



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

**HOUSE OF  
REPRESENTATIVES**

STANDING COMMITTEE ON EMPLOYMENT AND  
WORKPLACE RELATIONS

**Reference: Employment: increasing participation in paid work**

TUESDAY, 27 JANUARY 2004

SYDNEY

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**HOUSE OF REPRESENTATIVES**  
**STANDING COMMITTEE ON EMPLOYMENT & WORKPLACE RELATIONS**

**Tuesday, 27 January 2004**

**Members:** Mr Barresi (*Chair*), Mr Bevis (*Deputy Chair*), Mr Dutton, Ms Hall, Mr Hartsuyker, Mr Lloyd, Ms Panopoulos, Mr Randall, Ms Vamvakinou and Mr Wilkie

**Members in attendance:** Mr Barresi, Mr Dutton, Ms Hall, Ms Vamvakinou and Mr Wilkie

**Terms of reference for the inquiry:**

To inquire into and report on:

Employment issues in both rural/regional and urban and outer suburban areas, with particular reference to:

- Measures that can be implemented to increase the level of participation in paid work in Australia; and
- How a balance of assistance, incentives and obligations can increase participation, for income support recipients.

**WITNESSES**

<b>BURN, Dr Peter, Senior National Adviser, Economics and Industry Policy, Australian Industry Group .....</b>	<b>1</b>
<b>COLBERT, Ms Suzanne, Chief Executive Officer, Employers Making a Difference .....</b>	<b>28</b>
<b>HENRICK, Mr Kenneth Michael, Senior Policy Advisor, National Association of Retail Grocers of Australia .....</b>	<b>17</b>
<b>McKENZIE, Mr Alan John, Director and National Spokesman, National Association of Retail Grocers of Australia.....</b>	<b>17</b>
<b>RIDOUT, Mrs Heather, Deputy Chief Executive Officer, Australian Industry Group .....</b>	<b>1</b>
<b>SAUNDERS, Professor Peter Robert, Social Research Director, Centre for Independent Studies .....</b>	<b>40</b>
<b>TSUMORI, Dr Kayoko, Policy Analyst, Centre for Independent Studies.....</b>	<b>40</b>



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**Committee met at 1.26 p.m.****BURN, Dr Peter, Senior National Adviser, Economics and Industry Policy, Australian Industry Group****RIDOUT, Mrs Heather, Deputy Chief Executive Officer, Australian Industry Group**

**CHAIR**—I declare open the public hearing of the inquiry into employment and the increasing participation in paid work. I welcome Mrs Heather Ridout and Dr Peter Burn from the Australian Industry Group and thank you for meeting with us today. The proceedings today are formal proceedings of the parliament. Although the committee does not require witnesses to give evidence under oath, you should understand that these hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the parliament itself. Giving false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The committee prefers that all evidence be given in public, but if at any stage you wish to give evidence in private please ask to do so and the committee will consider your request. I invite each of you to make some preliminary comments about the issues you think are important to this inquiry, and then we will move to questions and discussion.

**Mrs Ridout**—Thank you very much. We are delighted to have the chance to appear before what we consider to be a very important public policy inquiry indeed. One of the issues that we will be looking for government to really progress strongly on in good public policy over the next few years—a major test I think for any government—will be the extent that they succeed in getting an increased participation in paid work. Our interest in this area is longstanding.

We have made a number of submissions in relation to the ageing of the population and the review of social support systems of unemployed individuals and families, which we have attached to our submission. Very importantly, we have made this a central issue in our submissions on the safety net cases in the arbitration commission each year. We are concerned that, in just lifting the minimum wage constantly, we are not really helping the very people that those increases are meant to support, while they are costing employers huge amounts of money, and we are happy to provide evidence in that regard. We have also had a longstanding interest in work force opportunities for parents with children, and we support an affordable taxpayer funded paid maternity leave provision. We are one of the few employer organisations that have put a very strong position in favour of that out there, because we see that as part of the mosaic of good policies to support parents in engaging in paid work.

In our pre-budget submission this year—which was five pages long, in accordance with the Treasurer's exhortations, but in very fine print—we obviously put a big emphasis on these sorts of issues, including changes to the tax system. Incentives for saving, investment and participation were major features of that. This is not a thought bubble by the Australian Industry Group; this is a very serious focus that we have identified is in need of good public policy. Several factors lie behind our interest in it. A leading driver of Australia's economic growth over the period since 1950 has been the net increase in the work force. We have identified this in two major studies—'How fast we can grow' marks I and II. The first one was done in, I think, 1997 and the other one was released the year before last. They are very detailed economic work.

If you are an economist, you know that you add productivity growth and growth in the work force to get the rate of economic growth. What was identified in the latter part of that is that, with the demographic changes, growth in our work force is going to dry up and that is going to have all sorts of implications for the future growth potential of our economy. It does not just threaten the economic growth; it threatens public budgets, as you would be well aware—health and aged care budgets—and it also threatens to impose quite severe skill shortages on our economy, which will also have an economic cost.

We have put forward today a range of policies to address this issue, but we are strongly of the view that there is no silver bullet. What you need is a comprehensive, integrated and balanced set of policies that actually are going to address the manifold aspects of this issue. They focus on improved approaches to training and education, particularly vocational education, that are central to higher participation. In relation to specific groups such as older workers, working parents and the disabled, attitudes and workplace practices need to continue to adapt to facilitate more and flexible employment opportunities. Reducing marginal tax rates and effective marginal tax rates on income will have a positive effect on workplace participation. This is an area where we can improve. We also support targeted income support. We do not regard an across-the-board easing of the income test as an optimum use of resources. Further, we need to change our approach to setting the minimum wage, an issue I just alluded to, so that the impact of those decisions on the employment prospects of the low skilled and potential workers is given essential consideration.

Overarching all those issues—a combination of better income support, tax, education and training policies, and more enlightened workplace practices—is the need to keep the Australian economy growing strongly. We need a dynamic economy which has the capacity to generate new jobs and good jobs. If we put all that together, I think we can come up with a pretty enlightened set of policies. I would like to hand over to Peter Burn, who will give you some more detail on some of those issues.

**Dr Burn**—A lot of the issues were covered in our submission so I will not go into a great deal of depth about them, but there are a couple of things that I would just like to add to Heather's comments. One is that a constraint on the range of policies that we can select from is our overall level of taxation in Australia. We have been arguing for some time that, while Australia's overall level of taxation is not high by European standards, it is above the average of the OECD countries in the Asia-Pacific, in our region, and it is well above non-OECD countries as well. In particular our level of income taxation—income tax to GDP—is among the very highest in the entire OECD and therefore in the entire world. Our taxation of corporate income to GDP is the second highest in the OECD and therefore the second highest in the world. We do not think we have much room to increase taxation overall and in particular we do not think we have much room to increase income taxation without having further deleterious impacts on economic growth and job creation incentives for saving, work force participation and investment.

Another thing I will go into a little bit of detail about is effective marginal tax rates. There is a detailed argument set out in the submission that was attached to the submission to this inquiry, and that is the submission that we made to the review of the social support system for unemployed individuals and families. While there is clearly a good case to reduce some of those very high effective marginal tax rates and get a return from that policy, as a generalised policy we do not think that that is the way to go. One case is because when you decrease the shade-out



rates for benefits, which is the essential way to address the high marginal tax rates, you increase the effective marginal tax rates faced by other individuals in the income distribution, so you just redistribute the burden of effective marginal tax rates without reducing them overall. You just shift them around the income distribution. I think that point is made very well in the Treasury submission to your inquiry as well.

The other point is that, for certain groups, we do not think there is a great responsiveness to high effective marginal tax rates and therefore not much to be gained by reducing them. Unemployed people, for instance, already face very large financial incentives to find work. We do not think that, relative to other things that could be done with the money, reducing the effective marginal tax rates faced by unemployed people would have a significant impact on reducing unemployment, for example. Those are the two points I would like to add.

**CHAIR**—We thank you for your submission. As I mentioned to you earlier, it is certainly very detailed and it covers those four principal groups that you referred to quite well—the over 50s, the sole parents, the unemployed and the hidden unemployed. We also thank you for your opening comments and for your comments clarifying the marginal tax rate, which was right at the forefront of my questioning today. We have not had a chance to read through your additional submission, but we will make sure it is photocopied and sent out to all committee members to look at. You talk about the potential for improved productivity to offset the need for greater participation in the work force. Are you able to quantify that? What sorts of figures are we looking at in terms of what we need for improved productivity to offset any need for increased participation?

**Mrs Ridout**—Australia has enjoyed an increase in productivity. We have had productivity rates twice the post-war average over the last few years. That has been the result of a combination of a lot of workplace reform, the application of ICT to many industrial processes and high growth. We have not, though, nearly enough squeezed the productivity improvement out of education and training reform and we have not in any way squeezed the full potential out of the R&D innovation process. We put this comprehensively in our submission and in our document entitled *How competitive is Australia?* in which we brought together all the measures of competitiveness. In that report we did highlight the fact that Australia had very strong GDP per capital in the lead table, that we had been improving—all those issues. So it is a way forward in terms of the agenda.

What I think we would be arguing is that we need those high productivity rates to continue. If we lapse back into the post-war average of one per cent, ipso facto, we are not going to have a strongly growing economy. We need to keep the productivity growth moving, and that means we need a strong public focus on more productive workplaces, a better skills base, and more innovative and more R&D-intensive activities in the Australian industry.

**CHAIR**—Two points on that: therefore a lot of the efficiency gains that we are seeing and that have been asked for by various departments are really only operating at the margins of what you are talking about? We still have to be engaged in full productivity improvements rather than just simply talking about efficiency gains?

**Mrs Ridout**—Absolutely.

**CHAIR**—I would not have thought that education and training and research innovation were high labour employment sectors, so how can that help work force participation?

**Mrs Ridout**—We were talking in terms of productivity growth.

**CHAIR**—Yes, I mean by linking productivity growth to increased participation in the work force.

**Mrs Ridout**—If you have a strong investment in education and training and you have a good skills base, you will attract a lot of investment in high-performing industries that create jobs. That by itself is a very big driver of growth. If you look around the world you will see that economies that will do the best, that have the aspirations of economies like ours, will have an A grade education and skills base. Equally, if you look at big companies around the world, you will find that one of the major strategies they are pursuing is a restructure of their research and development activities. Australia has to be a participant in that. It is occurring. A lot of it is moving to places like China, and there are an awful lot of issues going on there. Again, that will anchor industries in Australia.

Australia and New Zealand are the only two OECD countries in which private sector investment in R&D is less than public sector investment. That is significant in itself, but the issue is that public sector investment gives you less payback in terms of economic growth—and I am quoting from OECD research, not ours—than does private sector investment, because it is associated with a better car or some other thing. All of that creates a more dynamic economy that creates more jobs and, usually, it is always correlated with better jobs. The sorts of jobs that we want in Australia are the ones that are going to be very important because they have the linkage back into skilled and unskilled employment.

**CHAIR**—A good anecdotal example of that is last week's announcement by Kodak that they are closing. Kodak were one of my first employers. When I first started there in the early 1980s, they would have had 50 PhD graduates in their research department. That number basically dropped each successive year.

**Mrs Ridout**—It is a tragedy.

**Ms VAMVAKINO**—I am particularly interested in the section in your submission that refers to the age pension and the assets test deterring work force participation. This is an issue that I have come across when talking to people who are subject to means testing. What do you believe are the priorities and the most effective ways of addressing this issue, given that it is now seen as a potential impediment, vis-a-vis their pensions and assets et cetera, to people remaining in the work force?

**Dr Burn**—One way would be to raise the threshold of the value of assets in the income test.

**Ms VAMVAKINO**—The obvious way, yes.

**Dr Burn**—Changing the shade-out rates for the income test and the assets test would be the other obvious ways to address that. Ideally, that would be done in a way that would encourage saving, rather than giving away more money. Without the full research available, I cannot really

pinpoint where you would do it. But I think pinpointing where you would change those parameters would be a really good study.

**Ms VAMVAKINO**—I raised the issue because people often come to my electorate office about it, and there has been a bit of a surge in recent times. There is a generation of people who have worked and paid their taxes, who have had savings and have bought property and so forth, who now feel that they are being penalised because they did save and because they do have too much. It tips them over a threshold that I know governments play with from time to time. Most times they say, ‘What’s the point?’ Is that attitude is being conveyed to the next generation of people: what is the point of saving and having things if you cannot get your pension? Have you picked that up as an issue out there? I have picked it up, but maybe I am picking it up in a particular section. Maybe it does not matter anymore what the first generation think, but is that attitude going to filter through to the second and third generations and discourage them from saving or acquiring assets?

**Dr Burn**—I think it will. I find interesting the attitude of an entitlement to the pension rather than an obligation to save. I think that also would be a very interesting thing to explore.

**Ms VAMVAKINO**—Yes. I understand that in Europe there is a bit of an entitlement: you pay and you get what you pay for, irrespective of what you have. That is something we need to look at.

**Mrs Ridout**—We are not in favour of that kind of approach. I do not mind being on the record about it. I think the extension of the seniors card to people, irrespective of their means, when they are over a certain age is a ridiculous notion. It encourages the concept of entitlement and is a waste of public money. So many people whom I know, and there is a growing number of them, do qualify for these sorts of things, and it breeds a culture. It is culturally wrong, given the demographic pressures we will have on public sector budgets.

The issue also goes to the adequacy of superannuation in the future to meet people’s needs. If all my members are doing is paying money to alleviate the Commonwealth budget and people are no better off, that will cause public policy problems of the type you have alluded to. Why would I save nine per cent of my income? I may as well have it now and spend it if I am not going to get any more than the old age pension.

This is where the whole issue of leadership has to come in. Peter Costello is to be commended. Right back when he released the Intergenerational Report and put these issues on the table, we calculated how fast we could grow and put it out there. Everyone is going to have to realise that the public purse is not a bottomless pit: it is our money which we have to work to develop, so the entitlement concept and mind-set is something we need to discourage from the cradle.

**CHAIR**—As federal members representing electorates we confront this almost on a daily basis.

**Mrs Ridout**—I do too; and I talk to all the people who love going to the movies for free.

**CHAIR**—People have an expectation that because they have worked for 20, 30, 40 or 50 years they need to get something back. There is that sense of a quid pro quo, particularly in electorates such as Maria's and mine with sections that have high levels of ethnicity and where there is a backdrop of that European experience.

**Mrs Ridout**—These are public generational issues to some extent. Making sure the safety net issues of older people are taken care of—that they go to hospital and are well looked after and there is proper dental care for them—and really making a lot of the basic entitlements we have as citizens is probably a pretty good start to ameliorating some of the issues.

**CHAIR**—Have you had a chance to look at the effectiveness of the pension bonus scheme? Has it made any difference at all in terms of keeping people in the work force?

