work force, and it does little for the poorly paid, because rates of contributions are low. Essentially Singapore lacks a universal social assistance tier (it has no publicly-funded safety net), and there is no risk-pooling tier such as is found in social insurance schemes.

People outside the work force, or with marginal labour force participation, are reliant on a tightly rationed Public Assistance Scheme ('PAS'). The eligibility criteria for the PAS mean that aged people with living children 'usually have a very slim chance of obtaining approval' even for the small non-inflation-proofed payments,<sup>19</sup> which are deliberately kept very low at between five and 10 per cent of average per capita income.<sup>20</sup> The PAS caters to just five per cent of low income citizens,<sup>21</sup> and its low level of support calls into question the claim that it provides 69 per cent of household expenditure once direct handouts to care providers are taken into account.<sup>22</sup> As Volker H Schmidt in a contribution to a 2008 collection on social policy in Singapore explains:

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<sup>17</sup> Mukul G Asher and Wasana Karunaratne, 'Social Security Arrangements in Singapore: An Assessment' (Paper presented at the International Seminar on Pensions, Hitotsubashi University, Tokyo, Japan, 5-7 March 2001) 1.

<sup>18</sup> Asher and Nandy found that the average account balances were less than average GDP per capita, and the sum held and returns on that investment quite inadequate to provide acceptable retirement incomes: above n 15, 52-4.

<sup>19</sup> In 2002 the payments were of approximately S\$230 a month: Kalyani Mehta, 'National Policies on Ageing and Long-term Care in Singapore: A case of cautious wisdom?' in David Phillips and Alfred Chan (eds), *Ageing and Long-term Care: National policies in the Asia-Pacific* (Institute of Southeast Asian Studies, 2002) 150, 158.

<sup>20</sup> Asher and Nandy, above n 15, 49.

<sup>21</sup> Ibid 55.

<sup>22</sup> Ramesh, above n 2, 231.

To people outside the workforce, ... Singapore offers only very minimal protection that barely helps them get by: occasional (and discretionary) grocery vouchers, a letter of support asking utility providers to stall payment requests if someone temporarily cannot pay his or her bills, etc. Moreover, it offers shelter and highly subsidized public housing as well as public health, so that people's most basic needs are taken care of. But the main source of support for the truly needy is supposed to be each person's family that is morally and legally entrusted with this responsibility.<sup>23</sup>

While the CPF is in part a rudimentary age pension scheme,<sup>24</sup> it has also been broadened to serve other savings or social purposes. The purposes to which the funds in the three accounts can be devoted enables the CPF to serve as a way of facilitating achievement by individuals of aspirations for home ownership, health cover and other pre-retirement objectives.<sup>25</sup>

Australia, by contrast, operates what in social policy terms is described as a relatively universal social assistance scheme.

## B *Australia*

For nearly the first 50 years after Australian Federation, the Federal Parliament was restricted in the field of social welfare mainly to making laws about age and disability pensions, and veterans' affairs. In 1946, passage of a referendum broadened federal power,<sup>26</sup> and a variety of work force, age, family and child care payments are now made under that constitutional authority.<sup>27</sup> Administration is entrusted to a statutory payment agency (now called Centrelink) subject to policy direction from two main departments of state.<sup>28</sup>

<sup>23</sup> Volker H Schmidt, 'Convergence with a Twist: East Asian Welfare Capitalism in Comparative Perspective' in Lian K Fee and Tong C Kiong (eds), *Social Policy in Post-Industrial Singapore* (Brill Leiden, 2008) 309, 313.

<sup>24</sup> Ibid.

<sup>25</sup> Habibullah Khan, 'Social Policy in Singapore: A Confucian model?' (Working Paper, World Bank Institute, January 2001) 14. As Asher and Nandy explain, above n 15, 50:

The CPF contributions are channelled to three accounts: two-thirds to the Ordinary Account (OA), which can be used for housing and investment schemes; 19 per cent to the Medisave Account (MA), which can be used for hospitalization expenses and catastrophic health insurance; and the remaining 14 per cent to the Special Account (SA), which can be used for retirement and other purposes.

<sup>26</sup> Carney, above n 6, 32. The new head of power in s 51(xxiiiA) authorises:

The provision of maternity allowances, widows' pensions, child endowment, unemployment, pharmaceutical, sickness and hospital benefits, medical and dental services (but not so as to authorize any form of civil conscription), benefits to students and family allowances.

<sup>27</sup> The main legislation includes: *Social Security Act 1991* (Cth); *Social Security (Administration) Act 1999* (Cth); *Family Assistance Act 1999* (Cth); and *Family Assistance (Administration) Act 1999* (Cth).

