

Employment: Increasing Participation in paid work

Submission

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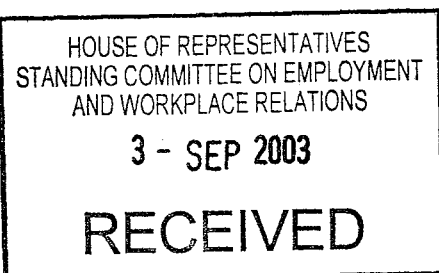
Incentives and Disincentives to seek casual work

In *Building a simpler system to help jobless families and individuals*, the proposed Working Credit scheme would be most welcome, although very long overdue and not being brought in until 20 September this year. This was promised much earlier. The previous Labor Government had a somewhat similar scheme which worked well, but it was scrapped by the Coalition upon gaining office in 1996 – no doubt just because it was a Labor initiative, not because of any merit or otherwise. It was replaced by a savage disincentive means test system which deterred people on benefits from seeking part-time or casual work. This practice completely contradicts the Government's constant rhetoric about trying to encourage the unemployed off benefits and back into paid work.

In the same document, the subtitle of 2.3, "The income support system does not always provide clear incentives to work", is very much an understatement. 2.3.31 states that: "The income test for pensions provide substantial incentives for part-time work and even full-time work. On the other hand, the allowance income tests have strong disincentives to take up part-time work". The latter sentence should include casual work. Why is there such a difference between the income tests applied to pensions and allowances? After all, it is people on allowances that the Government is urging to seek any kind of work. The exact nature of the difference is not explained either. The whole system amounts to one of discrimination against people on allowances, not only in terms of levels of payments but also regarding income tests and so on.

In the same document 2.3.33 states: "some residual problems remain. Depending on the income they earn, people on allowances may only get a small increase in their income from quite a large increase in earnings." This is certainly true in my case. I am on the Mature Age Allowance and the only work available to me is supply teaching, which is casual and at short notice. It pays well but is very intermittent here in Townsville because the climate ensures that teachers are not so prone to influenza and the other ailments that affect teachers in southern centres during winter. However, even one day's work is enough to be a great disincentive. Earlier this year I did a day's supply teaching which, when I finally received the cheque, paid me \$233. On the following Monday after doing the work, as I was in the area to go to the bank and pay the rent, I informed the Centrelink office. I was told that I should have informed Centrelink the day after I did the work, but that would have meant that a big chunk would have been taken out of my allowance payment that day and, after paying the rent and an overdue electricity bill, I would have been broke a week later – a week short of my next payment. This rule, which seems new to me, is nothing short of draconian because it is so unrealistic as to people's situations. People have to wait to be paid for work done, hardly ever being the next day. Out of the \$233 I earned, the Centrelink officer calculated that I owed \$105. It was called a "debt". It works out to be a 45% effective marginal tax rate.

This is the kind of disincentive that the Employment Minister, Tony Abbott, identified as discouraging unemployed people from seeking part-time or casual work. Despite his campaign to remove the disincentive aspect of the system and reform it, the Minister was ignored by his colleagues in the lead-up to the Budget. It remains to be seen if the Working Credit reform, a year late, will make much difference. In my case, it would not remove much disincentive. If I had accepted an offer of another day's supply teaching soon after the day I did work (and I did receive such an offer), I would have found myself working for virtually nothing. It is simply not worth it! A person tries to get ahead a little and gets cut down.



I was told that, if I could not pay the "debt" up front, \$20 would be deducted from my fortnightly payment until the debt was paid. I had already been told by a teacher friend about one of his friends who had incurred a Centrelink debt and had been paying it off at \$20 a fortnightly payment. My teacher friend found out that this person was still being deducted \$20 a payment long after the debt was paid. My friend contacted Centrelink and had the deductions stopped. However, Centrelink never gave the person concerned the backpay for the deductions that he was wrongly penalised.

The only formula I have for the work test (2001) sets \$62 as the maximum fortnightly income that would not be affected by any penalty. That would be a pathetically low figure for a week, let alone a fortnight. I am aware of some cases where the casual work has resulted in an effective marginal tax rate of up to 80%. That would have happened to me had I taken the offer of another day's work (as it happened, I had a meeting that day to do with my voluntary work). Wayne Swan spoke to some of us in the community services sector at a meeting here in Townsville about the effective marginal tax rate of 60% for people on low incomes trying to raise a family on overtime or intermittent casual work. A local State MP present at the meeting (on the Senate Inquiry into Poverty) informed us about a couple, in her electorate, doing intermittent casual jobs who received a Centrelink bill for \$4000. That couple are among the many thousands of the working poor being victimised by Centrelink and a grossly unfair tax system.

