



Submission to the House of
Representatives Inquiry into
Employment: Increasing
participation in paid work

Australian Council of Social Service

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Summary

In developing policies to improve participation in paid employment it is necessary to first identify: current levels of participation and non-participation; barriers to participation; how these barriers could be removed; and what type of increased participation would provide the best outcome for the Australian community as a whole.

This inquiry into improving participation in paid work appears to be within the context of the separate, but related, objectives of reducing reliance on income support and addressing the potential labour shortage associated with an ageing population. It is important that the opportunity is not lost to also look at improving participation in employment for all people who are jobless and to reduce current levels of economic disadvantage and inequality.

People without jobs are the most likely to experience poverty. Any strategies to improve employment participation should consider in parallel how this may also reduce the level of poverty within Australia.

Australia currently has an unemployment rate of approximately 6 per cent, with about another 6 per cent of people of workforce age experiencing severe underemployment and hidden unemployment. If these people were to gain employment there would be a significant boost to the proportion of the population in paid employment which would both temper the concerns associated with a dwindling labour force in the context of an ageing population, and reduce the number of people reliant on income support.

Unemployment and income support reliance are primarily caused by structural problems within the labour market. While we may be facing a labour shortage in the future, there are currently not enough jobs, especially full-time jobs, to meet the amount of labour available. The structure of the labour market away from middle-level jobs and towards part-time and casual employment at one end, and highly skilled, highly paid employment at the other end, is creating a growing polarisation within our community and is leaving more families jobless and reliant on income support.

Problems associated with a lack of full-time jobs, jobless regions, employer discrimination (especially for Indigenous, mature age and people with disabilities), lack of affordable child care, skill shortages, and lack of opportunities for long-term unemployed people all need to be addressed if there is to be a substantial reduction in the number of people receiving income support and an increase in participation in employment.

The evidence points to a strong willingness to participate in employment by people who are of workforce age and who are receiving income support. Over 57 per cent of people under 65 receiving social security payments appear to be involved in economic activity. The solution is to provide the opportunities for these people to participate in accordance with their capacity.

It is important to reduce or remove financial disincentives within the social security system to undertaking paid work. Very high effective marginal tax rates can create poverty traps and it is not fair if people see little return for working. However, the effects of improving financial incentives within the social security system are likely to be minimal in improving rates of participation unless other barriers are removed.

It is essential that people who are jobless are given the support they require to gain employment. People who are long-term unemployed and highly disadvantaged in the labour market will often need substantial help to be able to get a job. Employment assistance provisions need to be able to meet this requirement. Any obligations that are placed on income support recipients need to be for the purpose of enabling a person to gain employment and must be matched with the type of assistance that would make employment possible. To monitor a person's activity when there is little chance of benefit to the individual undermines the purpose of the social security system.

To specifically improve the participation of mature age people in employment it is necessary to remove the barriers that many other jobless people face, such as discrimination and lack of appropriate skills, as well as to change expectations of early retirement. Changes to the superannuation system, including the preservation age, may assist with retaining older workers in employment.

This submission makes the following recommendations to improve participation in paid work.

Recommendations

R.1 Avoiding and easing the effects of recessions

Improve national public infrastructure planning and develop projects to implement in recessions; introduce paid employment experience programs for long-term unemployed people and expand them during recessions; boost the incomes of the poorest Australians during recessions; tighten the Federal Budget during economic booms; avoid high interest rates; and foster innovation and industry development to increase the speed of growth.

R.2 Converting economic growth into more jobs

Jobs growth should be achieved by: addressing shortfalls in publicly funded community services (mainly health, education and social welfare services); developing an investment strategy to repair the natural environment; restraining growth in incomes in an equitable way; and reducing excessive working time in return for higher productivity.

R.3 Reducing unemployment in jobs-poor regions

National minimum standards for access to essential community services should be set; national public infrastructure development programs targeted to disadvantaged regions; local employment and social development initiatives supported; expansion of labour-intensive private sector services in regional centres encouraged; and improvements made to housing, transport and mobility assistance in disadvantaged regions.

R.4 Improving school completion rates

A national commitment to providing all people with the opportunity to complete year 12, or its equivalent in education or training, either at school or with an appropriate alternative provider.

R.5 Transitional School to Work Support Scheme

A comprehensive transitional support scheme for young people in secondary schools should be introduced. This might take various forms including case management and personal support, mentoring, peer support and post-school follow up.

R.6 Improving access to further education

Greater participation in further education should be fostered through ensuring that vocational education, TAFE and university are equally accessible for young people from disadvantaged backgrounds. This will require addressing economic, social, academic, regional and motivational barriers.

R.7 Education for Indigenous Australians

Indigenous young people face the greatest barriers to educational participation and achievement. Targets should be set to improve outcomes in Indigenous education. Whole of government and whole of community strategies need to be developed that draw on previous examples of successful outcomes in Indigenous education. Further, ABSTUDY should receive additional funding to ensure that eligible people are provided with the full range of supports to which they are entitled. It should be the subject of a public review involving participation by Indigenous communities and organisations.