<sup>28</sup> Social security policy is made on advice from the Department of Families, Housing, Community Services and Indigenous Affairs ('DFaHCSIA') and the Department of Employment, Education and Workplace Relations, but it is *administered* by a statutory corporation, called 'Centrelink', which is contracted by various Departments (also including Veterans' Affairs) to operate as a 'service delivery agency' for claims and payments; while job-matching services ('PES') are now fully contracted-out to a 'quasi-network' of not-for-profit or profit-making providers: see Terry Carney,

Australia was an international leader in provision of publicly-funded retirement incomes for the aged and those with disabilities, after Germany's contributory pension was introduced in 1889 and non-contributory pensions were introduced in Denmark in 1891–92 and in New Zealand in 1898. Responding to public pressure to look after 'founders', age pensions were introduced in Victoria and New South Wales prior to Federation, closely followed by Queensland.<sup>29</sup> Those state schemes lacked universality (Victoria, for example, insisted on exhausting family support<sup>30</sup>), but such limitations were abandoned by the national scheme of 1908 (commencing June 1909) with its means-tested flat-rate age and invalid pensions payable irrespective of family support.<sup>31</sup>

Means-testing, of both income and assets, has been part of the architecture of Australian social security from the inception of the age and invalid pensions. Initially the test applied a 100 per cent reduction (that is, 'dollar for dollar' reduction in current policy terminology), but various liberalisation measures, such as exclusion of the family home from assets testing in 1912, had expanded coverage, such that by the 1950s age pension coverage had increased from an initial one third to three quarters of the aged population.<sup>32</sup> In 1969, when abolition of means tests was politically popular, the pensions test was reduced to a 50 per cent taper for income. For people not within the relevant age band or otherwise excluded from labour force participation for reasons outside their control, the income disregard figure (before income is counted at all)<sup>33</sup> and the taper rate are quite generous (40 per cent until the 2009–10 Budget decision to revert to 50 per cent),<sup>34</sup> unlike the means-testing arrangements for people of work force age.<sup>35</sup>

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'Australian Social Security Welfare-to-work: Avoiding Freudian slips?' (2008) 15(2) *Journal of Social Security Law* 51; Terry Carney, 'Lessons from Australia's Fully Privatised Labour Exchange Reform (Job Network): From "rights" to "management"?' (2005) 19(1) *Zeitschrift für ausländisches und internationales Arbeits und Sozialrecht* 77.

<sup>29</sup> Tom Kewley, *Social Security in Australia 1900–72* (Sydney University Press, 1973) chs 2, 3.

<sup>30</sup> Peter Gunn, 'The Development of Laws Relating to Filial Support in Australia' in John Eekelaar and David Pearl (eds), *An Aging World: Dilemmas and Challenges for Law and Social Policy* (Clarendon Press, 1989) 237, 247.

<sup>31</sup> Kewley, above n 29, 74. Although in theory subject, until 1974, to meeting tests of 'good character' and social obligations like maintaining dependents (Carney, above n 6, 25–6), the conditions for qualification were otherwise straightforward: meeting an age threshold and demonstrating a residential connection. A period of 10 years residence was and still is insisted on. Originally the qualifying age for males was set at 65 years and for women at 60, but from 1994 the ages were progressively aligned to 65 years.

<sup>32</sup> John McCallum, 'Winners and Losers in Retirement Income' in Hal Kendig and John McCallum (eds), *Grey Policy: Australian Policies for an Ageing Society* (Allen and Unwin, 1990) 55, 60.

<sup>33</sup> A\$138 for singles and A\$240 for couples in 2008.

<sup>34</sup> Hazel Bateman and John Piggott, 'The Australian Approach to Retirement Income Provision' in Noriyuki Takayama (ed), *Taste of Pie: Searching for Better Pension Provisions in Developed Countries* (Mazuran, 2003) 3, 8.

<sup>35</sup> Other measures, such as the pension bonus scheme rewarding delayed claims, or the threshold of around A\$25 900 before a single pensioner faces income tax on combined income from pension and other sources, serve to provide work incentives: Jeff Harmer, 'Pension Review' (Background Paper, Department of Families, Housing, Community Services and Indigenous Affairs, Commonwealth of Australia, 2008) 9. However, in the interests of preserving 'work incentives' the disregard figure and the withdrawal arrangements are anything but generous in the case of social security payments for people of work force age.

The Australian and Singaporean systems share only quite limited parallels with the US experience, as illustrated by comparing retirement income planning in the three countries.

### *C Retirement Planning Compared*

Employer-patronised private pension accounts have a long history in the US, dating from the days of the early railroad companies.<sup>36</sup>

In recent years, s 401(k) of the US *Internal Revenue Code* has continued to facilitate the offering by employers of tax deferred funds as a means of recruiting, rewarding and retaining employees. These ‘401(k) plans’ permit up to 25 per cent of an employee’s salary to be deducted, up to a ceiling or ‘cap’ amount. Employees generally have a wide array of choice between mutual funds, insurance and bank investments. Participation in these tax advantaged schemes rose significantly by 2005, with nearly a quarter (23 per cent) of workers aged 21–64 participating in retirement accounts and with a third (33 per cent) participating in 401(k) plans.<sup>37</sup> However while the second Bush administration sought to realise suggestions by, among others, the Cato Institute, for the ‘privatisation’ of social security, private pension accounts and 401(k) plans have remained as a supplement to (quite austere) Social Security payments, which are funded by a 6.5 per cent rate of payroll tax levied on employers.