**Dr Burn**—I have not looked at it.

**CHAIR**—Perhaps we should ask Treasury at some stage what the uptake is.

**Mrs Ridout**—Yes, it is not really our patch.

**CHAIR**—I still find that very few people actually know about it.

**Mr DUTTON**—I am very keen to explore some of your comments, Heather, about paid maternity leave and what the Industry Group's thinking is behind that and what ramifications it may have on particular sectors such as small business.

**Mrs Ridout**—From our perspective it should be a publicly funded safety net arrangement. It should not be funded by business because that would be counterproductive: it would cause jobs to dry up for women, particularly women of child-bearing age in small and large businesses. We are not about that kind of exercise; we are about increasing participation, not decreasing participation. We think that in many instances in our member's factories for a lot of people at certain levels of work a business case does not exist to support the introduction of an employer based paid maternity leave provision; therefore, a lot of women who most need it are going to miss out on it—yet they are often trained people who are very productive and familiar with tasks that companies value. We see this as making good economic sense and good HR sense.

The regulatory burden is a big issue for small business. We have put forward that it should be paid through the government's agencies or that companies can elect to manage that regulatory burden of delivering the paid maternity leave provision. I hope the majority of our companies would want to do it themselves, because it gives that continuity with the employer and their employee, but many will not—especially smaller companies, which just do not want the hassle. The current unpaid parental leave provisions are still complained about by a lot of small companies. The paid maternity provision we put in place would be a natural extension of that 14 weeks pay at the minimum rate of pay, with appropriate arrangements for casuals within it. I do not think that would create any further disruption to small businesses and would in fact improve the HR outcomes for those companies.

**Mr DUTTON**—What sort of costings have you put on that for government?

**Mrs Ridout**—About \$220 million. Can I also say on the record—this is very similar to the HREOC position, because we were very involved in the process—that for an initiative that costs \$220 million it seems to have to satisfy the highest hurdle rate of return for just about any program in my 25 years of arguing industry policy. I find it bizarre. Australia and America are the only OECD countries that do not have a publicly funded maternity leave provision. I must have been arguing this matter for 18 months; I have appeared before a lot of committees—we have run it hard. I believe in it. It is not a silver bullet for participation, but it is part of a mosaic of good public policy that can support participation.

**CHAIR**—Is that \$220 million of taxpayers' money?

**Mrs Ridout**—Yes, taxpayers' money.

**CHAIR**—What are the projections on that? You are obviously looking at that in terms of the current outlays. What are the projected figures?

**Mrs Ridout**—The baby bonus is building up to about \$500 million, but it will never be expended. These would be parallel programs. It would certainly add up to no more than the baby bonus, and probably quite a lot less.

**Mr DUTTON**—If the multiplier effects and the benefits to business are there, why have businesses not taken it up themselves?

**Mrs Ridout**—From the latest statistics, 33 per cent of businesses actually provide paid maternity leave. People get the idea that paid maternity leave is about middle-class women getting a big benefit, but it is not about that. It is about low-paid women, often production workers, in our members' factories where the business case does not exist for that company to put this in place. This is about making it possible for women who work on machinery to go off, have their babies, breastfeed their babies, come back to work and still keep the mortgage going—those sorts of issues. It is part of a social safety net—that is how I see it. Therefore, if Westpac, the Commonwealth Bank and others want to do it, they do it. Their figures are pretty persuasive that it does pay back for the company. That is one of the reasons why I personally support companies taking responsibility for paid maternity leave themselves, even though it does involve an element of regulatory burden.

**Mr DUTTON**—The government has obviously had a fairly robust agenda on workplace reform over the past eight years in trying to introduce reform and free up circumstances of workplace relations for businesses, both big and small. We have had some success there, and yet we have had a lot of hindrance in the Senate. What are your views on that area of policy that the government has attempted to pursue?

**Mrs Ridout**—I think Peter Reith's act was momentous in changing the industrial landscape and creating important new avenues for employers—for example, collective agreements without union involvement. It was a bit of a sleeper, but about 27 per cent of agreements in the latest round in Victoria are that type of agreement. So that is a very important innovation. The sanctions provisions were also much more important than people thought at the time. The attempts at reform matched a lot of the changes in the economy which have been continuing and unrelenting since that period. We have been frustrated, as has the government, that a lot of

legislation aimed at improving the dispute resolution process has been held up in the Senate. Our views on that are well known and well documented. A lot of that legislation very strongly and closely reflects submissions put by the Australian Industry Group in a range of areas. So we are keen for a better industrial relations/workplace relations system to be in place—one that does encourage resolution within the enterprise, which the act gives primacy to, and gives incentive to investment and job creation. So we commend the government and wish that a lot of this legislation would pass.

On the issue raised earlier of unfair dismissals, we have put forward, on numerous occasions, practical propositions which are in part reflected in the legislation that is caught up in the Senate. There is no ideal solution to this issue. If you work in a company with 19 people, why should you have less rights than if the company has 20 people? You have to find a practical solution to deal with that which focuses on the compliance burden for small companies and on freeing them up from decisions that can become costly. We have put forward longer probationary periods and a reduced procedural fairness provision. These matters are, to some extent, encapsulated in the legislation that has not been passed. There are no ideal solutions but we believe action is needed in that area. We have therefore been supportive of the government's position there.

**Ms HALL**—Thank you very much and thank you for your submission. It is a very interesting, good submission. You have highlighted a couple of the issues that I think are quite important. This links into the question about paid maternity leave, to a certain degree—that is, looking at addressing the declining birthrate in Australia. I notice that you have a few suggestions here. Would your members be prepared to make a commitment to ensuring that greater facilities are available within the workplace? How would you see that working for child care?

**Mrs Ridout**—I think there is not one solution to the whole issue of parenting. We will be participants in the work and the family test case that is going to run this year, and we have been part of conciliation proceedings that have been going on for five months. Central to that is the view that we need to free up existing award provisions to create more options for parents within the existing leave provisions, by agreement with their employer. We think that just saying that all employers should have to do one thing is not practical. That comes from very detailed discussions within our membership. I say that because companies are different—they have different needs and different structures. If you tell Queensland Rail, which are members of ours, that they need to give everybody part-time work, they cannot do it. Those issues have to be decided at the enterprise level.

**Ms HALL**—What is Queensland Rail telling you about the way they would like to embrace it?

**Mrs Ridout**—They are focused on it.

**Ms HALL**—How are your members prepared to embrace this flexible workplace and initiatives to increase the employment of—

**Mrs Ridout**—It is a fascinating thing that in the enterprise bargaining campaign that went on last year—and over 1,000 agreements were renegotiated—this issue was on the table for both employers and employees. It is emerging as an issue. Companies are conscious of it and they are looking for leadership in relation to what they can do. A lot of them are bending over backwards

to try to meet the needs of employers. There are some best practice companies that do the whole thing: breastfeeding rooms, flexible leave, flexible open and start, changed shift arrangements—you name it; they go the whole hog. Then you have the other end of the spectrum where it is just too hard and they do not seem to do anything. Often they do not understand what is possible, so I think there is a need for much more education and much more focus on the issue. Frankly, from an HR perspective, the whole concept and issue of work design is going to be the issue of the rest of the century. It is early in this debate, but I have great faith that, as the demographics change, employers are going to know that they will need people. Parents are saying—and I am a mother; I have three kids—‘I have to have some flexibility, otherwise I can’t work for you to my full potential.’ Things are improving and the pace will accelerate.

**Ms HALL**—I have to agree with you there. One area in which government can play a role is the one you have already identified, and that is with paid maternity leave. Do you see any other areas in which government can become involved to improve the participation in the work force of women with children—or fathers with children—so there is an incentive to have children, as there has been a decline in the birthrate?

**Mrs Ridout**—Two hundred and fifty thousand babies are born in Australia every year. That is not very many little people. As a community we need to value that and put more on it. One of the things about the paid maternity leave debate is that we saw it as an opportunity for the government to show leadership on an iconic issue. It may not of itself solve the problem, but we believe in it and it is one of the things we are doing. But there are other areas too—issues like child-care arrangements. You get FBT exemption if you have FBT arrangements for employer based child care. Maybe you can extend those to a voucher arrangement. The employer can help you get child care outside your company. There is a range of policies the government can make.

But the real struggle for government is to find out exactly what their role in it is, because it is not obvious. But there are obvious things that can be done. One of them is having a safety net for all employees in Australia which enables them to work and at least have a family. From my perspective—I represent employers—we have to make sure that is compatible with a competitive economy, as we are losing business constantly overseas.

**Ms HALL**—I just wanted to flick to the other side of the equation, and that is employing people over 50.

**Ms VAMVAKINO**—I was going to go to that too, but I just wanted to chase something up.

**Ms HALL**—Did you have something you wanted—

**CHAIR**—Jill, go ahead.

**Ms HALL**—I think Maria wanted to link into what I have asked.

**Ms VAMVAKINO**—Just as a wind-up to the issue of the population problem that we are obviously having, do you think that women or families today are choosing to not have as many children as their parents may have had because they find it more difficult to balance work and family, or is it because generally speaking life, society and financial commitments are also playing an important role? Why is it today that most families would like their 1.7 children—I

have two—and yet a generation ago women may have had four or five children? What is actually happening to the attitude towards how many children you choose to have?

**Dr Burn**—I think that the fundamental reason is that the opportunity costs of having children are higher. That is something where the improved work-family balance comes in—by addressing those opportunity costs: not by reversing history but by moving with the times and with the tide.

**Mrs Ridout**—It is a bit like all these debates. It is very hard to understand what is going on. From personal experience, I had one of our officers in my office this morning in tears because she is pregnant and she does not want her career to be lost. I said, ‘It won’t be. You are part of the future. If you spend the next five years working and having children, good.’ I think there is a lot of concern among girls about this issue. It is sad. It is very sad.

**Dr Burn**—Can I add another point to the issue that you raised about employers providing greater family friendly facilities at work. One major potential source of that money—in fact, the major potential source—would be productivity improvements. We have a bias in our system, if you like, that channels the rewards from those productivity improvements into cash wages. That is because of the minimum wage arrangements that we have and the increase in the minimum wage. All relativities in the wage system generally have to rise in order to keep relativities in place and therefore subtracting from the available resources that employers could spend in other ways on employee benefits such as being family friendly.

**CHAIR**—I was actually going to ask that very question. There are two further components to that. Firstly, how realistic is that in terms of the total work force’s acceptance that productivity savings be directed to family friendly workplaces rather than to wages? You need to get the total work force’s acceptance on that. It seems to me that it can be very beneficial to only a sector of your work force. Secondly, are there any examples where that actually has happened?

**Dr Burn**—There are lots of examples where employers have invested money in improving—

**CHAIR**—No, I am talking about the improved productivity savings that have gone to family friendly workplaces rather than going into wages. Have there been some examples of that taking place?

**Mrs Ridout**—I am not aware of any in the general area. You have to say that superannuation has been a core one. There was an agreement to do the trade-off between paid wages and a public policy benefit. But that was at the macro level. At the individual level, maybe the issues I was raising before—for example, extending FBT exemptions and concessions to vouchers for child care—might be offers that companies could make if the system facilitated them. But for blanket groups of employees such as the ones we are talking about on paid maternity leave it would not be that easy to achieve under industrial awards, I would not have thought.

**CHAIR**—But yet you suggest that as a possible solution.

**Mrs Ridout**—Yes, we do.

**CHAIR**—But there are no examples of that happening at the moment.



**Dr Burn**—Can I raise an issue in relation to that, Mr Chair? We were not suggesting that be adopted as a universal approach but that the institutional constraints against adopting that approach be removed—

**CHAIR**—Right.

**Dr Burn**—and therefore that option be available in the workplace arrangements and workplace bargaining between employers and employees—not as a universal thing but as something that an individual employer could bargain with his or her work force about.

**CHAIR**—Have you had any discussions on this with employee organisations?

**Mrs Ridout**—The issues have been talked about in the current conciliation arrangements but there are no negotiations or anything in relation to it. We have not got to that point.

**Ms HALL**—I have a question about the over 50s. I suppose that is the other side of encouraging younger people to have families and improve the birthrate. I notice here in your submission that one of the issues that you have identified is addressing internal cultural barriers to the employment of older workers. Would you like to expand on that?

**Mrs Ridout**—Peter could expand on it more but I would just like to say that the figures would indicate that we need a carrot rather than a stick approach to it. To solve our economic problem we do not need everybody working longer. I think the Treasurer has put a percentage on it, which I think was around 10 per cent—but it might be higher and I would not want to be held to that. So that would indicate that we need a carrot approach to it from the individual's point of view. Rather than the government saying, 'You will be penalised if you do not work longer,' you might be incentivised to work. That is a matter of philosophy. Also, as we have put here—and Peter can talk more about it—we need to focus on workplace cultures. That is a huge issue.

**Ms HALL**—That is the question.

**Mrs Ridout**—Companies have gone from problems of not being able to get rid of older workers because of changes to discrimination laws to now being confronted by the issue that they need to harness them better. The other issue is around skills, and I think the skills issue is huge in that we are going to need to keep people's skills up-to-date in a way that we have not worked on assiduously enough in the past either at the public policy level or at the individual enterprise level. They are some of my thoughts but Peter might be an expert on the over 50s, seeing I have yet to join that group.

**Dr Burn**—We will not get into comparisons. Some of the things that we find may affect the culture, or breed that culture of perceptions, are about occupational health and safety risks. Ideally, you would want to expose the truth and have people make a decision on the facts rather than on the myth. Alternatively, you could address the problems that are giving rise to the perceptions. There are a lot of biases across a spectrum of workplaces against part-time and casual work versus full-time work. It is a big hassle to create part-time work and to coordinate that within the overall workplace, and that can be a problem amongst workmates as well as with the employer.

**Ms HALL**—A lot of older workers want to work full time—

**Dr Burn**—Sure.

**Ms HALL**—and they find that they are positively discriminated against. I suppose my next question would be: what initiatives is your organisation undertaking to deal with that discrimination against older workers? That links into the cultural issues—

**Dr Burn**—To jump to that question about the initiatives we are taking, we are publicising these issues and we are preparing submissions and we are trying to raise the awareness of our members. We have participated in 550 government inquiries on ageing and workplace participation et cetera. We get our information from our companies and we are reacting to that and we feed back to them. They know what we are doing and we are getting our sense of workplace practices from them.

**Mrs Ridout**—We also have very strong networks of our HR people and we give this issue a huge airing so that there is a lot of dialogue within the industry about good practice and what the concerns are. At this stage of the debate it is certainly active in terms of AI Group's agenda.

**Ms VAMVAKINO**—I will ask you this directly because I come across it often—I think we all do: to what extent do you think your membership, generally speaking, prefers to employ younger people as opposed to older people? It may not necessarily be for award purposes or future prospects but because they may see older people as over the hill, on a heap and with not much mileage left in them. I use those words because they have been used by people seeking employment and who, if not skilled appropriately at that particular time, certainly have many years experience, commitment and all the sorts of things that employers would also be looking for in future employees. Yet those people seem to have problems getting jobs simply because of their age, and people over 45 years, not even over 50, do not get a look in.