In a news article in "The Australian" titled "PM's typical family 'in welfare-tax trap' (13/6/03), demographer Peter McDonald, at the Future of Work Conference, said that "the 'illogical, inefficient, complex jumble' of payments simultaneously discouraged mothers from staying at home but presented serious disincentives to those who returned to work". He gave an example of a "family with one child, where the father works full-time for \$600 a week and the mother returns to work part-time for \$300, is only \$33 better off a week, compared with the mother not re-entering the workforce. Her income is offset by losses in the couple's family tax benefit entitlements and the baby bonus. At the same time, the family has to foot the bill for childcare and other expenses such as travel and appropriate work clothes".

Now it has been made public that hundreds of families with incomes over \$100,000, including fifteen millionaires, have been claiming and receiving family tax benefit payments, legitimately it seems, but wrongly by ethical standards.

In *Building a simpler system to help jobless families and individuals*, 2.5 "Differences between pensions and allowances have unintended affects" cites cases of lone parents losing the Parenting Payment when the child turns sixteen and drops down to the Newstart allowance, a big drop of \$50 a fortnight. It should be added that pension concessions are also lost. At the same roundtable meeting we had with Wayne Swan and Senator Jan McLucas on the Senate Inquiry into Poverty, a woman attending gave the example of a friend whose child turned sixteen and the plunge into poverty that resulted

from that. I supported that with the example of my brother which I cited in my submission to the Senate Inquiry:

“I can give an example of my brother who rents privately and lost his sole parent pension when his daughter turned sixteen. He dropped \$150 a fortnight. He now receives \$446.90 a fortnight including \$92 maximum rent assistance. He pays 4262 a fortnight in rent. That means he is paying more than 50% of his income in rent. Although his daughter receives \$154 a fortnight Youth Allowance, the rent works out to be 45% of their combined income. In any case, she has her own costs, being in her final year of high school, e.g., uniforms and books. My brother’s case would not be exceptional.”

While the Department recognise the problem here, it needs to be addressed to overcome the gross injustice such examples provide. It is not addressed in *Australians Working Together*. It is yet another instance of how the growing disparity between pensions and allowances puts people on allowances at a disadvantage, except that, in this case, it is a sudden drop in income compounded by other factors. The Reference Group on Welfare Reform recommended one payment instead of two, meaning, one can only assume, one level of payment, that of the higher rate of the pension, in line with ACOSS’s recommendation. This, of course, has been rejected or at least ignored, and the gap between the two levels continues to widen because of the different formulas used for the two kinds of benefits. The pension level is always a little above the poverty line, whereas the allowances levels continue to fall lower than the poverty line. This injustice has to stop.

In 2.5.40 there is recognition that “better conditions for pensions create incentives to go on pensions rather than allowances”. This is only natural, given the disparity in payment between pensions and allowances. Of course people with no prospect of gaining employment because of age and lack of available jobs would seek to get on the Disability Support Pension. But there should also be recognition and acknowledgement that Centrelink and its predecessors actually encouraged long-term unemployed people to go on to the DSP so as to reduce the numbers of officially unemployed. This was government policy and is well documented – all the more reason for not having a gap between pensions and allowances.

Mention is made of student allowances in 2.5.41 as being less than the allowance for the unemployed. As the latter is already well below the poverty line, that puts students at such a gross disadvantage that it makes it virtually imperative for students to work many hours in order to scrape through. This affects their study and many fall asleep during lectures and tutorials. Many find they cannot cope and drop out of studies, finding it too difficult. Now, with higher fees for tertiary education in the offing, those students not on Austudy or without wealthy parents to help them will be forced out altogether. Tertiary education will be mainly reserved for the children of the wealthy, and this country’s future will go down the drain.

In 3.2.47 there is a paragraph headed "Complementarity with tax and wages system". It states: "Unfavourable interactions with tax provisions are minimised". Not according to researchers like Peter McDonald already mentioned, who can cite innumerable examples to prove that there is no such complementarity and that, in many cases, people are worse off. Of course, they "should be better off than people with similar characteristics who get income support". However, if it is only a few dollars but travel costs use more than that, then they are worse off. It is a sick joke!

Mention is made on page 16 of the Reference Group on Welfare Reform's recommendation of a participation supplement to offset the cost of returning to work. The Reference Group recognised that, with the Newstart Allowance ceasing on starting a job, it would probably be a fortnight before the person was paid. The proposed Participation Supplement was designed to cover that gap and provide assistance with travel costs as well. This was rejected by the Government long ago, and I remember Patrick McClure, the Reference Group chairman, on Radio National being very critical of the Government on this. Unless the person has some savings to fall back on, the gap between the cessation of the allowance and the first pay is a big disincentive for anyone to return to work. So, in answer to Question 6, it would have to be a cash supplement. After all, the gap still has to pay the rent during the gap period.