Apart from the previously described age pension, Australia initially favoured private superannuation for high income earners and some public servants, accompanied by rather perverse policy settings.<sup>38</sup> In 1992 a three per cent government levy was imposed on employers to fund mandatory superannuation, following barriers encountered by unions seeking to replicate the US experience of incorporating such benefits through wage bargaining at the level of the firm.<sup>39</sup> By 2002 the levy had been increased to nine per cent, still short of the 15 per cent (a further three per cent from employers, and three per cent from government) proposed in Labor’s 1995–96 Budget prior to its loss of government.<sup>40</sup>

As recognised in the May 2010 decision of government slowly to raise contributions to 12 per cent by 2019–20, a 9 per cent level remained too low to oust

<sup>36</sup> Elizabeth K Tompkins, ‘Private Pensions Plans: Internet sources for keeping current with developments and research’ (2009) 14 *Journal of Business & Finance Librarianship* 159, 161–2.

<sup>37</sup> Craig Copeland, ‘Ownership of Individual Retirement Accounts (IRAs) and 401(K)-Type Plans’ (2008) 29(5) *EBRI Notes* 2, 10.

<sup>38</sup> The low five per cent tax on lump sum payments removed any incentive to prefer pensions over lump sum payouts: Bateman and Piggott, above n 34, 14. Superannuation funds were often set up by employers as a ‘tax sink’, or a source of business operating capital — since undistributed fund earnings were untaxed, while employer contributions were tax deductible.

<sup>39</sup> *Ibid* 9.

<sup>40</sup> Australian Treasury, in collaboration with the Department of Families, Housing, Community Services and Indigenous Affairs, Department of Employment, Education and Workplace Relations and Australian Taxation Office, *Architecture of Australia’s Tax and Transfer System* (18 August 2008) [Australia’s future tax system <http://taxreview.treasury.gov.au/content/Paper.aspx?doc=html/publications/papers/report/index.htm>](http://taxreview.treasury.gov.au/content/Paper.aspx?doc=html/publications/papers/report/index.htm).

reliance on the age pension. In 2004–05 private superannuation was a principal (but certainly not necessarily the exclusive) source of retirement income for only 12 per cent of retired people,<sup>41</sup> although the May 2009 Strategy report of the Henry Tax Review (named after the Chair, Treasury Secretary Dr Ken Henry) proposed that the 9 per cent mandatory contribution be retained, but be supplemented by other measures, elaborated in the May 2010 Final Report of the Henry Tax Review as a contributions tax offset.<sup>42</sup> On 2 May 2010 the government announced that it would instead gradually lift superannuation contributions to 12 per cent by 2019–20, funded by revenues from a new 40 per cent resource rent tax on ‘super’ profits of mining companies.<sup>43</sup>

This was based in part on findings that, on maturity of the scheme, for a low- to middle-income worker (a worker ‘on *median* income of 75 per cent of average weekly ordinary time earnings’), the combination of compulsory superannuation and (part) age pension would provide approximately 73 per cent replacement rate of their pre-retirement spending power (their after-tax income), while someone on the average weekly ordinary time earnings would receive approximately 63 per cent,<sup>44</sup> and that additional levies would deplete the take-home pay of lower income earners. Consistent with a policy focus on the third pillar of *voluntary* superannuation or retirement savings as a way of encouraging work force participation beyond retirement age, further policies had already been adopted to promote voluntary *private* superannuation savings.<sup>45</sup> These culminated in fiscally expensive reforms from July 2007, removing all income tax from superannuation benefits after age 60 (both for annuities and lump sums), and liberalising the property means test on pensions from September 2007 (halving the yield from property from \$3 a fortnight per \$1000, to \$1.50 per fortnight).<sup>46</sup>

As can be seen, Australia has used similar building blocks to those in the US. Where the US schemes favour employer-based contributions (payroll tax) and tax incentives for retirement accounts, Australia opted historically for a fully tax-funded state retirement pension (means-tested, flat rate ‘social assistance’). And more recently, Australia has mandated superannuation contributions as a way of providing a measure of earnings-related benefits in retirement and easing pressure

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<sup>41</sup> Australian Institute of Health and Welfare (‘AIHW’), *Australia’s Welfare 2007* (Australian Institute of Health and Welfare, 2007) 92.

<sup>42</sup> Ken Henry, *The Retirement Income System: Report on Strategic Issues* (2009) Australia’s Future Tax System (‘AFTS’) 96, 105–6.

<sup>43</sup> Prime Minister and Treasurer, ‘Stronger, Fairer, Simpler — A tax plan for our future’ (Joint Media Release, No 28 2 May 2010). Related documentation is available at: <<http://www.futuretax.gov.au/pages/default.aspx>> at 3 May 2010.

<sup>44</sup> Above n 42, 11 (emphasis added).