**Mrs Ridout**—The average age of tradesmen in Australia is 49 years. There are real issues there in an industry that already has quite substantial skill shortages. The market will work—going back to my earlier comment—and the demographics will force change. Markets have a great way of working, in my view, and I think this will be one such case. Regarding the youth culture, you talk to retailers, the IT industry and the construction industry and everyone wants lots of young people because they bring dynamism into the industry, and the manufacturing sector is no different. They seek to provide opportunities for apprentices and trainees every year and we cannot get the kids no matter how hard we try. We have lots of jobs with good skill training opportunities for young people that are not filled. It is a challenge that continues for manufacturing as it does for a number of other industries.

On the issue of active discrimination, there would be isolated incidents of that and the issue that Peter highlighted on occupational health and safety is certainly one of the things that does concern companies that employ older people. I do not think it is as rife as it was because the supply of labour is different.

You also have to think about the types of positions that industry is now filling. If you look at the structure of employment in manufacturing you will see that the trade area has fallen while the paraprofessional technician areas are rising in the service related jobs. There is a different

type of person coming in and it calls for different types of skills. All this is happening at the same time as you are getting these demographic changes occurring. There will be incidents of it; it is not just in our industry—the youth culture is ‘Australia, young and free.’ I think everyone will have to come to terms with it over the next few years and it is up to our organisation to provide some leadership to its members.

**Ms HALL**—You mentioned occupational health and safety: I suggest that, barring working in heavy industry, the figures do not hold up—that is, that there are greater occupational health and safety risks involved in employing older people. I am just going through some of the comments you have made about the under 50s. You talk about raising the flexibility of workplaces to be better able to accommodate older workers. That in itself is assuming that older workers are not happy to fit into the current structures that younger workers are working in. Maybe some of our perceptions and the way we look at encouraging employers to employ older workers are a bit discriminatory and work from the assumption that an older worker does not have the same to offer as does a younger worker. Maybe that is something that needs to be addressed.

**Dr Burn**—One of the motivating things behind that section is some awareness of the degree of voluntary early retirement amongst older people—people over 50 but not much over—and what it is that is driving them to resign. It is not discrimination; they just want to get out. Why? Is it because the workplace is not flexible enough? We are searching for explanations for their choices.

**Ms HALL**—In the area I come from, which is in the Hunter where there is traditionally a large blue collar work force, there has been a change in the industry base of the area. To a large extent that change is reflected in those voluntary redundancies. I will come back to this in a moment.

**Mr WILKIE**—I think this question may have been asked already but, in relation to superannuation for older people in the work force, do you see any positive initiatives? I think you made the comment that we need to make some changes. The age for payment of superannuation has gone up to 65, and that is good. But I actually have a worker in my area who has reached the age of 70, and he is no longer getting superannuation payments from the employer because by law the company is not allowed to pay a contribution to his superannuation. But, of course, it is not giving it to him as wages. So do you think there is scope to increase that age even further?

**Dr Burn**—You can increase the age or you can address that specific form, the 70 age bracket, which is basically a measure that the government has taken to constrain its tax expenditure on superannuation. That is really a government thing, and it goes back to changes introduced some time ago. So, yes, of course.

**Mrs Ridout**—Going back to my earlier remark, I think we have to give incentives for people to work and not penalise them if they do not. If you look at the statistics, that seems to be the approach. The superannuation system seems to be one area that we need to have a good look at. We could give you details on some of the other ideas in that regard—on that whole area of support. Even though a lot of people might want to work full time, an awful lot of people might like a part-time retirement and might like to be in paid work rather than scratch around for something to do. There are a lot of issues around being able to access other services.

**Mr WILKIE**—My constituent has obviously stayed working after 65 years, but by continuing to work he lost an incredible amount of benefits from the age pension as well.

**Mrs Ridout**—That is right.

**Mr WILKIE**—He has been disadvantaged all the way down the line.

**Mrs Ridout**—Yes, in both ways. That whole issue is important.

**Ms HALL**—In some cases, legislation prevents workers from working over the age of 65. Within the mines in New South Wales, for instance, once you are 65 you are unable to continue working, even if you pass a medical that shows you are fit and able to work in that industry.

**Mrs Ridout**—The occupational health and safety concerns of companies are real. We could give you a number of examples of where companies face quite significant issues with older workers in that regard. We have to strike a balance, because employers have big liabilities in this regard.

**Mr DUTTON**—I would like to ask you a question on apprenticeships which I suppose goes back to your comments before, Heather, about minimum wage rates. I will use the scenario of somebody who has decided to change their occupation or, say, has dropped out of university or, for whatever reason, has decided to go into a trade in their mid-20s or early-30s—perhaps they were late in maturing and decided they wanted to go into a trade at that stage. It is difficult at the moment with the apprentice award rates for employers to engage mature age apprentices, isn't it? Is that an area you have looked at or about which you have had concerns expressed to you by your members, and how could we address that? There are great shortages in some of the trades and some of those apprenticeship-type skills.

**Mrs Ridout**—There are a lot of adult apprentices, and there are certainly an awful lot of adult trainees—and they can form part of an apprenticeship in a number of industries—but there are also the issues that you have alluded to. We believe that we need some fresh approaches in the structure of apprenticeships. A person can do a traineeship in dishwashing and come out at AQF level II after six months, whereas an apprentice takes four years to get to AQF level III, with a combination of work and study—but a lot of the apprentice areas are much more skills rich.

We have supported things like more prevocational training, where a person like you have described could go. There are plenty of examples through history where we have had big shortages and where we have done this so that you can get more up-front and intensive training. You would then go to an employer with a greater body of knowledge and be more useful from day one. Employers will undoubtedly reward that in their rates of pay and in various other things.

The other issue—and I was saying this to people in the training system—is that whatever we do in the vocational education and training area we have to have regard to the individual. A lot of individuals, whether they are older people or whatever, might want the chance to go and renew their training. There has to be not just an employer incentive or an institutional incentive; individuals need to be given the capacity to find their own ways through the system. A lot of employers these days might train two-thirds of a trade because that reflects the specific needs of

their company but the individual might want to finish that off, like in the American system. In a sense the system should give an individual some avenue to do that. There should be some way found to support that individual in his endeavour. The entitlements that we see in the higher education system could be explored with respect to some of those kinds of proposals.

The whole education and training debate is absolutely essential. If older people do not keep their skills up to date, they will not be able to participate, because there is going to be such a changing world with technology and the way work is designed. That is the scary thing. One of the reasons why we face this now is that a lot of older workers, for example, are not IT literate and they are frightened of it, whereas a younger person who comes in cannot wait to get to it. We are facing these kinds of generation divides. In the next 30 years a lot will not be as stark as 'yes or no' or 'can do or can't do'. We do not want those issues to hold back our economy in the future.

**Ms HALL**—How supportive are your members of strengthening the relationship between training in schools and training in the community, using that to build on the skill base and having young people come out with the kinds of skills that industry needs?

**Mrs Ridout**—We are deeply supportive of it and have been for a very long time.

**Ms HALL**—You would like to see that expanded?

**Mrs Ridout**—Yes, extended. We run Adopt-a-School programs in Western Sydney. We have numerous examples of where we have been part of that. I personally was on the original Australian Student Traineeship Foundation, where we worked to try to create those opportunities in schools. There is a big challenge here. I think something like 50 per cent of kids in New South Wales—in Australia, actually—are going to be doing VET in Schools, so it is absolutely incumbent on the institutions to make a much better offer than they do currently. That is another big area for public policy, and employers are really keen to be part of that debate and part of that system.

**CHAIR**—Mrs Ridout, thank you very much. Dr Peter Burn, thank you as well for your evidence today and for your submission. It is very comprehensive. I do note your extensive comments on effective marginal tax rates and your belief in using them as a strategy to reduce participation. I assume, just for the record, that you would not have that position on generally reducing marginal tax rates.

**Dr Burn**—No.

**Mrs Ridout**—Not at all, no.

**CHAIR**—That is quite okay. It is more in terms of a strategy for—

**Mrs Ridout**—We have put forward a comprehensive position on reducing marginal tax rates, and that goes to that group at the effective marginal tax rate area, with combination tax shade-out arrangements on benefits. We have also put forward a view that you should get rid of the whole 42c rate so that everyone earning from \$22,500 to \$62,000 pays 30c. We also said the upper limit, where the top tax rate cuts in, should be lifted to \$75,000 so in fact the vast majority of

Australians would be paying no more than 30c in the dollar. It is a great position, and it is affordable.

**CHAIR**—Thank you. We will read the exhibit you have given us today. Once again, thank you very much. If we have any other questions, we will get back to you.

**Mrs Ridout**—Thank you for the chance to appear. I am really going to be interested in what your inquiry comes out with. If you wanted to contact us and test a few ideas in the interim, we would be very pleased to be part of that.

**CHAIR**—We are also very interested in what our outcomes are going to be, because we are under severe time pressure—not only today but in this particular electoral cycle. Thank you very much.

[2.31 p.m.]

**HENRICK, Mr Kenneth Michael, Senior Policy Advisor, National Association of Retail Grocers of Australia**

**McKENZIE, Mr Alan John, Director and National Spokesman, National Association of Retail Grocers of Australia**

**CHAIR**—Thank you for meeting with us today. Today’s proceedings are formal proceedings of the parliament. Although the committee does not require witnesses to give evidence under oath, you should understand that these hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the parliament itself. Giving false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The committee prefers that all evidence be given in public, but if at any stage you wish to give evidence in private please ask to do so and the committee will consider your request. I invite each of you to make some preliminary comments about the issues you think are important to this inquiry before we move to questions and discussion.

**Mr McKenzie**—I will make some brief opening comments. NARGA is a federation of generally state based retailing organisations. We represent in the vicinity of 3,000 stores across Australia. These are independent grocery stores under banner names such as IGA, FoodWorks, AUR and, in Western Australia, Dewsons, Foodland, Supa Valu and so on. They compete in the marketplace that is dominated by the major retailers, Coles and Woolworths. Obviously issues of competition are very close to our heart. Fifty per cent or more of our stores are located in rural and regional areas, and we employ in the vicinity of 50,000 Australians. We, and I am sure this committee, acknowledge the importance of small businesses as jobs generators for the economy. That is really the reason why we decided to put a submission to the inquiry—to assist the committee with our views as representing small business. NARGA does not seek government assistance, handouts or subsidies. We do seek effective trade practices laws to ensure that our members and indeed small businesses generally are not victimised by major corporations, thus threatening not only their existence but also the jobs that they provide. Therefore we are very strong on the need for effective trade practices laws. We also have a focus on the need to keep regulatory compliance costs to a minimum. A small business bears a disproportionate burden in relation to compliance costs, and that has been acknowledged by a number of inquiries. As a result of that prime focus we have generally confined the comments in our submission to those areas. But, having said that, if the committee believes that we can be of any assistance in other areas, we are happy to take things on board, go back to our members and provide any other information that we can that would assist the committee in its deliberations. Having said that, we are happy to leave it to you to ask your questions.

**CHAIR**—Mr Henrick, do you have any opening comments?

**Mr Henrick**—No.

**CHAIR**—Quite a deal of your submission covers two particular areas. One is the GST compliance burden and the resulting cost to small businesses in terms of removing time which they could have used to grow the business. The other one is section 46 and the Boral case last year. Can you address the GST one in particular to begin with? One of my concerns is that the

whole submission is based on some very extensive survey work that you commissioned back in 2000, six months after the GST was introduced. I would have thought six months after the introduction of such a major tax there would not have been too many good news stories about it. Could you make a comment about that in general? What has changed since that survey in 2000?

**Mr McKenzie**—We commissioned that survey to get a handle on what sort of compliance cost burden our members were incurring. As you rightly say, it was at the implementation phase and one could have expected that the situation would probably be at its worst at that point in time. But the story that we got back from the survey gave us no degree of comfort whatsoever. What it did confirm was that our members were incurring significant compliance costs and that those costs were disproportionately heaviest on our smaller stores.

In the lead-up to the introduction of the GST and since its introduction we have lobbied for a simple GST. Having now realised that we are not going to get a simple GST, we are now lobbying for simplification very strongly. Most recently, we have been having discussions and a lot of consultation with the Australian Taxation Office with a view to extending the simplified accounting methods which were put in place to assist small food retailers to cope with the GST by being able to use estimates to calculate their GST compliance burden. From discussions as recently as last week, it appears that the tax office is now going to put forward a proposal to Treasury which will assist some of our members to gain some compliance cost relief from the GST.

The main area of concern as identified in the Hall Chadwick study was the manual task of recording the GST input credits. The retailers have to go through every invoice to check how much input credit there is for the GST. The survey showed that our members are getting about 223 invoices on average a week from different sources, all of which are different in their format. That was a major cost issue: the single biggest cost issue identified, along with preparing the BAS, in the Hall Chadwick study.

We have tried to focus our efforts on simplifying the GST input side, because most of our members have invested in scanning checkout equipment, which enables them to record accurately the GST on the output through the registers. But that does not give you any joy on the input side, which is a very manual process. So we have been targeting our energies with the tax office to try and come up with a method that will enable our members to access the simplified accounting methods, as the simplified accounting methods at present exclude you if you have a scanning system or if your turnover is in excess of \$2 million. More than a third of our members would have a turnover in excess of \$2 million. Two million dollars might be a big turnover for an average small business but our members operate in a sector that is generally high turnover, low margin and so we are unduly penalised by not being able to access those methods.

The point of all that is that the tax office is now working with us to come up with something that will offer relief to our members. Based on earlier discussions with Treasury, at this stage they do not seem all that happy about lifting the ceiling above \$2 million annual turnover. They seem hung up on that still because they are always concerned about leakage of revenue and risk to the tax purse. It would be nice if we could get some movement on that \$2 million, but at the very least I think they will remove the restriction on scanning stores being unable to access the simplified accounting methods.



**CHAIR**—Do you have some sort of letter—

**Mr McKenzie**—Nothing at the moment but—

**CHAIR**—or a report on this from the tax department?

**Mr McKenzie**—No. The tax office have been conducting field audits just recently to test the sort of methodology that they propose to put to Treasury. I think that, within the next few weeks, we will get something from the tax office to have a look at and we will be able to make some comments on that. If that all looks good, I think they will then put it to Treasury and it will be up to Treasury to sign off on it.

**CHAIR**—Sure.

**Mr McKenzie**—If that does come about, it will be a significant benefit to our members. One of the things that concern us at the moment is that the level of problems being experienced within small business has not really been brought out into the open. When the tax office starts to do its full field audits we are going to see that small businesses make a lot of mistakes with their GST. At the moment the only audits that have really been going on are procedural audits. When those full field audits start to happen—and that could be within the next 12 months or so—I think we are going to find a significant level of error being made, particularly in our sector, which is prone to classification error because we are dealing with both GST-free and taxable items.

