ABSTRACT. Less developed countries are facing choices in policies for retirement income support that bear similarities to the choices made in more developed countries 50 to 100 years ago. About 100 years ago, Australia and New Zealand developed a noncontributory pension system which continues to the present day. This system delivers basic, economic well-being at relatively low cost. Within less developed countries, values and goals for retirement income support vary widely. These are explored in the history of the development of the Australian and New Zealand systems. This paper also examines the impact of these unique systems on several indicators of well-being. Poverty is well controlled in this system but adequate income replacement is dependent upon private, individual saving. Because of efficiency and effectiveness, this unique noncontributory system is argued to provide an important, if old, idea for less developed countries.

Key Words: aging and development, pensions, retirement income, noncontributory versus contributory welfare

INTRODUCTION

Schemes providing income security for the elderly are of three general types: basic flat rate schemes which derive money from general taxation and pay it to those in need; social insurance schemes which derive money from contributions of working people and employers and pay out according to contributions; and mixes of basic and insurance scheme types (OECD 1988). The income support systems in Australia and New Zealand are of the first type. They are unique (OECD 1988), except for the Icelandic system, in being noncontributory and the only public support for a majority of the aged namely, about 75 percent of Australians and 90 percent of New Zealanders.

This public involvement in organizing retirement income support is directed towards the goal of relieving poverty rather than maintaining preretirement earnings levels after retirement. The latter objective is the responsibility of the aging person and their family, and it is achieved mainly through private savings in 'superannuation' and private housing. The public noncontributory pension is also targeted on the needy by means tests. Thus there is a strong incentive for private saving for those who desire more than a basic minimum income. Because the system delivers economic well-being in an egalitarian way at a relatively low cost to the public sector, this paper argues that the Australian and New Zealand experience provides important ideas for less developed countries.

Less developed countries are now facing choices in policies for retirement income support that bear similarities to the choices made in more developed countries 50 to 100 years ago. It is important, therefore, for policy makers in less
developed countries to understand the policy decisions made in these countries at a much earlier stage in their economic development. Australia and New Zealand, for example, are now approaching 100 years of history of public retirement income support. Their noncontributory, flat rate income support schemes have continued to exist despite serious consideration of contributory, earnings related schemes at numerous points in history. Just why Australia and New Zealand have followed a system of noncontributory pensions as the major part of retirement income support is the main topic considered in this paper.

Why are noncontributory pensions an important option for less developed countries today? One key premise of Bismarckian Social Security and the earlier English Poor Law of 1601 was that the needs of the elderly should not go beyond the capacity of the family to respond. The problem for a less developed country is to find a way of providing that income to families without constraining other development choices. International Labour Office standards and the example of most developed countries would recommend contributory systems, but a majority of citizens in less developed countries are unable to contribute to them. Because the necessity of depending on children for support in old age is a known factor in preferences for children (Bulatao 1979; Nugent and Gillaspy 1983), there are even stronger incentives to provide basic income support in less developed countries which typically have high birth rates. The strategy for development in such countries is, in part, dependent on providing a stable expectation of adequate income in old age.

The Philippines, for example, has the longest history of contributory pensions in the Asia-Pacific region (McCallum 1989a), but the schemes still only cover around eight percent of the population (Domingo 1989). The problem is that most poorer people cannot contribute or cannot be forced to contribute to schemes for retirement. If people are to voluntarily reduce birthrates in countries such as the Philippines, more extensive provision of retirement income is necessary. Similarly, in China universal coverage of the rural population with the minimal five guarantees of food, clothing, medical care, housing and burial (McCallum 1989a) would seem to be a precondition for population control and further economic development. The minimal support of the ‘five guarantees’, which are means tested through the ‘three no’s’ (no family, no work, and no income), are an in kind noncontributory system which potentially should be extended to provide basic support to all before contributory pensions are improved for a minority. This idea of extending a basic provision, the heart of the Australian and New Zealand model, is a practical alternative to the much more widely practiced but inequitable contributory retirement income support.

On the matter of cross-cultural policy interchanges Binstock (1986:338) has commented:

The prime challenge in drawing ‘implications for policy’ through cross-cultural learning would seem to be the need to maintain a keen awareness of one’s own culture even as one makes observations from other cultures.