<sup>45</sup> Government ‘matches’ lower and middle income earner contributions up to a cap of \$1000, and voluntary super contributions may continue up to age 75: Australian Department of Treasury, *A More Flexible and Adaptable Retirement Income System* (2004) 14. In 2004 it became possible to make tax concession-qualifying superannuation contributions between the ages of 18 and 65, irrespective of having a work history in the previous two years, thus removing the former ‘work test’ precondition: at 14. New contributions and cash-out rules were also provided for those aged 65 to 74.

<sup>46</sup> AIHW, above n 41, 94.



on the public purse. Both countries have recognised a significant role for the state in provision of a ‘safety net’ for the aged poor.

Singapore, by contrast, eschews such a role for the state, instead seeing the family and civil society as the main pillars of social policy.

The next section reflects briefly on the explanation for this divergence, and the commonalities of values between Australia and Singapore.

### III Discussion

Despite the differences in coverage and generosity of government contributions, there are important similarities of purpose between Australia and Singapore.

Both Singapore and Australia are ‘opportunity’ societies, where work (and in-work benefits) are seen as the prime route of social fulfilment, with social security as a (rather niggardly) back-stop. But Singapore takes this to a much greater extreme than is the case in Australia, seeking to encourage self-reliance in its people as expressed in the rubric that welfare should be restricted to the handicapped or the old.<sup>47</sup> Yet to some degree, similar restrictions on the scope of welfare also applied in Australia between 1908 and 1944, when work force age payments were first added to the old age and invalid pensions.

Privileging of family as the primary institution for support was once strongly embedded in Australia (where, as we have seen, in an echo of the British *Poor Law*, the Victorian age pension of the late 1890s was restricted to those lacking filial support). However such policies are hard to sustain in the face of contemporary pressures, where population mobility stimulated by urbanisation and global forces serves to fragment and weaken the capacity of extended families to bear such burdens.<sup>48</sup> The same forces also challenge the principle of social ‘harmony’ between classes and genders on which Confucianism rests.<sup>49</sup>

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<sup>47</sup> Khan, above n 25, 12–13. The ‘rich uncle’ principle is attributed to Sinnathamby Rajaratnam, one of the founders of the Peoples Action Party with Lee Kwan Yew, a Minister (in various portfolios) and Deputy Prime Minister between 1959 and 1985, and then Senior Minister until 1988 in which capacity he summed up government policy as:

We want to teach the people that the government is not a rich uncle. You get what you pay for ... We want to disabuse people of the notion that in a good society the rich must pay for the poor. We want to reduce welfare to the minimum, restrict it only to those who are handicapped or old. To the others, we offer equal opportunities ... Everybody can be rich if they try hard.

Quoted in Khan, above n 25, 12.

<sup>48</sup> For an argument in favour of a uniform national approach to filial support obligations in place of the rarely enforced provision still on the books in 30 of the US states, see Allison Ross, ‘Taking Care of Our Caretakers: Using filial responsibility laws to support the elderly beyond the government’s assistance’ (2008) 16 *Elder Law Journal* 167.

<sup>49</sup> Kam W Chan, ‘Rethinking Asian Welfare Model: Social development or risk production’ (Paper presented at the Third East Asian Social Policy Research Network International Conference on ‘GDPism and Risk: Challenges for Social Development and Governance in East Asia’, Bristol, 12–13 July 2006) 13.

For its part, the Singaporean commitment to bedrock levels of taxation<sup>50</sup> may explain the lack of enthusiasm for introduction of a tax-funded social assistance tier, but it cannot explain resistance to sponsorship of social insurance measures. Perhaps the closest parallels to this political value-choice of weaning citizens off welfare dependence (rejection of the state as the ‘rich uncle’) would be Australia’s ‘laborist’ value-base for rejecting the introduction of social insurance in the first half of the 20<sup>th</sup> century, on the basis that employers (capital) should bear the *full* burden, on a ‘soak the rich’ basis.<sup>51</sup> Or in the US context, in the more recent ‘tough love’ idea behind the ‘work-fare’ reforms promoted by Lawrence Mead, on the basis that coercive, paternalist policy measures were needed in order to ‘re-make’ the values of those on welfare, to wean them off welfare dependency.<sup>52</sup>

### **A Explaining the Singaporean and Australian Models**

As Ramesh explains,<sup>53</sup> four main types of hypotheses have been advanced to explain the Singaporean model of welfare: (i) functional (for example, the degree of economic development, industrialisation or modernisation); (ii) structural (for example, structural features of the world economy disadvantaging peripheral or dependent nations); (iii) societal (for example, the degree of unionisation, cultural traditions); and (iv) statist (for example, the domestic and international freedom to chart a course).