**CHAIR**—Can I interrupt you there. I do not want this discussion to be dominated totally by tax. We have to keep in mind what the reference of this inquiry is.

**Mr McKenzie**—Sure.

**CHAIR**—I do note your concerns about the GST. I would go back to my opening comment, though, about the survey back in 2000. You have not responded to whether or not there has been any change since then. Your central proposition is that reducing the GST compliance burden is going to free up the small business operators, usually owner-operators, to develop their businesses and, by developing their businesses, to increase and grow their employment. There is a series of links and hypotheses there. Is there any evidence to suggest that one is related to the other?

**Mr Henrick**—I can take up that point. I was at a meeting a couple of weeks back with the Inspector-General of Taxation and a number of industry groups, some of which were representing the accounting profession. I pointed out that this compliance issue was still concerning us but that we had noticed a falling-off in the number of anecdotal complaints and other things. I was prepared to suggest that perhaps that was because people had become used to the new tax and had become more efficient in the way they handled it et cetera. The other alternative that was put by somebody else at the meeting was that it was probably just dumb misery. The representatives of the accounting profession then tended to take the view that there was a great deal of unhappiness within small business, particularly because of the compliance burden, and that was continuing. We have not done any surveys since 2000, so we do not have

any way of quantifying it. But, certainly from those other groups, there seemed to be a consensus that they were seeing it up close.

**CHAIR**—What about the link to work participation? One would say that that is a fairly long bow.

**Mr McKenzie**—If you accept the proposition that if small business, particularly the owner-operators, are preoccupied with regulatory compliance duties or have more of that responsibility put upon them—

**CHAIR**—And there are lots of regulatory compliance duties apart from tax?

**Mr McKenzie**—There are. This is just one, but it has been a significant one and it is something they did not have to do beforehand. They did not have to collect GST beforehand. All of a sudden they do. They were shielded from that through the old wholesale sales tax system, which was collected by the wholesaler or the manufacturer. So it is a new responsibility that has been put upon them. It is one that they have borne reasonably well, but at a cost. There is a cost to the business in terms of both money and the time that the owner-operators have to spend on this. In a lot of cases our research showed that it was the owner-operators who were actually doing the extra work. In some cases, they have had to employ somebody more senior within the business to do the job of checking the input credits and doing the recording. That was a job that in the past was done by a relatively junior person. All they had to do was make sure that the goods on the invoice were received. Now they have to take the extra step of calculating the input credits as well. It is just part of a burden which is taking people away from the more creative side of running their business. There is a link. I cannot prove to you—

**CHAIR**—Yes, it is the causal link that worries me. We are now in 2004 and we are basing it, too, on 2007. I could go on and I have lots of questions, but I am sure the rest of the committee has as well.

**Mr WILKIE**—A husband and wife own my local Foodland and work the business themselves. The husband tells me that he spends most evenings sitting up until one or two o'clock in the morning trying to get the books sorted out so that he can comply—and he is working seven days a week. You just wonder how long people can continue doing that sort of thing and survive. We talked about one uncompetitive practice by big business and how that sent a lot of little people broke. In Western Australia, one of the areas was the deregulation of trading hours. Of course, the state government listened to the view that they should not be deregulated. Has the deregulation of trading hours had a dramatic impact on businesses going broke in the eastern states?

**Mr McKenzie**—I suppose the figures we have taken out on the Victorian experience show that there was a substantial erosion in the independent sector in the 12 months following the introduction of extended shop trading hours, because the Kennett government totally deregulated. If you would like me to provide you with numbers, I can, but I have not got them with me today. There was a substantial reduction in the market share that was being held by the independent sector at the time of the shop trading hours restrictions, and that continued to slip for some years until the recent resurgence in the industry with the independents being able to pick up some of the old Franklin stores and so on. There have been further tales of misery in

Tasmania, where the independent sector was significantly reduced following the deregulation at the end of 2002 and so on. It has had a major impact on our sector—in some states more than others. Western Australia is really the only state that has held the line at this point in time. South Australia deregulated last year, as did Queensland, except for outside the metropolitan area of Brisbane and tourist areas.

But it has had a major effect on us. It is one of the things that we have fought. We have argued that it is all very well to deregulate but if you have not got a level playing field it has a double whammy effect. We argued in the Western Australian inquiry that we can start looking at deregulation once we have effective trade practices laws that provide a more level playing field for small business to compete on—but not beforehand, because it just provides the chains with further opportunities to take market share from independents. We have argued strongly along those lines in all of the trading hours inquiries that we have been to.

So it has had a significant effect. I am happy to provide you with more information on that if you wish. Western Australia is the healthiest state for independents, and it is no accident that they still have restrictions on trading hours in Western Australia. Western Australia has been a real success story for our membership and for small business generally.

**CHAIR**—That did not appear anywhere in your submission.

**Mr McKenzie**—No, we did not address that in our submission. We kept our submission to a couple of points, but we are happy, as I said at the outset, to comment on any other areas in which we have knowledge or on any other areas the committee would like.

**CHAIR**—I will take you up on that. If you have some additional information, please send it through to the secretary.

**Mr McKenzie**—Yes, we could do that.

**Mr WILKIE**—You mentioned that you would like to see measures introduced to have a level playing field for the smaller businesses against the bigger businesses. What sort of measures would you like to see introduced?

**Mr McKenzie**—Our focus has been on section 46 of the Trade Practices Act, which deals with the misuse of market power. Recent High Court decisions have rendered section 46 virtually a dead letter. We have argued in the attachment to our submission that the High Court is not interpreting section 46 as was intended by the parliament when the section was revised back in 1986. There have been High Court cases dealing with Melway, Boral and, more recently, Rural Press that have convinced not only us but also the Chairman of the ACCC that section 46 is now ineffective. You will not be seeing the ACCC take up too many more cases under section 46. First of all, there is the cost, which is massive. These cases tend to take up to seven years if they go all the way up to the High Court, which they invariably do. Also, the chance of getting a successful prosecution now is virtually nil. We and the ACCC have argued strongly before the Senate inquiry into whether the Trade Practices Act protects small business that we do need reform and that we need statutory definitions in relation to some of the key concepts that underpin section 46 so that the High Court can be put in no doubt as to what the parliament actually expects section 46 to do.

The High Court now has narrowed the scope of section 46 to monopolists or near-monopolists, whereas the parliamentary intention was clearly to have it apply to oligopolists so that more than one firm could have market power. The Boral decision said that to have a substantial degree of market power you have to have the ability to raise prices without losing custom. Ordinarily, only a monopolist or a near-monopolist would have that power. In our industry, it is arguable now whether Coles and Woolworths have a substantial degree of market power. You ask any retailer who competes against them and any supplier who deals with them whether they have market power. So that is the real dilemma now with section 46. It is a key provision of the Trade Practices Act and in our view now—and in the view of the ACCC and others, including a lot of leading parliamentarians—it is no longer a viable section. I have told our members that they are wasting their time taking any allegations of predatory pricing to the ACCC, because they will not be able to be dealt with. So it is open season, as far as we are concerned, against small business by big businesses who want to throw their weight around. That was confirmed more recently by the Rural Press decision.

**CHAIR**—Just on that, Alan, you are saying that you are telling your members that there is no point taking it to the ACCC. Isn't there always at least some marginal benefit in taking a case to the ACCC, simply in alerting the community to what is happening in the area, even though you may not get the judicial outcome that you are after?

**Mr McKenzie**—We encourage our members to keep records of what they believe to be predatory pricing and, if they are in any doubt, to come to us and discuss it with us. But I think they are so disillusioned now with the state of the law that it is very discouraging. We have taken evidence to the commission and we took evidence to the Dawson committee, and it just cannot be dealt with given the way the law is currently being applied. The commission is just not pursuing cases; it is not taking up cases. Those circumstances do not create a very positive environment for us to want to bring cases forward. Before the Boral case we all thought we had protection against abuses of market power. We were all led to believe that that protection was there. I guess, while everyone believed that there was a possibility that companies abusing their market power could be caught by that provision, there was some restraint. We do not believe now that there is any restraint. Anybody wanting to throw their weight around now has a virtual licence to do so, courtesy of the High Court.

**CHAIR**—Yet Dawson did an inquiry into it and he still came up with a recommendation not to change section 46. Why is that the case?

**Mr McKenzie**—First of all, the Dawson committee provided its report before the Boral decision was brought down, so the Dawson committee did not deal in its report with the issue of a substantial degree of market power. None of the submissions that went to the Dawson committee actually dealt with that issue, not even the ACCC's. Everybody believed that market power could be established. The Boral decision came out and shocked everybody to their bootstraps, except the big end of town, and as a result Dawson was asked to look at the Boral decision. In the end he told the Treasurer there was no problem. No-one ever saw what he had to say—no-one ever had the chance to evaluate what he had to say—so we have no understanding of what reasoning he used to come to that outcome. Certainly the committee was not reconvened to look at it again; it was merely the views of Dawson himself, as far as we can tell. No-one has ever seen the document that assured us all that there was no problem.

**CHAIR**—So there was no public document as a result?

**Mr McKenzie**—No, not at all.

**CHAIR**—On the Senate inquiry, which Senate inquiry is this? Do we know where the Senate inquiry is at?

**Mr McKenzie**—It is bringing its report down on 11 February. This is the inquiry that has been chaired by Ursula Stephens. Its deputy chair is George Brandis. It is the Senate Economics References Committee. The committee will be bringing down its report on 11 February, and at this stage we are hopeful that it will have a strong set of unanimous recommendations for reform, but we will have to see.

**CHAIR**—Kim, do you have anything to say?

**Mr WILKIE**—No, it is fine.

**Ms VAMVAKINO**—Mr McKenzie, on the basis of your evidence it seems that your industry is struggling to survive against the odds. This particular committee is also dealing with the decline in the availability of the Australian work force. We are told that by the year 2020 Australia will have some 500,000 jobs with no-one to fill them. With the long-term drift of young people to metropolitan areas, to what extent is recruitment expected to be an issue for your industry in rural and regional areas? What strategies do your members have in place to address this? I know we are going on a completely different tangent, but this question is to bring it back to where the inquiry is wanting to go.

**Mr McKenzie**—I must say that no-one has indicated to us that they are having any difficulty in recruiting people to work for them. The bigger concern is the drift of youth away from rural and regional areas, but no-one is telling us that is a problem today. You may well be right as to what you have been told, and in 2020 it might be a different scenario, but it is not something that our members are telling us is a problem today. They are not even pre-empting it by saying that they see a problem coming up. So to that extent we are not aware of any strategies to deal with it.

Our view is that healthy small country towns—because invariably the major chains are not in the smaller towns, towns of fewer than 3,000 people; you do not generally see a major chain supermarket in them—are underpinned by independent operators. The healthy towns are the ones where you have strong, competitive, independent supermarkets, which tend to be not only the main provider of employment in the town but also part of the social cohesiveness of the town. We have always argued that if you want to have healthy country towns you have to underpin that by making sure that in the longer term our independent supermarkets remain competitive and vibrant, to stop the leakage of business out of those towns into the major regional centres. It has even been argued to us that having a competitive and healthy supermarket in a town is even more important in some respects than having a bank. At least if you lose a bank you can replace some of those banking services in other ways, but if you have not got that competitive independent supermarket in the town more and more business leaks out of the town, which affects every other business in the community. Also, there is the support and donations that that supermarket gives to their local community.

**CHAIR**—I am having a problem with that. On one hand you are saying that you have these supermarkets in the smaller towns and there is a leakage. But, on the other hand, you are not going to have a Coles or Woolworths supermarket in those small towns, you will have an independent supermarket, so there is no competition—they are just it.

**Mr McKenzie**—There is competition—

**Ms HALL**—In the nearby towns.

**Mr McKenzie**—because the business can leak out to the major regional centres and larger towns where the chains are present. The point I am making is that if the independent supermarkets become uncompetitive then more business leaks out of that town into the major regional centres, and that affects the dynamics of the whole town.

**Mr Henrick**—Business goes up the highway to somewhere else.

**Mr WILKIE**—And I imagine some people would tend to go off and shop in a major centre and buy for a month, rather than just go down and get a few things.

**Mr McKenzie**—Yes, they do. That is what happens, and you do not want to encourage that anymore—and, unless that supermarket is providing a competitive service in terms of range and price, more and more business will leave the town.

**Mr WILKIE**—To follow on from that, how many of these businesses would be family businesses?

**Mr McKenzie**—All of them.

**Mr WILKIE**—So—and this is not a negative—would they predominantly employ their own family members and then maybe some people out there in the community?

**Mr McKenzie**—Yes, look—

**Mr WILKIE**—There is no problem with that.

**Mr Henrick**—It depends on the size of the town and the size of the store. And, to take up the point that was raised earlier, most of the drift to metropolitan areas is coming in the 18- to 25-year-old group. Many of the jobs in our industry are entry level jobs and are filled by juniors who are still at school and working part time, for example, so they are still living with their parents, and that is probably why it is not being noticed so much in our industry.

**Ms VAMVAKINO**—Just on that issue, I suppose a lot of jobs in supermarkets, too, go to women who have children and who choose to do some part-time work. What is the potential for developing these sorts of jobs for people over the age of 50 who, as you may have heard in the tail end of the previous conversation, have incredible problems getting back into the work force for a whole series of reasons? It strikes me that this particular industry may be in a position to address some of those issues.

**Mr Henrick**—That is true. In fact, in the United States, for example, there are many more older people working in the supermarket industry than there are in this country. So I think there is potential there for them—

**Ms VAMVAKINO**—Absolutely.

**Mr Henrick**—but it means that the younger people are going to be displaced because there are a limited number of jobs.

**Ms VAMVAKINO**—During school, while studying, because that middle group from 18 to whatever may be going on to other careers and other studies.

**Mr Henrick**—Well, they may be studying or they may be just leaving town.

**Ms VAMVAKINO**—It is the nature of your industry that may allow it to pick up those difficult areas.

**Mr Henrick**—Yes, that is right.

**Ms HALL**—I have to agree with your comment about leakage from the small towns to the major provincial city areas. As somebody who grew up in a smaller country town, there was always the debate about how to keep people within that town to shop. In the town that I lived in and grew up in, it was always the independents that offered the service—and they still offer that service to this day. I suppose the question I would like to ask you links into the issue of employment and opportunities for younger people—and maybe all people—within the regional and rural environment. With your members being major players as far as employment is concerned within those areas, what sort of initiatives do you think that the government needs to take to encourage employment for people within those rural and smaller regional centres throughout Australia? It is going out a little bit from just your—

**Mr Henrick**—I am not sure that I can answer that very specifically, but I think it is pretty clear from other reports that have been done—the rural action plan and other things—that, to keep jobs in a town, the town has to have all the necessary elements of infrastructure. It has to have the professional services: the doctor, the dentist, the accountants and others. If those services are unavailable for whatever reason and the town starts to lose population, then the retail sector also begins to become marginal. To answer your question as best I can, if we keep those services viable then the town stays viable, the population can perhaps turn around, because the sea change phenomenon seems to be happening in some parts, and people may well go back to the towns that they grew up in and fill in this gap that the 18- to 25-year-olds are leaving.