As for the harsh breaching penalties applied, often due to Centrelink and Job Network providers' mistakes or through no fault of the people breached, the softening of penalties for the administrative and first breaches is to be welcomed, the draconian penalties for second and third breaches remain the same, despite all the scathing criticism from many reports and the Senate Inquiry report. At least it is good that ACOSS will be a member of the Taskforce that will review the social security penalty system.

In the consultation document, *Listening to the Community*, there is recognition of the need for access to affordable housing and transport in relation to work (pp.31/2). There is even mention made of the Commonwealth-State Agreement (CSHA) but only regarding rent assistance in private rental accommodation. Of course, no mention is made of the savage funding cuts by the Coalition Government to the States for public housing through the CSHA, starting in 1996. The funding cuts continue. There is the real problem with the growing shortage of affordable rental housing leading to a crisis, with the consequent alarming growth in homelessness. Rent assistance tends to play into the hands of landlords, and rents in private rental housing are rising in major centres all the time, well above the CPI. In Townsville it has taken an alarming turn. I know, being a key member of Queensland Shelter with a project nearing completion on affordable rental housing needs in Townsville, which is now a target by southern absentee landlord investors and speculators buying residential properties here at a cheaper price than in the capital cities, which forces up rents for local people.

In the consultation document, much is made of McClure's recommendation of simplifying the benefits system. The best way of simplifying it is by adopting ACOSS's

recommendation of having just one level of payment, at the same level of the age pension, and on the same formula. With this simplification, social justice would be served. However, does the Government know anything about social justice, or is it a dirty term?

Eliminating the disincentives in the social security system would go a fair way towards increasing participation in paid work. However, this should be reinforced with positive incentives like the proposed Participation Supplement or Allowance to fill the gap between cessation of allowance payment and the first pay. Raising the Newstart Allowance to the same level as the Age Pension would be another incentive, rather than a disincentive. Rather than being content with a higher level of payment, as opponents of this proposal claim, most beneficiaries would be more able to afford to travel to look for work.

Other positive incentives could and should be implemented, such as a travel allowance to enable the unemployed to look for work. While some States provide such travel concessions on public transport, as the unemployed are on Commonwealth allowances, this is really a Commonwealth responsibility and should be accepted as such.

As for training, the new scheme is good as far as it goes, but what if the course costs more than the subsidy? In any case, there are many areas where training is simply not available. There is nothing provided for people in these areas.

There has been much talk lately by the Government about the fact that mature age workers are denied work unfairly. This is a well-known fact and has been so for thirty years. There is already legislation against age discrimination in work under the Anti-Discrimination Act, but the Government seems unwilling to enforce it, perhaps because it is so difficult to prove age discrimination. If the Government is really serious about having mature age workers taking their rightful place in the work force and participating fully with their wealth of experience, then it would mount an education and information program aimed at employers to overcome their prejudices against workers over the age of forty. New South Wales has done this with some success, but it needs to be done on a national basis. Only the Federal Government can do this.

Eliminating disincentives and replacing them with real incentives, while a good start, can only go so far if the jobs are just not there, and there are very few jobs there. The Government needs to overcome its ideological averseness to fostering job creation schemes. Another ideological averseness, which is just as stupid, is the refusal to raise bonds for particular schemes.

Bond issues backed by low interest loans through the Reserve Bank could raise funds to be directed towards much needed projects. The one most urgent at present, and which would enlist much popular support, would be the repairing of the Murray-Darling Basin.

Recommendations

1. That all allowances, including the tertiary student allowance, be raised to the same level as the age pension and set with the same formula used for the pension.
2. That the income test applied on casual and part-time work be overhauled, with the penalty-free threshold raised from \$62 to \$200 a fortnight.
3. That anomalies such as what happened to my brother be addressed and eradicated, so that there can be no such sudden drop in income and consequent plunge into poverty.
4. That situations that give rise to such gross injustice as extremely high effective marginal tax rates and consequent disincentives be eliminated, with an emphasis on incentive instead of disincentive.
5. That the income declared from any casual or part-time work be nett, not gross as at present.
6. That the income test on any casual or part-time work be applied only after the person has received payment from the work done (nett pay).
7. That the "welfare-tax trap" described by Peter McDonald and others be addressed so that such situations cannot possibly recur.
8. That the Reference Group's Participation Supplement proposal be adopted in full.
9. That unemployed people on benefits be given public transport fare concessions.
10. That the proposal by the Affordable Housing National Research Consortium be adopted.
11. That the Commonwealth greatly increase funding to the States for public housing.

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