After finding little purchase in the first or third of these as between Singapore and South Korea (because if valid they would have resulted in *higher*, not lower social protection for Singapore), it was concluded that some of the downward pressure on social expenditure in Singapore may be due to its comparatively greater dependence, compared to South Korea, on foreign investment and trade.<sup>54</sup> However the thesis with the greatest explanatory power was found to be a ‘statist’ one.<sup>55</sup> Expanding on this statist theme more recently, Asher and Nandy argue that East Asia’s accumulation of budget surpluses and inability to consider the reasons for low fertility rates risk the region becoming a ‘geriatric poorhouse’.<sup>56</sup> Asher and Nandy further write of Singapore’s commitment to ‘social Darwinism’, concluding, as perhaps only locals can state so bluntly, that ‘[t]he current social protection system in Singapore is an outcome of conscious policy choices, and cannot be attributed to the globalization phenomenon.’<sup>57</sup>

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<sup>50</sup> Eliza WY Lee, ‘Welfare Restructuring in Asian Newly Industrialised Countries: A comparison of Hong Kong and Singapore’ (2006) 34 *Policy & Politics* 453, 458–9.

<sup>51</sup> Carney, above n 6, 28.

<sup>52</sup> Lawrence Mead (ed), *The New Paternalism: Supervisory Approaches to Poverty* (Brookings Institution Press, 1997); Lawrence Mead, ‘Welfare Reform in America’ (2000) 56 *Family Matters* 34.

<sup>53</sup> Ramesh, above n 2, 232.

<sup>54</sup> *Ibid* 235.

<sup>55</sup> *Ibid* 238.

<sup>56</sup> Asher and Nandy, above n 15, 58–9.

<sup>57</sup> *Ibid* 58.

Australia's laborist tradition saw it forge a distinctive statist position also, pioneering collectivist legislation for deserving citizens due to age or invalidity, but otherwise favouring work over welfare for those of work force age or capacity. Some welfare entitlements (such as for sickness) were incorporated into union wage bargaining (delaying unemployment and sickness benefits until 1944, compared to 1911 in Britain), and work-testing and work-incentives remained prominent Australian policy settings (while frequently treated as a dead letter in Britain). This 'workers welfare state'<sup>58</sup> was woven from sources such as reactions to the 1890 Depression, the founding of the Labor Party and liberal/collectivist ideologies.<sup>59</sup>

Esping-Andersen has observed that the Australian model took on some features of US style prototypical liberalism, illustrating that regimes do adapt, and that 'no regime ... is pure'.<sup>60</sup> During the term of the Howard Government, neoliberal forms of welfare governance rose in prominence, especially for those of work force age.<sup>61</sup> While it has been noted in the literature that there is a strong degree of path dependence in social policy,<sup>62</sup> on the other hand, in revisiting his 'three worlds of welfare', Esping-Andersen has drawn attention to regime-shifting that can occur and has occurred over time in some countries, including Australia, as just described.<sup>63</sup>

Even so, it must be doubted that either Australia or Singapore will embrace a radical shift to another model. Rather, the main contributions from the Australian and Singaporean experiences may be in offering *additional* policy options (outside the traditional European or North American models) as a basis for choice by developing countries yet to establish elaborate social protection policies.<sup>64</sup> Thus I have suggested elsewhere that the low fiscal cost and high degree of targeting associated with Australia's almost universal adoption of a 'social assistance' model

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<sup>58</sup> Frank Castles, *The Working Class and Welfare: Reflections on the Political Development of the Welfare State in Australia and New Zealand, 1890–1980* (Allen and Unwin, 1985).

<sup>59</sup> Carney, above n 6, 25.

<sup>60</sup> Terry Carney, Gaby Ramia and Anna Chapman, 'Comparativism, the Labour-Social Policy Nexus and Intra-national Analysis: A Case Study' (2007) 35 *Policy and Politics* 234, 245; Gosta Esping-Andersen (1999), above n 8, 88.

<sup>61</sup> Carney (2008), above n 28; Terry Carney, 'Not the Old Way, Not the Third Way, But The OECD/US Way?: Welfare sanctions and active welfare in Australia' (2005) 12(2) *Journal of Social Security Law* 57.

<sup>62</sup> Wil Arts, 'Pathways to the Future of the Welfare State: Institutional persistence, hybridization, reflexive modernization, or what?' in Jos Berghman et al (eds), *Social Security in Transition* (Kluwer Law International, 2002) 21, 23; Paul Pierson, 'Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies' in Paul Pierson (ed), *The New Politics of the Welfare State* (Oxford University Press, 2001) 410; Paul Pierson, 'Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies' (2002) 43 *Revue Française de Sociologie* 369, 372–4.

<sup>63</sup> Esping-Andersen (1999), above n 8, 87–90.

<sup>64</sup> This is already evident on the part of China, which has been attracted to aspects of Australia's tax-funded, but socially integrative model. However the central focus must remain on attuning policies to local values and local institutions: Gaby Ramia, Gloria Davies and Chris Nyland, 'The Compliance Challenge: Implications for Social Security in the People's Republic of China' (2008) 61(1) *International Social Security Review* 1, 11–12.

may be attractive to member nations of the South African Development Community ('SADC').<sup>65</sup>

However, non-citizens who are not permanent residents, who comprise approximately 30 per cent of the population of Singapore and are forecast to rise to 50 per cent, are currently excluded from participation in the CPF or receipt of either social assistance or welfare benefits.<sup>66</sup> This potentially poses both social harmony issues within the population, and (in common with the policy position in Australia and most other countries) is in contradiction to recent interpretations of portability and contributions rights of migrant workers under international treaties.<sup>67</sup> Even so, the issue is a much more prominent one in Singapore, compared to Australia.