**Ms HALL**—The other question I would like to ask is about the regulatory impact statement and how it is impacting upon your industry. You might like to expand upon that a little for me.

**Mr Henrick**—There was a COAG agreement, quite some years ago now, that regulatory impact statements be done. Over the past decade or so there have been a number of regulatory impact statements completed which were clearly not objective assessments of the proposed regulation; they were box-ticking to comply with the requirement to have a regulatory impact statement, because there was no requirement that the regulatory impact statement be evidence

based or be factual or be accurate or be valuable. It was just that there had to be something that was called a regulatory impact statement.

The other parliamentary committee that we presented to, last year, had evidence that the RIS system was not working and that it should work. Let me give you an example that affects us directly. There was a change in the tobacco retailing legislation a few years ago and there is more change proposed now. That will require a regulatory impact statement, but the one that was done a few years ago simply ignored reality and imposed a set of what you can only call ideological concepts onto a retail situation, without any evidence to show that they work.

**Mr McKenzie**—I might just add something to that. I have been having a look at some other material on regulatory impact statements, and it does appear that in other countries, particularly the US and Canada, they have independent oversight bodies that have the power to reject regulatory proposals if they are not supported by appropriate analysis. It seems to us—or it seems to me, in my reading—that there is a need for independence in terms of these regulatory impact statements so that you actually have somebody who is independent of any particular interest overlooking and making sure that there is improved analysis and quantification of the compliance costs and the small business impacts. That is something that was highlighted in the Productivity Commission report last year and was touched on by the Senate inquiry into employment last year.

I am sort of attracted to a discussion paper that I saw from the CPA recently which talked about the establishment of a small business advocate which would be an independent statutory body that would oversight all regulation in terms of its impact on small business. Currently the OSB—the Office of Small Business—is required to look at the regulatory impacts. I have not seen any of the work that it has done so I am not too sure how transparent that process is. I also do not think the Office of Small Business is an advocate for small business as such. It tends to be more a body that advises the minister on issues that relate to small business. So there is a question of independence.

**Ms HALL**—Would that be a truly independent body to oversight the RISs? It would be coming from a particular focus too. Shouldn't it be a body that is not attached to business or to consumers but is a separate body?

**Mr Henrick**—Something similar to the National Audit Office.

**Mr McKenzie**—This would still be a statutory body. It would not be staffed by small business or any other interest groups. I think the issue is one of independence—to make sure that we do get the right degree of analysis and the identification of all the impacts. It is something that appears to work in other jurisdictions. I just put that on the table as something that could be looked at. It does not appear to have been raised or looked at by any of the other inquiries that I have seen. But, if we all recognise how important small business is as a jobs generator for the economy and a driver of economic activity within the economy, I think it is something that could be more carefully looked at.

**CHAIR**—Mr McKenzie and Mr Henrick, we have run out of time. I do thank you. As a closing comment I would like to say that, while we thank you for your submission, a number of causal links based on anecdotal evidence or perhaps past surveys are made throughout your



submission. If you have anything more current to support some of your assertions, the committee would love to see that, whether it is on GST compliance, predatory pricing or even the table on the growing stranglehold of major supermarket chains, which is based on 1999-2000 ABS figures.

**Mr McKenzie**—That was the last survey.

**CHAIR**—We would love to see anything more current. We thank you for coming today.

[3.18 p.m.]

**COLBERT, Ms Suzanne, Chief Executive Officer, Employers Making a Difference**

**CHAIR**—Welcome. The proceedings here today are formal proceedings of the parliament. Although the committee does not require witnesses to give evidence under oath, you should understand that these hearings are legal proceedings of parliament and warrant the same respect as the proceedings of parliament itself. Giving false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The committee prefers that all evidence be given in public, but if at any stage you wish to give evidence in private, please ask to do so and we will consider your request. I invite you to make an opening comment before we launch into questions and discussion.

**Ms Colbert**—Employers Making a Difference officially started as an organisation in 2000 but was a group of interested individuals prior to that. I had worked in the disability employment sector for some time and it seemed to me that, whilst government was investing heavily in employment support services for people with a disability, and whilst the community sector and CRS Australia were working quite hard to support people with a disability to get into employment, business was missing from the table. The government and the community sector could work as hard as they liked to get employment opportunities but, until we could engage the business community, their efforts would come to little.

In an article published in the *Law Society Journal* in 2000, one disability employment service indicated that it took 300 telephone calls to secure one job outcome for a person with a disability. So you could say that there were some efficiencies to be made—if employers had appropriate information about, were receptive to and had a positive attitude towards employing people with a disability.

Fundamental to our organisation is the perspective of employers—that they have a say. They are stakeholders. Very little has been done to support them to be able to employ people with a disability. Our organisation set about developing a voice for employers in relation to the employment of people with a disability, but it is very much from a leadership and advocacy perspective. We were very well meaning but we did not have any money, of course. We applied for an open tender, we won that tender and we took on a role that had sufficient synergy with what we wanted to achieve for us to comply with the requirements of the tender whilst also using the opportunity to engage other businesses in the employment of people with a disability.

We are now no longer funded by the Department of Family and Community Services; we have not retendered. We feel it is very important that employers demonstrate their support by putting their money where their mouth is. I am four weeks into the role of asking employers to pay for services to employ people with a disability. Given that since 1986 it has been hard to give away the notion of disability in employment, it will be really challenging asking businesses to pay for that. But the reason I am here is that, clearly, the employment participation rate of people with disabilities is very unsatisfactory. It does not involve the talent of many people and it does not create the kind of society and the kind of business community that will lead us to long-term prosperity.

**CHAIR**—Thank you very much for your opening comments. I found your submission very interesting indeed, with your being in the disability sector. I have a very strong interest in that sector personally. One of the things that I found alarming was the figure you gave that 1,000 people per week are signing up for the disability support pension.

**Ms Colbert**—I think that has been halted. That was last year's figure.

**CHAIR**—That is a phenomenal rate.

**Ms Colbert**—Yes.

**CHAIR**—Why was that the case? Is the disability support pension that attractive that people want to go onto it, or are there other reasons? Is it just too difficult to get into the work force?

**Ms Colbert**—For older people with musculoskeletal injuries, there was a time when it was recognised that their job prospects were probably not going to be good; they were not going to get an employment outcome. A large proportion of people were in that situation. Clearly—without wanting to appear cynical—it may have created some shift in the unemployment figures because people with a disability who receive the disability support pension are not picked up, to my knowledge, in the unemployment rate. So it perhaps suited a purpose at that time.

**CHAIR**—That is in terms of the unemployment rate; but what about the attraction of going on the pension? There has got to be something to that.

**Ms Colbert**—It is due to compliance issues. When you are unemployed, you have to comply in order to continue getting your benefits: you need to fill in a form; you need to demonstrate that you are looking for a job. There is a whole range of structures in place. If you are 58, you have a back injury, you have worked as a builder's labourer, you are clearly not going to return to your trade and job prospects are not very good, the cost of compliance is a consideration. It is easier to move those people onto a disability support benefit.

**CHAIR**—Therefore the 1,000 people per week. Can you give me an idea of what the demographics of that thousand would be? They tend to be older and low skilled. Are there any other particular demographics involved there?

**Ms Colbert**—No. My understanding is that they are primarily people over 55 who perhaps have had a musculoskeletal injury and were previously in low-skilled—perhaps labouring—roles and could not return to their trade.

**Ms HALL**—They probably have poor literacy skills as well—add that to it.

**Ms Colbert**—Yes.

**CHAIR**—It would be great if you could give us some information on that. The other issue is—and perhaps you have answered this in part—where Australia ranks in disability support pension compared with other OECD nations: we are right there amongst the highest. You have probably already given an answer to that. We have heard a lot about part-time employment—the growth in part-time employment generally in Australia—perhaps at the expense of full-time

employment. You have mentioned that there is some success for those on disability support pensions moving into part-time work. Is there any evidence that that leads to them gaining full-time work?

**Ms Colbert**—I do not have with me the statistics in terms of industry, but clearly part-time or full-time work is more closely related to the industry standard than to the person with a disability. There are many people with a disability who are able to work full time and do. Often—for example, in the retail sector—where part-time work and casualisation of work affect the population across the industry, those factors also affect people who have a disability. But, anecdotally, it is also fair to say that people with a disability are more likely to be underemployed than their non-disabled counterparts in that same industry.

**CHAIR**—You presented some good figures from other countries in terms of the benefits of employing people who are disabled—in fact, I thought they were some fairly compelling figures. I do not know how widely known that kind of information is.

**Ms Colbert**—That is my point.

**CHAIR**—That, to me, gets at one of the central issues: that of communication—breaking down the stereotypes that some employers will have. For example, your submission says:

- 98% of staff with a disability rate average or better in work safety. (Du Pont USA)
- 90% of people with disabilities rated average or better on job performance. (Du Pont)
- 86% of people with disabilities rated average or better on attendance. (Du Pont)

And on it goes. They are outstanding results. In making that comment, were they company specific results or was that a survey commissioned by those companies?

**Ms Colbert**—No, they were company specific results.

**CHAIR**—So, to get an understanding of those statistics, we have to go to what those companies did to support those people with disabilities in their work force.

**Ms Colbert**—Exactly. To be very fair, the Du Pont studies were done in the US on people returning to work from injury. In Australia we do not have good statistics. We do not commission research. There was some research done that was unsuccessful because the research question was too big so the answers became quite inconclusive. We have poor quality Australian research, so that US research is the research that is most commonly cited in Australia in relation to work performance issues. I know that some companies in Australia, such as IBM, have looked within their organisations. They know that worker retention is superior for employees with a disability. My understanding is that Westpac have also done some work looking at retention. But, to date, a broad, good quality study has not been done in Australia.

**CHAIR**—It is a pity. I would have thought that that would have been a great way to break down those actual barriers.

**Ms HALL**—1983 was the Year of the Disabled, wasn't it?

**Ms Colbert**—The international year.

**Ms HALL**—Yes, the International Year of the Disabled. I think some research was done then on their employment in Australia, and that was probably a watershed time.

**Ms Colbert**—Some of that research partially led in 1986 to the passing of the Disability Services Act, which Don Grimes pushed through. But since then—

**Ms HALL**—Yes, that is where it stopped. That is a very good point you have made.

**Ms Colbert**—The point I would like to make—as I have said, I have worked in the sector for some time—is that, at one time in New South Wales when there was a change in legislation about an employer’s obligations in relation to how one writes a payslip and the information that should be on the payslip that you give to your employees, the New South Wales Department of Industrial Relations set up half-day seminars all over the state to demonstrate to employers what they needed to put on a payslip. In 1992 the Disability Discrimination Act was passed, and what did we do to assist employers understand their obligations in relation to that really important piece of legislation?

**Ms HALL**—A good point.

**Ms Colbert**—I feel very strongly that, if we are going to engage employers in giving people with a disability a fair opportunity in employment, there are some steps. One of the steps is certainly letting employers know of their obligations. In my current role, in aiming to encourage and inspire businesses to give people with a disability an opportunity, it is very difficult because they do not know what they do not know. I can give you an example when I met with an ACT government department. I said, ‘It’s really important that an organisation take a strategic view towards disability.’ They responded, ‘We’re going to deal with disability next year.’ I said, ‘You do need to think about it within your planning.’ They said, ‘No, we’re doing our web site now.’ I said, ‘Are you going to make your web site accessible to people with a disability?’ They said, ‘What do you mean?’ They had no idea that, in fact, part of having an organisational approach to disability would mean that their web site that they were going to have their jobs on could be accessed by a person with a vision impairment.

In relation to the comment, ‘We’re doing disability next year; we don’t need to know it now because we’re focusing on this other strategy,’ and to businesses not understanding organisational implications—often a business will think, ‘That’s about giving a few people a job’—our response to disability needs to extend well beyond giving people a job. It is about making the web site that people might apply for a job on accessible to those with a vision impairment. It is about ensuring that workplaces are barrier free. I went to a meeting at the New South Wales Department of Planning, which was in a brand new building. It was maybe only three months old. In their kitchen, off the seminar room—and they were very gracious in lending us the seminar room for the day—the tap was not accessible for a person who was a wheelchair user. Understanding disability as it relates to business is about making it easier from many perspectives. It does not take any effort to move a tap from the back to the side of a sink, and it makes it easy for everybody. It is about putting security accesses on doorways at convenient heights—often departments assume that everybody is five-foot-10—so staff can swipe their security passes.

It is about making it easy for people with a disability to access work environments but also about making it easy for business to understand how they might do that. I feel that in Australia very little effort has been put towards that and that, as a result, many people with a disability do not have high aspirations for employment. We do very little to encourage people. In the media we still define people with a disability as either Paralympic superheroes or down-and-out people who are in need of charity. The truth is that those in the middle part of that curve are people just like you and me, who want to have the same opportunities in access to employment and skill development. For example, 15 per cent of Australians participate in vocational education and training but only three per cent of people who have a disability do. In our experience over the last three years in assisting a large organisation to attract candidates with a disability, of the hundreds of jobs that were promoted to people with a disability fewer than 10 per cent had applications, because the skill set of people who have a disability is not meeting the skill requirements of employers. We also know that, whilst 90 per cent of graduates without a disability have achieved their destination within four months of leaving university, only 65 per cent of graduates with a disability have. So there are many complex issues that we are not addressing, because of lack of knowledge and lack of information around disability.

**Ms HALL**—Do you think that the environment that exists at the moment—with the Job Network providers and various other organisations, where it is a much more competitive market, as opposed to the job market that I worked in previously—advantages, or disadvantages, people with disabilities? If so, how? Could you comment on things like disability review panels and how they are linked into the employment network? I noticed that you talked about workplace modifications. Could you touch on that too?

**Ms Colbert**—Let me start with the employer perspective. If you have a willingness to extend your recruitment process to attract job seekers with a disability then you have to understand that there are two systems: there is the FaCS/CRS system, and there is the Job Network system. There is not a link between those systems. For example, on the Australian Job Search site there is no way that an employer can say, ‘I am seeking to attract candidates with a disability,’ whereas under the FaCS/CRS system an employer can lodge their vacancies to attract candidates who have a disability.

**CHAIR**—Why can’t they do that in the first system?

**Ms Colbert**—Because DEWR do not want to do that.

**CHAIR**—Is that because of allegations of discrimination?

**Ms Colbert**—No, I think it is a question of whether they think that would be a good thing to do. It is a good thing to do for Indigenous people, but it is not a good thing to do for people with a disability!