### **B Australian Social Policy Implications**

The Australian age pension is indexed by law to maintain its level at 25 per cent of male average earnings.<sup>68</sup> Consequently, the safety net function of the pension ranks favourably within the developed world, in 1991 surpassed only by Canada.<sup>69</sup> Because a tax offset results in no income tax being payable by a person reliant on their pension alone — that is, for full-rate pensioners with no significant other income sources — the age pension replacement rate is 37 per cent of income.<sup>70</sup> The poverty protection and maintenance of living standards in the lower reaches of income is therefore relatively strong. However, the means-testing of age pensions means that it fares poorly in terms of preservation of *earnings differentials* enjoyed by middle- and higher-income earners during their working life. This was highlighted in the compendium of social inclusion indicators published in May 2009 by the Australian Social Inclusion Board, revealing a greater income decline on retirement (0.57 of non-retired incomes, compared to a ratio of 0.85 in the EU).<sup>71</sup>

The removal of income tax from superannuation pay-outs reduced from three to two the points at which Australia had been taxing superannuation (the 15 per cent tax rate both on contributions and fund earnings remain<sup>72</sup>), and it served to add to the incentives for older workers to remain in the work force, principally by taxing such earned income at lower tax rates because superannuation income is not added to lift income earners into a higher tax bracket reflective of their total

<sup>65</sup> Terry Carney, 'Securing Social Security for Migrant Workers: Orthodox Approaches or an Alternative (Regional/Political) Path for Southern Africa?' (2010) 18(1) *African Journal of International and Comparative Law* 24.

<sup>66</sup> Asher and Nandy, above n 15, 43. The CPF rules as at April 2010 confirm Asher and Nandy's conclusion: CPF Board, *Your Role as an Employer* <<http://www.mycpf.cpf.gov.sg/CPF/my-cpf/Hire-Emp/HireEmp4.htm>> at 28 April 2010.

<sup>67</sup> Carney and Ramia, above n 10.

<sup>68</sup> Bateman and Piggott, above n 34, 8.

<sup>69</sup> *Ibid* 9.

<sup>70</sup> *Ibid* 8.

<sup>71</sup> Social Inclusion Board ('SIB'), *Social Inclusion: A compendium of social inclusion indicators* (2009) 16 (based largely on the five EU fields of poverty/low income, lack of access to work, limited social supports/networks, neighbourhood effects, and exclusion from services: at viii–ix).

<sup>72</sup> Bateman and Piggott, above n 34, 15.

disposable income.<sup>73</sup> It also commences too early, in that the exemption of superannuation benefits from tax applies to payments drawn after age 60, with drawings prior to that date taxed at concessional rates.<sup>74</sup>

For higher income employees especially, there have been significant incentives to ‘salary sacrifice’ additional salary or other income payments into superannuation, since the tax on contributions to complying schemes is set at 15 per cent (with a flat 15 per cent on fund earnings) rather than the standard marginal rate of income tax for a person on a higher income.<sup>75</sup> The degree of social inequity associated with such large subsidies to superannuation for higher income earners renders this policy both inefficient and unacceptable on social equity grounds. Thus, as the Henry Tax Review found, ‘in 2005–06, around five per cent of taxpayers had remuneration over \$100 000, and they made around 24 per cent of concessional contributions to superannuation’.<sup>76</sup> The July 2007 removal of tax on superannuation drawings for those over the age of 60 was also ill-advised due to its very high cost to the budget (in revenue forgone) and its cross-generational inequities (initially favouring the comparatively well-off baby-boomer generation until later cohorts of taxpayers reap similar benefits in decades to come). However it does at least have offsetting inducements to encourage sound retirement planning, and in any event is probably now politically too courageous an action for politicians to reverse.

Preservation of preferential treatment of qualifying retirement income for social security income and asset test purposes is more modest and defensible (as it encourages genuine retirement income planning).<sup>77</sup>

#### IV Conclusion

This article has discussed selected features of the Singaporean and Australian social security models which set them apart from mainstream international trends.

It has been argued that both countries have developed their own particular twists on their historical and cultural inheritances: Australia breaking from a contributory model due to a strong laborist influence; Singapore blending US-style neoliberalism with Confucian reliance on familial self-provision and low-level tax rates. Tentative observations were offered about the degree of path-dependence of these models and their contribution to debate in countries contemplating parameter changes to welfare to accommodate globalisation or fiscal challenges.

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<sup>73</sup> Australian Treasury, above n 40, 25–6.

<sup>74</sup> Ibid 26.

<sup>75</sup> Ibid 25.