**Ms HALL**—You could just word the job vacancy as ‘people with disabilities are welcomed’.

**Ms Colbert**—That is right, or you could just have a tick-a-box so that when you as an employer lodge the job you say, ‘I would like to attract mature age workers, candidates with a disability, Indigenous people,’ and so on, and you could choose to tick or not to tick that. Not ticking it does not constitute discrimination; it is just not taking a proactive step, so I do not

think there are any legislative problems. It is not only that: within the Disability Discrimination Act you can positively discriminate towards people with a disability. The job seeker with a disability has to be in either this camp or that camp—streamed by the panel—and never the twain shall meet, and for an employer it is not necessarily convenient to go to two systems. Quite honestly, if you are in a larger organisation and you need to fill a vacancy you do that in the quickest way you can; you cannot tiptoe around government systems. We have two pools of job seekers with a disability, and that is very difficult for employers to navigate. Why would an employer care which portfolio was funding the employment support? It makes absolutely no sense whatsoever to an employer.

**CHAIR**—If I were a disabled job seeker, where would I typically go? What is the evidence there? Would they typically go to the Australian Job Search system or would they go to the FaCS system?

**Ms Colbert**—You would have been streamed. You would have gone to Centrelink; you would have been asked some questions and you would have been streamed in one of those directions. That is okay for you because what that attempts to do is say, ‘I can see that you need this level of support, Phillip, and this is the best place for you,’ but to an employer it should be seamless.

**CHAIR**—That makes sense.

**Mr WILKIE**—You are saying that you cannot put the jobs on one system and then on the other system. In order for Job Network providers to get paid, they would have to have their vacancy logged on their system. Are there any strategic partnerships out there with the two systems working together? For example, you could go out and find someone a job, then go to a Job Network provider, log that vacancy and then have them fill it so that they would get the payment and support.

**Ms Colbert**—So that the Job Network provider will get the payment.

**Ms HALL**—Or a combination of the two.

**Mr WILKIE**—No, it would not be if you had the one payment, but I would have thought that the system would allow for the organisation working under the other system—

**Ms Colbert**—The FaCS system.

**Ms HALL**—You could combine the two.

**Mr WILKIE**—to get paid by the Job Network provider for getting the position.

**Ms HALL**—That is exactly right.

**Mr WILKIE**—They should be able to do that as a partnership.

**Ms Colbert**—But the FaCS system does not have the licence.

**Mr WILKIE**—They would not need to subcontract.

**Ms HALL**—Say, if a person went through CRS and then went to where Kim mentioned.

**Ms Colbert**—My understanding is that that system does not typically operate within the environment and it would be frowned upon by the Commonwealth as double dipping.

**Mr WILKIE**—Because they are only paying the one payment to the one organisation, but then it could subcontract that position out?

**Ms Colbert**—Yes.

**Mr WILKIE**—I think there is scope. It would be interesting to check that out.

**Ms HALL**—I think so, too.

**Ms Colbert**—The FaCS system is a completely different payment system to the Job Network system.

**CHAIR**—We will get that checked out by the secretariat.

**Ms VAMVAKINOU**—You say here that there are approximately 500,000 people in Australia with a disability who are ready, willing and able to work. In an answer to a previous question the committee was told that by 2020 there will be 500,000 jobs available which no-one will be able to fill. I guess the question is: what is going on and who is ultimately responsible?

**CHAIR**—It is already fixed.

**Ms VAMVAKINOU**—Is it? There you go; we could fix it today.

**Ms Colbert**—You will just have to do something about the skills sets.

**Ms VAMVAKINOU**—It really is about attitudes, isn't it? Have we peaked in our attitude towards encouraging people with disabilities into the work force, as an acceptable part of the work force, or are we declining in our tolerance or understanding?

**Ms Colbert**—No, I think we are getting much better.

**Ms VAMVAKINOU**—Are we getting better?

**Ms Colbert**—I think we are getting much better. But while our attitudes are getting better, our systems are getting worse. Let me give you an example, and I will use one that I know very clearly. Whilst a large organisation is keen to recruit people who have a disability, it may outsource its entire recruitment process to a particular recruitment organisation. It might have six steps to its assessment. It may have a role-play in front of a range of people; it may have computer testing and it may have a telephone screen. To be considered for the job, a person needs to be successful at carrying out all of those assessment tasks.



Many people with a disability are disadvantaged with those assessment procedures. Whilst the aim of the employer is to recruit people with a disability, the individual hiring manager is keen to see the assessment test results, to look for the best fit for that job. So, whilst our attitudes are good, a lot of the time our assessment strategies are disadvantaging people who have a disability. That may also be the case for web site applications. If you have to follow a particular format on a web based application to apply for a role, you may not have an opportunity to tell a story. I will give you an example. I met a fellow a couple of months ago who had been studying law for 10 years, which is a long time to be studying law. He was doing his professional legal training step prior to looking for employment. He had sent out quite a few resumes and there was no interest. Some of the marks in his early degree were just passes, so his resume would be culled.

However, when he tells the story that when he was 16 he was involved in an explosion and that he is blind, has a facial disfigurement and that, because no university in Adelaide would provide him with the level of support he needed, he had to leave to study law at the University of Sydney and be away from his family with no support only two years after his accident, the fact that he has taken 10 years to achieve his law degree suddenly takes on a new dimension. You start to get a sense that this is a person with perseverance, strength, real character and courage; as opposed to when he sends his resume in a standardised format on a web site application. If you have an application process that can tell a story, your attitude may be very different to, 'Okay, three passes—out!'

**CHAIR**—I have a problem with some of the things you are saying—not with the facts but with where employers are going. I come from the human resources profession, and what you are saying to me about the assessment tools and the various processes, including the screening process as well as the example you just gave, indicates that the very profession that should understand human behaviour is the one making the selection and it is omitting to look at those details. I can understand a managing director not having a clue about what is appropriate or not appropriate but, as you say, they tend to outsource the function to professionals who are dealing in human resources on a regular basis. What are they doing and what input have you had into groups such as the Australian Human Resources Institute, the Australian Psychological Society—or whatever else it may be—in order to look at interviewing and recruitment processes?

**Ms Colbert**—As we speak there is a diversity training module being developed within the national training system that does not even mention disability. There is no training for professional development regularly offered by the Australian Human Resources Institute or by the Recruitment and Consulting Services Association. We would clearly like to do that; we think that is fundamental to bringing about change. But our capacity to create change is very limited: we are a very small organisation and we can see the structural changes that are required.

Let me give you an example that is particularly important. Government departments let contracts for recruitment suppliers all the time. Yet even organisations such as Centrelink do not have strong clauses in their contracts with their recruitment suppliers asking those suppliers to demonstrate their competence at recruiting, interviewing and selecting people who have a disability. So at the contractual level people with a disability are not making it to the agenda. We did some research last year on nine Commonwealth government tenders. This is where there is an opportunity to bring about change. One of the tenders we looked at was with the department for information management. It had some question about how the tenderer would be able to

respond to meeting the needs of people with a disability. The eight others did not have any mention of people with a disability. They mentioned Indigenous issues—asking question such as: how will the tenderer respond to Indigenous Australians—and women but not people with a disability. One of these departments was the Department of Family and Community Services, who have overall responsibility for the Commonwealth disability strategy. So at the most basic level people with a disability are not hitting the employment agenda. Structural change is really important to bring about long-term employment prospects.

**CHAIR**—Yes. I noted that in your submission it says:

... despite the public sector's stated aim of improving participation of EEO groups, there has been a steady decline in the employment of people with a disability within the Australian Public Service ...

**Ms Colbert**—Exactly. It has declined in every department.

**CHAIR**—So it is a stated aim yet there has been a decline?

**Ms Colbert**—Exactly.

**CHAIR**—Do you put that down to what you were just saying?

**Ms Colbert**—I could put it down to a range of things. Obviously there has been a decline overall in the number of people in the Commonwealth public sector. There has been a change, a shift, in the duties that those public servants undertake. Having said that, we all make choices about the way that duties are carved up within organisations and when we outsource activities we also have a responsibility to ensure that the company that provides that outsourcing reflects the diversity aims of our country and of the department which they are working for. For example, if the Department of Defence outsources huge catering contracts then why shouldn't there be a clause in that contract to ensure that the contractor emulates the diversity aims of the Commonwealth public sector? So if the departments are aiming at seven per cent, why couldn't they say, 'And we expect Eurest to employ seven per cent of people with a disability within the contract'?

**Ms VAMVAKINO**—We were breaking down the barriers in the eighties and so forth. Now, as we move past the year 2000, we are moving away from this whole notion of explaining the value of people with disabilities in the workplace. I am just not convinced that we have moved away from that. It is not just a structural issue, but rather a general employer attitude and a societal attitude. That worries me because unless we can address the attitudes it does not matter what structures you put into place—they are going to reflect the attitudes. That is really why I asked you about that.

**Ms Colbert**—I totally agree.

**Ms VAMVAKINO**—There is a real paradox here. There are 500,000 jobs and no-one to take them, yet 500,000 people want a job. We have a real problem if that is what is going on out there in the workplace.

**Ms Colbert**—The thing is that we must invest in the long-term view. You do not change attitudes overnight.

**Ms VAMVAKINO**—But I thought we were. We were; we were breaking down prejudices, weren't we?

**Ms Colbert**—We are trying.

**Ms VAMVAKINO**—So we are failing? Who is to blame? Is government to blame—not just a specific government but all governments? What is going on?

**Mr WILKIE**—There used to be advertisements.

**Ms Colbert**—I remember all of those; they do not exist anymore.

**CHAIR**—There is a Prime Minister's award to employers.

**Ms Colbert**—They are thinking of scrapping that, I believe.

**CHAIR**—But it is there at the moment—so there is that government support for it.

**Mr DUTTON**—I want to take you back to the disability support pensions argument and the rapid increase that we have had over the last decade. I know that you have spoken about this previously. The evidence is there that a number of people have joined the disability support pension queues because they are trying to avoid the work tests under Newstart. Do you think those people are diminishing the cause of people with a genuine disability? Is that perhaps one of the reasons employers shy away from employing somebody who comes from that disability support pension background—that is, they may have a fear that that person is not legitimate in whatever their perceived disability may be?

**Ms Colbert**—I think employers have a fear of additional risk. A concern would be that, if a person has experienced a workplace injury that has led to them having a time of unemployment, then they are an additional workers compensation risk to the employer's business.

**Mr DUTTON**—They would be lucky to insure some of them.

**Ms Colbert**—That is right, so that is a genuine risk. But clearly for every risk there are strategies around it. My take is that risk is assessed on the skills and capacity of the individual with a disability, the workplace itself and also adherence to safe work practices. Risk is assessed within those three areas. You cannot blanket assess risk. Many employers may be throwing the baby out with the bathwater if they say, 'We don't want people with a disability because we think they represent additional risk,' because in many cases that is not the case at all.

What I can say—and I think I did say this in my submission—is that SBS very generously made us a video and we have aired that around the country as a community service announcement. From that—and whenever there is any kind of media coverage—we have had many people with a disability phone to tell us their story and say, 'I would love to get a job.' Some people stand out in your mind. I had a fellow ring up one day who had had a motorbike

accident. He had had lots of operations on his leg, and he eventually lost the leg. I wanted to say to him, 'You've only lost a leg,' thinking how much other capacity he had. I did not say it, because I thought it would be a bit insensitive given his precarious emotional situation. But it is about matching the person's skills and ability to the job and taking on risk within that environment, and that is very manageable when you know how. But for many employers, and for recruitment agencies that we deal with, the thought of even being able to know which question you can legally ask a person with a disability is pretty daunting. When they are in that situation, they are there as people with their own attitudes and beliefs, as well as representing their organisation.

**Mr WILKIE**—Years ago there used to be a lot of incentives to employers to take on people with disabilities or in other categories of disadvantage. Are those subsidies for employers still there for people with disabilities?

**Ms Colbert**—No, not really. This is an area of great confusion. Within the FaCS funded services, if a person was in their old funding system, there is an opportunity for an employment incentive but, if they are within their new funding service, there is no opportunity for incentive. However, within the DEWR Job Network system I believe there is still a \$5,000 incentive to take on an Indigenous job seeker.

**Mr WILKIE**—But not for a person with a disability?

**Ms Colbert**—That is right.

**Mr WILKIE**—I understand that, under the Job Network system, part of the payment that providers receive is supposed to be used for incentives such as training or possibly an employer incentive. Is it your experience that Job Network providers are passing that on to employers or training providers, or do they tend to pocket it?

**Ms Colbert**—Under the new system that started on 1 July, it is called the Jobseeker Account and it can be used for things for the job seeker to help them reduce barriers. To my knowledge it is not a cash payment to an employer. I think we have to be very careful about offering those incentives. To me, to say, 'Here's a job seeker with a disability. I'm sure that he can do the job—he'll be just fantastic—so here is \$5,000 for taking him,' sends the wrong message. That is the wrong system for everybody.

**CHAIR**—Why? We have gone to your solution.

**Ms Colbert**—It is a mixed message. It says, 'Here is a person we truly believe is competent to do the job,' but why are you giving the employer \$5,000? If you said, 'We understand that there may be some modifications required and we will fund those,' that would be fine and we should do that. But to say that a person is completely competent but then provide a financial incentive that does not come with any other job seeker does not sit comfortably. What would sit more comfortably is a reward system of perhaps a tax credit for organisations that have a strategy in place and implement that.

**CHAIR**—I was going to ask you about that. You have made that one of your recommendations but you have not touched on it yet. You refer to the United States experience

as well. Do you want to talk a little bit more about why you came up with the recommendation? There is nothing else in your submission about that except in the recommendation.

**Ms Colbert**—It should not be the only one—

**CHAIR**—It is not the only recommendation, but there is no other reference to tax input credits in your submission except at the recommendation stage.

**Ms Colbert**—Yes, that is right. I suppose, thinking about it, we have invested previously in incentives and all kinds of enticements. While they relate to an individual job seeker, we should be rewarding structural change. Organisations that can demonstrate that an arbitrary percentage—three per cent or five per cent—of their employees are people with a disability should be worthy of tax input credits as a genuine incentive to ensure that they see that as valued within the Australian community. You get what you reward. There are no rewards other than the Prime Minister’s Employer of the Year Award. If governments are giving employers the message that it is really important that we include people with a disability—it does not matter if you do not, but if you do that is good—we need to have a stronger incentive and a structural incentive base for that.

**Ms HALL**—How many employers are part of your organisation?

**Ms Colbert**—As at 31 December, when we were funded and there was no cost to membership, we had about 60 members. As we are now asking members to pay, given that we are three weeks into the new year, I can tell you that we have at least three!

**CHAIR**—Value add, Suzanne! I thank you for coming in and giving evidence. It is certainly very interesting to hear from you. I am not sure that we have got too many other submissions on the disability sector, so yours is unique in that regard. Thank you very much.

**Ms Colbert**—If I can get the information about the demographics, the break-up of the people who went on to DSP in that time, I will get back to you.

**CHAIR**—That will be good. There were also a couple of other things you have raised that we are going to check out. Thank you very much.

[4.09 p.m.]