<sup>76</sup> AFTS, above n 42, 29.

<sup>77</sup> As the Treasury-coordinated ‘Background’ paper for the Henry Review of Taxation observed ‘Different rules apply to superannuation benefits for ... assessing the rate of ... social security entitlements. Under the income test for pensions, superannuation income streams are generally assessed on the basis of gross income, reduced by an allowance for the return of the capital used to purchase the product. For the majority of people who have acquired their income stream with an accumulated lump sum, this method of assessment is not linked to the taxation treatment of the income stream’: Australian Treasury, above n 40, 26.

While countries with contributory social security as their mainstay see retirement pension outlays as the major additional cost of population ageing, followed by residential and other aged care costs, and then health expenditures<sup>78</sup> — the first of these is taken out of play in Australia, and the others are comparatively small order issues.<sup>79</sup> Under the previous government, Australia has witnessed a strong embrace of neoliberal policy prescriptions,<sup>80</sup> particularly ‘activation’ for people of working age.<sup>81</sup>

Some commentators have despaired of reversing this neoliberal cast of policies, especially given their strong espousal by global organisations such as the IMF, World Bank or World Trade Organization, and instead urge *political* engagement in policy debate, at national or localised levels.<sup>82</sup> Arguably there is evidence of the wisdom of this to the extent that the unpopularity of the labour law reforms — misleadingly entitled WorkChoices — was credited with the defeat of the Howard Government in Australia in 2007.

Despite the challenges of an ageing society, Australian policy settings appear to strike the right balance and to be fiscally responsible and robust. The 2009–10 Federal Budget announced acceptance of proposals to raise the pension age progressively from 65 to 67 years over the period July 2017 – July 2023.<sup>83</sup> While this has been justified as a response to demographic ageing of the population, it may well have been influenced more by the *political* imperative to

<sup>78</sup> James Capretta, *Public Pension Systems: An Assessment of Reform Efforts in Twelve Developed Countries, A Report of the Aging Vulnerability Index Project* (Centre for Strategic and International Studies (‘CSIS’), 2007); Ignazio Visco, *The Fiscal Implications of Ageing in OECD Countries* (Organisation for Economic Co-operation and Development (‘OECD’), 2001).

<sup>79</sup> Some parametric changes have been effected from March 2008 in funding of residential aged care: Department of Health and Ageing (‘DoHA’), *New Funding Model for Residential Aged Care* (2008) <<http://www.health.gov.au/acfi>> at 4 May 2010. And the disproportionate rise of the cost of health and pharmaceuticals against population or GDP remains a challenge. However the latter is a whole-of-community factor rather than specifically a population ageing issue.

<sup>80</sup> Some limited progress has been made by the Rudd Government in softening the harsher edges of the neoliberal welfare and labour law provisions of its predecessor, and in developing ‘social inclusion’ policies reflective of European or British thinking: see Carney and Ramia, above n 10.

<sup>81</sup> ‘Activation’ policies seek to expand the employment and tax base to shoulder some of the cost burden associated with population ageing. These became a new form of ‘governance’ in Australia: Terry Carney and Gaby Ramia, *From Rights to Management: Contract, New Public Management and Employment Services* (Kluwer Law International, 2002); Mark Considine, *Enterprising States: The Public Management of Welfare-to-Work* (Cambridge University Press, 2001); Gaby Ramia and Terry Carney, ‘New Public Management, the Job Network and Non-Profit Strategy’ (2003) 6 *Australian Journal of Labour Economics* 253. The same is true in many other parts of the world: Paul van der Ah and Rik van Berkel, ‘Challenges for an Activating Welfare State’ in Jos Berghman et al (eds), *Social Security in Transition* (Kluwer Law International, 2002) 125. This is especially so for the unemployed — despite the guarded benefits of such policy settings: Thomas Bredgaard and Fleming Larsen, ‘Quasi-Markets in Employment Policy: Do they deliver on promises?’ (2008) 7 *Social Policy and Society* 341.

<sup>82</sup> Hartley Dean, ‘Social Policy and Human Rights: Rethinking the engagement’ (2008) 7 *Social Policy and Society* 1, 9.

<sup>83</sup> Australian Government (Centrelink), *Secure and Sustainable Pensions* <[http://www.centrelink.gov.au/internet/internet.nsf/individuals/budget\\_secure\\_pensions.htm](http://www.centrelink.gov.au/internet/internet.nsf/individuals/budget_secure_pensions.htm)>. The proposal was made by both the Henry and the Harmer reviews: AFTS, above n 42, 35–7; Jeff Harmer, ‘Pension Review Report’ (Department of Families, Housing, Community Services and Indigenous Affairs, 2009) xxi, 144–7.

shorten the period during which Australia will run budgetary deficits as a consequence of its (very successful) policies of ‘going early and going hard’ with substantial fiscal stimulus expenditures to deal with the global financial crisis. There were suggestions from the Henry Tax Review that, once the new pension age was reached in 2023, the preservation age (below which superannuation can generally not be accessed) would then be progressively raised until it aligned with the pension age. The preservation age is being slowly raised from 55 to 60, and will reach that new benchmark in 2024, at which point it was being proposed that the rise continue until it reaches 67.<sup>84</sup> However, the government rejected this proposal. The rationale for the measure was to close off the current wastage of superannuation (aside from drawings due to necessities such as unemployment) associated with up to one third of superannuation being drawn *prior* to pension age.<sup>85</sup>

In terms of the style of state retirement policy interventions, neoliberal market reforms already hold significant sway in key areas of policy, and the case for their further expansion is less than compelling.<sup>86</sup> The position in Singapore is more debatable. The absence of the first two tiers of social security provision — with neither a social assistance nor a contributory social insurance risk-pooling system — leaves it open to criticism both on poverty alleviation and social justice grounds, given significant increases in income inequality.<sup>87</sup>

The very limited endorsement within the Asia-Pacific<sup>88</sup> of international treaties such as the *International Covenant on Economic, Social and Cultural Rights* (‘ICESCR’) or International Labour Organisation Conventions or standards also raises questions about compliance with relevant international treaty and human rights obligations.<sup>89</sup> A principal benchmark is art 4 of the *General Comment No 19: The Right to Social Security* (under art 9 ICESCR), adopted in late 2007 on the recommendation of the relevant UN monitoring committee, building on a basic

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<sup>84</sup> AFTS, above n 42, 37–8.

<sup>85</sup> Ibid 37. The longstanding proposal to raise superannuation contributions to around 15 per cent in order to guarantee higher levels of retirement incomes (and substantially reduce reliance on the age pension) initially received short shrift. The review somewhat surprisingly recommended against this course on the basis that the current contributions yield reasonable returns, and that higher contributions would bear unreasonably on the disposable incomes of people of working age. Despite this, peak bodies such as the Australian Council of Trade Unions (this proposal was cautiously endorsed by the *Australian* newspaper: Editorial, ‘Funds for the Future’, *The Australian* (Australia), 14 July 2009) continued to advocate increased contributions. In May 2010 the government decided slowly to raise contributions to 12 per cent by 2019/20, funded in part by a resource rental tax on ‘super profits’ of mining companies.

<sup>86</sup> See generally, David Coburn, ‘Beyond the Income Inequality Hypothesis: Class, neo-liberalism, and health inequalities’ (2004) 58 *Social Science and Medicine* 41, 54; Daniel Perkins, Lucy Nelms and Paul Smyth, ‘Beyond Neo-Liberalism: The social investment state?’ (2005) 38 *Just Policy: A Journal of Australian Social Policy* 35.

<sup>87</sup> Asher and Nandy, above n 15, 46–8.

<sup>88</sup> Olivier, above n 5, 224–6.

<sup>89</sup> For Australia see Terry Carney, ‘Neoliberal Welfare Reform and “Rights” Compliance Under Australian Social Security Law’ (2006) 12 *Australian Journal of Human Rights* 223.

predicate of non-discrimination and equality.<sup>90</sup> It is doubtful that the current Singaporean arrangements are able to be legitimised under art 5 of the *General Comment No 19: The Right to Social Security*,<sup>91</sup> adding to the pressures favouring expansion of its welfare schemes.

It is suggested therefore that the trajectory of future policy development in both Australia and Singapore will be of interest not just domestically in each country, but in terms of possible models (good or bad) for developing countries seeking to adjust to the pressures of globalisation or financial volatility.

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<sup>90</sup> United Nations Committee on Economic, Social and Cultural Rights ('UNCESCR'), *General Comment No 19: The Right to Social Security (art 9 of the Covenant)*, 39<sup>th</sup> sess, UN Doc E/C.12/GC/19 (4 February 2008). Art 4 reads:

4. In accordance with article 2 (1), States parties to the Covenant must take effective measures, and periodically revise them when necessary, within their maximum available resources, to fully realize the right of all persons without any discrimination to social security, including social insurance. The wording of article 9 of the Covenant indicates that the measures that are to be used to provide social security benefits cannot be defined narrowly and, in any event, must guarantee all peoples a minimum enjoyment of this human right. These measures can include:

(a) Contributory or insurance-based schemes such as social insurance, which is expressly mentioned in article 9. These generally involve compulsory contributions from beneficiaries, employers and, sometimes, the State, in conjunction with the payment of benefits and administrative expenses from a common fund;

(b) Non-contributory schemes such as universal schemes (which provide the relevant benefit in principle to everyone who experiences a particular risk or contingency) or targeted social assistance schemes (where benefits are received by those in a situation of need). In almost all States parties, non-contributory schemes will be required since it is unlikely that every person can be adequately covered through an insurance-based system.

<sup>91</sup> *Ibid* art 5 provides:

5. Other forms of social security are also acceptable, including (a) privately run schemes, and (b) self-help or other measures, such as community-based or mutual schemes. Whichever system is chosen, it must conform to the essential elements of the right to social security ...