**SAUNDERS, Professor Peter Robert, Social Research Director, Centre for Independent Studies**

**TSUMORI, Dr Kayoko, Policy Analyst, Centre for Independent Studies**

**CHAIR**—Today's proceedings are formal proceedings of the parliament. Although the committee does not require witnesses to give evidence under oath, you should understand that these hearings are legal proceedings of the parliament and warrant the same respect as the proceedings of the parliament itself. Giving false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The committee prefers that all evidence be given in public. However, if at any stage you wish to give evidence in private, please ask to do so and we will consider your request. I invite each of you to make some preliminary comments about the issues that you think are important to this inquiry, before we move to questions and general discussion.

**Prof. Saunders**—I should explain that Kayoko has been working for 12 or 18 months now on issues about labour market reform. I have been looking mainly at welfare reform and more recently at tax reform. Our submission actually covers those three areas. I suppose the key message that I want to put across is that, in our view, changes are needed in all three areas and in all three areas simultaneously. It is no good working on just one of those areas and expecting to get the situation right. I think we need to work on all three.

Very briefly, the argument is that, if you want to increase the rate of participation in paid work, you obviously need to make sure that there are jobs available for people to do, particularly at the lower end of income and skill, because that is where the real problem of jobless households is. Generating more jobs implies to us the need for further labour market reform, which we talk about in the submission. I will say a bit about that. Secondly, you need to improve the incentives and rewards to people who do work. That implies changing the tax system and making quite a radical change to the tax system. Thirdly, through welfare reform, you need to nudge into work some of the people currently on welfare who need not be there. So we need labour market reform, tax reform and welfare reform.

In terms of labour market reform—and we say this in the submission—I personally still find it quite extraordinary that failed policies that have been around and around the block, not just in this country but overseas as well, continue to be put on the table in discussions like this as if they were viable options. What I have in mind there is policies like subsidies to employers. We have heard a bit about that. Maybe there is a case for subsidising employers in disability, but personally I do not think so. Maybe there are specific cases where those kinds of subsidies can work. But, as a general strategy, they certainly do not work. The OECD itself in the last 12 months has come out with quite damaging evidence from throughout the OECD pointing out how subsidies to employers are grossly inefficient and have very high displacement effects. You end up either giving a subsidy on a job that would have been created anyway or subsidising one person's job at the expense of another person's job.

Equally, the evidence from the OECD about training is quite unequivocal. There is a strong case for training for one group of job seekers and that is mature age women returning to the

labour market after having children. The reason it works for them is that very often they have some skills and the skills have gone rusty. They are highly motivated to get back in and therefore they make use of the training that you are offering. At the other extreme, for example, training for kids who have just recently left school, quite possibly with no qualifications, is absolutely absurd. When young people have gone through 10 or 12 years of compulsory education and are completely alienated as a result, and you then offer them more training as the solution to their problem, it is crazy and the OECD shows that it is crazy. It just does not work.

We suggest that those kinds of labour market interventions are not the way to go. Nevertheless, we do need to do something, because there is evidence that, given the booming state of this economy in the world and although the official unemployment rate is only 5½ per cent, the proportion of people out of work, unemployed or disabled or in other capacities is too high. What we suggest in the submission is that we need, for example, to ease up on the unfair dismissal laws. The Melbourne institute, which has, as far as I know, no political axe to grind, has estimated that 77,000 new jobs would be created in the small business sector if the reforms that are currently log jammed in the Senate were allowed to go through. So we need those kinds of reforms. We need to look at the minimum wage, which is the second highest in the OECD behind France. If you want French levels of unemployment then go for French levels of minimum wage. I will come back to the quid pro quo in terms of the possibilities of freezing the minimum wage, for example, in a moment.

We have also talked about the need to look again at the award system requirement; it should take into account local and regional variations in labour market conditions. It is absurd to force employers in an area of relatively low housing costs and high unemployment to pay the same wages and conditions to unskilled workers that they would have to pay in an area of high housing costs and low unemployment. We wonder why we have an unemployment problem in rural and regional Australia. We need serious thinking about labour market reform.

Also, and in a sense just as positively, we need to do something about rewarding people properly when they are in work. I think it is staggering to realise that back in 1980 the tax-free threshold—that is, the point at which you started paying tax on your earnings—was just over \$4,000 and that wages have gone up 3½ times since 1980. That means that the then \$4,000 would now be worth about \$14,000, yet our tax-free threshold now is only \$6,000. It has nowhere near kept pace with the rate of inflation. The basic principle that we think should prevail in the tax system is that people should be enabled to earn their basic means of subsistence before you start to tax them.

The problem we have at the moment with the interaction of the tax and welfare system—and this is recognised by everybody who looks at it—is this wretched problem of churning. There is a whole group of people, a whole band of income, from whom we take away with one hand money in tax and hand it back with the other in one form of benefit, allowance or credit. That inevitably leads to these very high effective marginal tax rates as people start to improve their situation. Because you are increasing the tax and taking away the benefits at the same time, we end up with these 70 or 80 per cent effective marginal tax rates.

In the long term the solution to that is to try as best you can to get to a point where anybody who pays tax does not get a welfare payment of any form and anybody who gets a welfare payment does not pay tax. It may not be absolutely practical in all cases but, as a principle to aim

at, it is the one we should be going for. The first step to that is to increase tax-free thresholds at least to a point where, for any given type of family, the tax-free threshold is above the current welfare floor. If our welfare floor is what we define as a subsistence income then we should have a tax-free threshold that is at least that. For example, the lowest level of welfare payments a single person can get is around \$12,500. Instead of having a tax-free threshold at \$6,000 we should have a tax-free threshold that is at least above \$12,500, and ditto for each kind of household type up the scale. Whatever the welfare level is, that is where the tax-free threshold should be. That is the tax incentive.

Concerning welfare reform, the three big areas that have blown out over the last 25 years are payments to single parents, payments—as you were hearing just now—to people on disability support pension and payments to the unemployed, particularly the long-term unemployed. The submission puts forward proposals for each of those three. Basically, on single parents the proposal is that we should follow almost the whole of the rest of the developed Western world and expect single parents to go to work part time once their youngest child goes to school, which is what virtually every other country does. Every country in Europe bar Britain does that. Bob Gregory at the ANU has estimated that single parents on benefits are spending on average 12 years on benefits; you become unemployable after 12 years out of the labour market. You have to cut in the work expectation much earlier than that.

To go to disability support pension, I listened with interest to your previous witness, but I think we have to confront what again everybody knows: a large chunk of the people on disability support payment are not in any meaningful sense disabled in the sense of being unable to work. The number on the disability support pension has gone from 220,000 in 1980 to 650,000 or 660,000 today. That is an increase of more than 2½ times. We have not had a 2½ times increase in the number of people incapable of working. Again, Bob Gregory at the ANU has shown it. There has been a massive slippage out of unemployment into disability support pension. We need to tighten up the eligibility for disability support pension.

Finally on unemployment, half the people who lose a job get another one within eight weeks. The problem in unemployment is the smaller number of people who are unemployed for one, two or three years. Again, we have known from studies done back in the thirties in South Wales about the corrosive effect of long-term unemployment on fatalism and the ability to work. Faith in oneself, motivation and so on—all of that goes. We have argued that that is the case for introducing time limits similar to those in the US, for example, where the unemployment insurance time limit is 26 weeks. You then have a back-up, a fallback position. A lot of European countries have time limits as well; it is just that they tend to be much longer. What you find when a time limit is built into the system is that, as the time limit approaches, people become a bit more realistic about what kind of job they might go for or put more intensity into their job search and there is a boost in the number of people coming off unemployment around the time of the time limit. We would have the same thing in Australia if we brought in time limits. That, in a nutshell, is what we are proposing. I am going to answer questions on the welfare and tax stuff and Kayoko will field the labour market.

**CHAIR**—And by no means have you been controversial!

**Prof. Saunders**—It is all fairly commonsense stuff.



**CHAIR**—Dr Tsumori, would you like to add anything?

**Dr Tsumori**—I have nothing to add at this stage. We can move on to questions.

**CHAIR**—There are a lot of things in your statement, Peter, which we can engage in. I will start with an introductory question on the tax-free threshold, as I am interested in that. We had witnesses earlier today from the Australian Industry Group who talked about the effective marginal tax rate as opposed to the threshold. They argued against that being reduced as a way of improving worker participation.

**Prof. Saunders**—What exactly were they arguing?

**CHAIR**—That reducing the effective marginal tax rate would not be a good strategy.

**Prof. Saunders**—I have never heard anybody say that we do not need to reduce the effective marginal tax rate. The effective marginal tax rate refers to the total amount that you lose in every extra dollar you earn both through paying tax and through loss of benefits. The effective marginal tax rate can be very high.

**CHAIR**—They certainly argued to reduce the higher rate and the brackets overall but not the marginal tax rate.

**Prof. Saunders**—We have not costed our proposal because we do not have the means to do so. From a back-of-the-envelope calculation you can tell it would be expensive, and you would have to go there in stages. I think that is something you would set yourself to do rather than do it all in one swoop. If you have to take a choice between reducing tax rates and raising the threshold to get people out of tax, my emphasis would be on the second of those rather than on the first. Given that resources are tight, let us raise the thresholds to try to get to the point where people are not paying tax until they have cleared subsistence—which means that you do not have to give them welfare payments. That is such an important principle. I think that the top rate of tax is too high. By international comparisons there is no doubt: it is higher than Germany, it is higher than the States and it is higher than most of our competitor countries. More importantly, though, the threshold for it is the lowest I can find in any OECD country. At one and one-third of median income, to hit the top rate of tax is extraordinary.

When you look around the European countries—the countries we think of as the high tax, high spend countries such as Germany and France—you see that they are all up around the \$80,000 to \$90,000 for the top rate of tax. We are cutting in at \$62,500. So I think there is a strong case. The trouble is that this has now been running for 30 years. We have been letting the tax thing drift for 30 years. We have been letting the welfare thing drift for 30 years. I come along here and say, ‘Here’s the blueprint, guys,’ and you say, ‘It can’t possibly be done.’ But 30 years ago we were doing it. What we have to do is start clawing our way back. It will take a long time and it is expensive. I do not like to use the word ‘expensive’ because expensive implies that it is costing you money and it is not, because it is not your money anyway. It just means that you will have less of our money than you have had in the past, and you will have to find a way to live within that.

**Mr DUTTON**—Professor Saunders, thank you very much for your evidence. My colleagues will not be surprised to hear that I agree with a lot of what you have had to say. There was a lot of commonsense in it. Obviously, the government has felt a lot of frustration in trying to implement some of what you have suggested. We have been unable to get it through the upper house. In particular, you talk in your submission about unfair dismissal laws currently costing us about 77,000 jobs. Where does that figure come from? I know that you have it sourced there but is that a current figure or has it grown since that study was done?

**Prof. Saunders**—It comes from the Melbourne Institute of Applied Economic and Social Research, which is the outfit down at Melbourne University run by Professor Peter Dawkins. They are one of the few academic units in this country that has the capacity to model these kinds of things. So it has come out of Melbourne institute modelling. Kayoko, do you remember the year or any more details about that?

**Mr DUTTON**—It was in 2002 that the study was done.

**Dr Tsumori**—Yes, the study was done in 2002 but I do not recall exactly when the study was done. It is basically an employer survey done through a Yellow Pages survey or something like that.

**Mr DUTTON**—Business survey.

**Dr Tsumori**—Yes, business survey.

**Mr DUTTON**—I am just trying to get an understanding of whether or not that is—

**Prof. Saunders**—I misled you because I talked about modelling. Obviously it was not done by modelling; it was done by survey.

**Dr Tsumori**—Yes, by survey.

**Mr DUTTON**—I am just trying to get an idea of the quantum of jobs we are talking about and whether that has increased since then. The other area that is of interest to me is the area where you talked about the earned income tax credit. Can you just expand a little bit more on that? I know in section 2 of your submission you spoke about it. Can you outline a little bit more about that?

**Prof. Saunders**—It is a crunchy issue, this one, and I have a lot of respect for the so-called five economists—one of whom was Peter Dawkins from the Melbourne institute—who three or four years ago now sent that letter to the Prime Minister. What they were saying was that clearly we have to freeze the minimum wage if we want to generate more jobs at the bottom end, which I think it is essential that we do. The quid pro quo for that, they said, is that you could bring in an earned income tax credit along the lines of the one the Americans have had since the late seventies and the one the Blair government brought in in 1997 in Britain.

An earned income tax credit is basically designed to try to overcome these high effective marginal tax rates. So, as you start improving your income and you lose benefits and you pay more tax, then on top of that there is another credit that you get back again. In America it tends

to be paid in a lump sum at the end of the year; in Britain people tend to claim it through the wage packet on a weekly basis.

When they first put this proposal out I thought it was a thoroughly good idea. Then we looked at it more. For example, Frank Field, who was the Labour Party's Minister for Welfare Reform in the Blair government, has become a virulent critic of tax credits on the grounds that what they have done in Britain, effectively, is that—on Field's calculations—83 per cent of working families are now reliant on payment from the government to prop up their income. Field quotes workers in Britain saying, 'This now means that it is now inconceivable that I will ever get to a point when I am earning enough money such that I am providing for my own family and for myself. I am constantly going to have top-ups from the government. I can't get out of this anymore.' An earned income tax credit in the end is simply another welfare transfer; it is simply another income support transfer under another name.

The other problem with it, which Dawkins and the five economists recognised, is that you solve the problem of poor incentives at the bottom end of the income distribution only to bang it in halfway up the income distribution because at some point the tax credit itself has to phase off, just as the welfare benefits phase off. You shift that crunchy point from people who are earning \$20,000 to \$35,000 a year up to people who are earning \$35,000 to \$45,000 a year. They are the ones who now suddenly are facing the high effective marginal tax rates as the earned income tax credit phases out. So all we are doing is bandaid solutions. All we are doing, which is what we have been doing for 20 or 30 years, is saying, 'Oh, here is another problem: stick another benefit on it.' To counteract the effect of all the other taxes and all the other credits and all the other benefits that have got us in this mess in the first place, we put another benefit on top of that.

**Mr DUTTON**—So you are suggesting that the raising of the tax threshold is a more sustainable alternative than the credits?

**Prof. Saunders**—Yes. I have talked with Dawkins and others about this, and they say, 'Yes, you are right in principle that that would work, but it is too expensive.' To my mind that is a political judgment: it is for politicians to say, 'We are going to have to find the money to do the thing properly,' which is the raise the tax threshold solution.

**Mr DUTTON**—As with any of these scenarios, are you not just shifting—and I understand and I probably agree with what you are saying in essence—the cut-off point? The people either side of that are the real—

**Prof. Saunders**—No, because the beauty of pushing up the tax threshold is that it is a help that does not get phased out as you start improving your income. This is what critics of my position sometimes throw back at me. They say, 'Well, you are not just helping low-paid workers; you are helping everybody.' And it is true: you are helping everybody by raising the threshold. The problem is means testing. The reason that we get these crunchy 70 or 80 per cent effective marginal tax rates is because we have a means tested tax and welfare system. The two things together penalise people when they start improving their income. Logically, the only way to stop doing that is to have a non-means-tested help, which is the tax-free threshold which goes to everybody. As I say, we used to do it. Go back 30 years—less than 30 years—to 1980 and look at what the tax-free threshold was. In today's terms, it was \$14,000 for a single person.

**Mr DUTTON**—Thank you.

**Mr WILKIE**—On the one hand, you have said that the subsidies system does not work, but I guarantee that, if you actually rang employers and asked whether they would increase the number of people they employed if they received a subsidy, employers would largely say, ‘Yes, you give us a payment and we’ll increase the number of people.’ But what you have said is that really the jobs would have been there anyway and you would not really be increasing the number of overall jobs. On the other hand, you have quoted the unfair dismissal laws and said that, if we were to do away with unfair dismissal laws, we would free up 77,000 jobs. Again, that is based on a survey of businesses where they were asked what would need to be done to increase the number of positions, where they said, ‘If you do away with unfair dismissals, this is what would happen.’ Really, you cannot have it both ways. Based on your argument, there are so many jobs out there, employers have to have people filling those jobs and the same number of jobs would be there with or without unfair dismissal laws.

**Prof. Saunders**—No, I do not agree with you: I do not think there is a static number of jobs. The number of jobs that are generated in the economy will depend on the conditions that you are setting for employers and for workers coming together in the labour market. The argument about unfair dismissal does not matter for big employers. For big employers, if you employ somebody and you realise that it is a mistake—they are not doing a good job and you need to get rid of them—and you have this laborious system that you have to go through in order to get rid of them where you might find yourself in court as a result, you can carry that cost. You can factor that cost in. You have a personnel office that has legal experts and so on. You are set up for it and you can also, in a sense, put up with one or two people because you have a big enough labour force to carry people.

If you are a small employer, none of that applies. I know, because in my previous incarnation in this country I actually was in a position of trying to employ people. We had discussions about it: ‘Can we somehow circumvent this problem? Can we get people in on a temporary basis or a casual basis?’ People complain about casualisation, but casualisation is partly an attempt by employers to get around some of these problems. It is a definite deterrent. If I, as a small employer with three or four workers, can get those workers to work overtime or can substitute machinery for a worker or whatever rather than take on additional workers, with the risk that I will not be able to get rid of them if it does not work out, then I will do the former and not the latter. That is a very different argument from the argument about incentives, wage costs or whatever. Sorry, what was the point you were counterposing it to?

**Mr WILKIE**—Subsidies.

**Prof. Saunders**—The subsidies issue is about this: do I need more workers? If you pay me a big enough subsidy, I will take somebody on but, as you say, the evidence is that even when I take somebody on I displace somebody else. What tends to happen with employment subsidies is that you say, ‘Here’s somebody who has been on the unemployment line for a year. If you take them, we will give you some money to go towards their wages.’ So if I take that person I simply do not take somebody else who has only been unemployed for three weeks, somebody whom I would have taken. There really is a lot of evidence about that. If you throw enough money at a problem, you will get some effect, but you can spend that money far more efficiently than on employment subsidies—and this really is the OECD advice. I am not an economist and I am not

an expert in this area; I just read what the OECD puts out from its experience across all of those 20-odd countries. That is very strongly the advice coming from the OECD.

**Mr DUTTON**—In your submission you say there are 750,000 people registered as unemployed and only 70,000 job vacancies. I am yet to find an employer that sacks or unfairly dismisses a valuable employee that contributes to their business. What sense would there be—and this is the argument that runs against our unfair dismissal laws—in a small business or a large business dismissing somebody who is an effective employee? It is just a nonsense.

**Prof. Saunders** —Yes, I agree.

**CHAIR**—I wish to take you to the time limitations on unemployment benefits that you raised. You cited the United States as one example. One of the counter-arguments that are made is that all that that would be doing is driving these people off the job-seeking queue, not necessarily into employment. What is your response to that? I would imagine there would be a lot of public opposition to that proposition.

**Prof. Saunders** —I am not sure that you are right on that. We commissioned AC Nielsen to do some survey work for us and—

**CHAIR**—We would be interested in that survey.

**Prof. Saunders** —This is one reason why we put in the recent Melbourne survey by the Brotherhood, which I think is a very good piece of qualitative research, in which they report on in-depth discussions with 60 or 70 long-term unemployed people. It is a most depressing report because what comes through is this overwhelming sense of people who have given up hope and given up looking. To say that you are taking people off Job Search at six months or a year is to ignore all the evidence about what Job Search means after six months or a year of unemployment. I am not saying it is so for everybody, but it is for a large number of claimants, and the longer it goes on the more true it becomes. The thing becomes ritualistic. It just becomes an irritant: 'I've got to go down to Centrelink. I've got to do this. I've got to fulfil that requirement or this requirement'.

Somebody—I cannot remember who it was—said that the best preparation for work is work. That is what has driven the American reforms through the 1990s with phenomenal success. In the end, it is this: stop messing about with intensive assistance or training in literacy or numeracy; those things are all fine in their place, but you have had six months of that. Remember that before this proposal kicks in you have had six months of helping people, as intensively as you can, with job preparedness, Job Search and all the rest of it. If after six months they still have not got there, then I think they are entering the amber/orange period, the danger period, of long-term dependency stretching out as a real prospect and the point is to have a cut-off at that point. You do not cut them off without any help whatsoever. You offer them Work for the Dole, in our proposal, as the best preparation for work is work. You get them back into work—any kind of work, it does not matter what. You get people back into it because the most desperate thing that people lose through long-term unemployment—and again I mention the research by Marie Jahoda and all the social psychologists of the 1930s which showed this—is time-work discipline. It is the sense of setting an alarm clock, getting up and going somewhere—being prepared in that way. That mental mind-set just goes and you do not get that

back by messing around with intensive assistance or Job Search training or any of the other things, worthy in themselves as they are, for six months. Let us have a cut-off; you cannot just let it go on.

**Mr WILKIE**—Do you know that we have had that cut-off in place for two years and that it has improved? We do cut people off after they have been on intensive assistance through Job Network for a certain period of time. They are cut off and they have to start the whole process again. That has been in effect for about two years.

**Prof. Saunders**—What does ‘to start the whole process again’ mean?

**Mr WILKIE**—I do not know if they lose their benefits, but they do not actually get any assistance. They have to start as if they were unemployed. They have to start the whole process again. They have to do Work for the Dole programs as part of that. But that has not actually improved the number of long-term unemployed. In fact, the number of long-term unemployed is getting worse.

**Prof. Saunders**—Yes, it is. I agree.

**Ms HALL**—I do not quite understand either. Your proposal says, ‘Give people Work for the Dole.’ Does your proposal include that any benefits being paid to people be stopped at the end of that six-month period if they do not get back into the work force and that eventually they receive no government assistance?

**Prof. Saunders**—Can I answer that by referring first to the American debate?

**Ms HALL**—Yes.

**Prof. Saunders**—The Americans have brought in time limits on welfare.

**Ms HALL**—Yes, I am aware of the American system.

**Prof. Saunders**—There is a pretence that, once you have exceeded your time limit, there is nothing else there. Elwood, an adviser to the Clinton regime, said at the time—and he has been saying it ever since—that time limits are important. It is important to have a notion that this just does not go on indefinitely; there is a point at which you have to do something. But it is unrealistic; nobody actually believes that you are just going to cut people off and give them no support—and you could not do that.

**Ms HALL**—You are not advocating that?

**Prof. Saunders**—No, I am not. If we accept that you need some time limit built into the system, what do you do when that time limit expires? Elwood says that you have to have some kind of government provided jobs until such time as people enter the labour market, and I think he is right. Why does it need to be paid at dole level rather than, say, minimum wage level? It is because, if you paid at minimum wage level, it again becomes a substitute for a job. This must not be a permanent solution. This must be: we recognise you need financial support; we are

offering you work in return for that financial support until such time as you can find a proper job.

**CHAIR**—So the government job is a community based government job? It will not be a public sector job obviously because—

**Prof. Saunders**—No, it would be an expansion of the current Work for the Dole process.

**Mr WILKIE**—But we are doing that currently with Work for the Dole.

**Prof. Saunders**—No, we are not. If you go into Work for the Dole, as I understand it—and I do stand to be corrected on this—it operates for six months, you come out the other end and then, as you say, you start recycling again; you go around the block again. That is not what I am proposing.

**Mr WILKIE**—I will explain what my understanding of the Job Network is; I am not sure whether it is still like this after the last round. You would be assessed, depending on your disadvantage. You would be offered a place perhaps for 12 months, with a possible six-month extension. At the end of that time you must go and do a Work for the Dole program or something else. Depending on the level of disadvantage, it may be 18 months, with a further six-month extension.

**Prof. Saunders**—Yes, that is right.

**Mr WILKIE**—Then again you would have to go on and do Work for the Dole.

**Prof. Saunders**—The dole then operates for six months.

**Mr WILKIE**—Yes, but then you would have to start again in order to accrue any credits for training or anything else.

**Prof. Saunders**—We need to look into this. It is not my understanding that people get cut off from benefits at any point in that cycle.

**Mr WILKIE**—No. I am talking about the training guarantee money, the other type of money that has been put aside; people have to start the cycle again after that time.

**Prof. Saunders**—To try and move it on a little, I think it is genuinely the case that there will always be a proportion of the population who are literally unemployable and who are out of the work force. It is a real problem to know what to do with those people. In a sense, some of this displacement into the disability support pension I suspect is people who are simply unemployable. But I think there are a larger number of people currently sloshing around in that system, being recycled, shifting from one benefit to another or getting to the end of the benefit and going back to the start again and so on who actually are employable.

In our submission we quote research from the ABS as well as from the Productivity Commission. The ABS research shows the unrealistic expectations that people very often have. I understand; if I lost my job I too would say, ‘Well, I want a job that pays at least as much and

has the same kind of status and so on as the one I have just lost.' Time limits cut in on that kind of unrealistic expectation; that seems to reduce very, very slowly without time limits. Without something on which to concentrate the mind, six months down the track I will still say, 'Well, I'm not taking that.' I am not saying that everybody is like it, but some people are like it and you have to get some action going on that.

**CHAIR**—The other controversial strategy you refer to concerns training. You mention that training only works, according to the OECD, for mature aged women going back into the work force.

**Prof. Saunders**—It has some effect on other groups, but that is the key group that it really works for.

**CHAIR**—That flies in the face of a lot of things we hear often. I was involved in the inquiry into mature age employment that this committee did in the last parliament. What clearly came out of that was that, because of the changing nature of the workplace and technological change, people really needed to be upskilled in jobs—and training was an integral part of that. Are you saying that that has a marginal effect?

**Prof. Saunders**—Given the rate of technological change, clearly people need to reskill and so on—very often within the job with on-the-job learning, on-the-job training and so on. I am saying that I think training is a bit like what Kim has been saying about cycling people through systems. We cycle people through training. It gets them off our hands for a while. We stick them through training, which a few of them will benefit from but which large numbers of them will not benefit from.

**CHAIR**—But is that not more a question of what training we are giving them rather than against training?

**Prof. Saunders**—No, I do not think it is. If you think I am being controversial now; let me be really controversial. Different people have different capacities. Some people have a very limited capacity for doing skilled work. Training is all about skilling people up. Some people will not get skilled very far. They do not have the capacity to do it, particularly if they are my age. If they have not got skilled up by their fifties, they do not have the capacity to get skilled up even if they once did. At all ages, we all have different levels of ability and capacity.

**CHAIR**—As a generalisation, that might be the case.

**Ms HALL**—I strongly disagree with you on the last point that you have made, Professor Saunders.

**Prof. Saunders**—It is a case of old dogs and new tricks, particularly for men. The first group that training really does not work for is youngsters coming out of school.

**Ms HALL**—There is qualitative research that shows that older workers can be taught new skills and can retrain and develop skills that are useful within the labour market.

**Prof. Saunders**—I would not doubt it.



**Ms HALL**—I think making that generalisation and assumption that you just did is, dare I say it, incorrect and based on a false premise.

**Prof. Saunders**—Qualitative research is useful in laying the groundwork for serious quantitative research. Serious quantitative research tells you, through the OECD—not just in one country but in 20-odd countries—that these training schemes, by and large, are a waste of money except for mature age women seeking to re-enter the labour force after raising children. These schemes are a terrible waste of money when thrown at teenage kids who are completely disillusioned. They basically need work experience; they do not need training.

**Ms HALL**—That is not what I just said.

**Prof. Saunders**—These schemes are, by and large, a waste of money for older males. They will work for some, but the return is very poor on training schemes for males of my age who are coming into those schemes from periods of unemployment; it just does not pay off. The problem is that we do not have enough jobs. We have been losing jobs—largely because of technology and partly also because we are pricing those jobs out through a high minimum wage. We are losing low skilled, low paid jobs. There is a section of the population which always used to do those jobs—and could still do them—but we are losing those jobs. It may not appear very politically attractive to go out and fight an election this year on the grounds that we want more low paid, boring jobs, but we do want more low paid, boring jobs if you are really going to soak up those people.

**CHAIR**—I am sure there are a lot of people out there who would like access to that. Like I said, the nature of jobs has changed. Mr Wilkie, do you have any more questions?

**Mr WILKIE**—I would like to say that I do not really agree with the comment about training being a total waste of time. If you target the training where there is an area of need and you can actually get people into jobs at the end of that training—and you actually do the course knowing you have the jobs available—then it can be very effective. You are right; a lot of those jobs would be low-skilled jobs. But people still need a qualification in order to take them up.

**Prof. Saunders**—If I have said it as a blanket statement, that is not my intention.

**Mr WILKIE**—That is how it has come across.

**Ms HALL**—That is how it has come across.

**Prof. Saunders**—As I say, it has different impacts on different target groups. But it really has very poor returns for youngsters and very weak returns for older males. There is a pecking order. You get to the point where for mature age women returning to the labour force there is actually a very good rate of return on training.

**CHAIR**—You are talking about value for money and greater return?

**Prof. Saunders**—Yes.

**CHAIR**—But sometimes we have to do things for reasons apart from value for money. Professor Saunders and Dr Tsumori, thank you very much for coming in and also for your evidence, which was very thought-provoking. I know some of us are probably going to go back and read it again. If we have any other questions that we need to raise with you, I hope you do not mind if we come back to you.

**Prof. Saunders**—Absolutely not. Could I leave some things with you? There are a couple of slight amendments to the written submission or riders to two of the paragraphs. I have a paper that was released in November which Kayoko wrote. It may be of interest to some of you. Also, I have a paper that we put out in December which summarises some of the issues about welfare and tax reform that we have been talking about.

**CHAIR**—Thank you very much. I really appreciate having that information.

Resolved (on motion by **Ms Hall**):

That this committee authorises publication of the evidence given before it at public hearing this day.

**Committee adjourned at 4.51 p.m.**