R.8 Transitional skills based education and training

A system should be developed to provide skills based education and training opportunities specifically for people facing key transitions in their labour market participation (eg retrenchment, carers re-entering the labour market, potential retirees and others who are wanting to return to work). Such a system should enable people facing a labour force transition to gain skills in a field that will lead to employment rather than face long-term joblessness.

R.9 Assisting with costs for people with disabilities

People with disabilities often have high medical, transport and independent living costs. People with disabilities who are in paid employment, but require frequent medical attention, should have access to medical, pharmaceutical and allied health concessions. People in this situation should be able to register for this concession status through Medicare, and have their eligibility periodically reviewed by a general practitioner.

R.10 Employment Assistance Guarantee

Disadvantaged job seekers required to undertake economic participation activities should receive more than income support in return. They should also receive an employment assistance guarantee that is sufficient to overcome their particular employment barriers. This guarantee should be implemented in the following way:

- a) *The employment assistance guarantee should apply to:*
 - *long-term unemployed people at regular stages, such as after 12 months of unemployment;*
 - *those assessed as facing a high risk of long-term unemployment;*

- *other social security recipients with substantial barriers to employment such as a disability or a combination of low education and skill levels and limited employment experience.*
- b) *The guarantee should be underpinned by a funding regime for employment assistance providers that combines payments for employment outcomes and a shared investment by Government and providers in assistance such as wage subsidies, employment experience and training. The nature of the help offered to job seekers pursuant to the guarantee should be negotiated between them and the service provider.*
- c) *The guarantee should be linked to any job seeker activity requirements through a transitional plan. The negotiation of the contents of the guarantee should reside with employment service providers.*

R.11 Activity Requirements

- a) *The rationale for any activity requirements in workforce age payments should be to encourage progress towards economic independence. Therefore, only reasonable requirements likely to secure employment, such as job search, education and training, should be mandated by the social security system.*
- b) *Economic participation requirements should not apply, or they should be subject to reasonable adjustments, where a recipient has a disability or illness-related barriers to employment, or caring responsibilities. In this way, the social security system should recognise caring responsibilities without attempting to regulate them.*
- c) *Any economic participation requirements should be realistic, relevant to people's employment prospects, and supported by appropriate labour market assistance, flexible work practices, and other supports.*
- d) *The scope of requirements should be specified in legislation. They should be evaluated regularly to ensure that they are achieving their intended outcomes, and are not being imposed in an unfair or inconsistent manner.*

R.12 Penalty regime overhauled: reducing rate and duration of breaches

The current breach penalty regime for unemployed people should be overhauled, the rate and duration of penalties reduced, and systems further enhanced to ensure they are used only as a last resort. Specifically:

- a) *Penalties should be recoverable as far as possible in activity test cases where compliance can be achieved, eg. where an interview with a Job Network provider is missed but is rescheduled and attended. Payment reductions should be fully recoverable in administrative matters where compliance is met, eg. where someone attends a Centrelink office or eventually supplies the information requested. In such cases, penalties would take the form of a suspension of part payment. Suspension of payment should not take place on a day when Centrelink will be closed the following day.*
- b) *Penalty rates should be set at the minimum amount necessary to achieve compliance. They should not escalate for a second or subsequent breach.*
- c) *Where Centrelink is already withholding payment to recover a debt, any penalty should be applied consecutively and not concurrently.*
- d) *Failure to correctly declare income should not constitute an activity test breach. Problems with current reporting requirements in relation to the declaration of income should be addressed by changing from an "income earned" to an "income received" reporting period.*
- e) *No penalty should be imposed without Centrelink having to implement a comprehensive procedure involving at least the following:*
 - *a series of clear, communicated warnings;*
 - *significant, documented attempts to contact and interview the job seeker to obtain any possible explanation;*
 - *the breach recommendation being considered by an additional officer at a higher level;*
 - *consideration given to whether the original activity demand was reasonable;*
 - *the provision of standardised material on, and an explanation of, the individual's review and appeal rights;*
 - *consideration being given to whether or not the breach should be waived due to 'special circumstances'.*

R.13 Allowing flexibility in moving areas

The Government should substantially reduce the 26 week non payment breach penalty period applied due to 'moving to an area of lower employment prospects' and broaden the range of circumstances in which people with legitimate reasons to move are exempted.

R.14 Personal income tests with two different taper rates

Two personal income test regimes should apply to different workforce age payments. These income tests should have common income definitions and free areas, so that only their taper rates distinguish them. The difference between the two taper rates should be substantially less than that between the present pension and allowance income tests (which have taper rates of 40% and 70% respectively).

- a) *Payment categories for people who particularly benefit from part-time work, including parents and carers with primary caring responsibilities and people with disabilities, should*

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be targeted to facilitate part-time employment, even if this means extending part-payments to some full-time award wage earners.

Therefore, a lower taper rate should apply to these payments, so that they cut out somewhat above full-time award wage rates.

- b) Other payment categories, including for unemployed people and students without primary caring responsibilities, should be targeted to exclude people earning more than full-time minimum award wage rates, without unduly discouraging part-time employment.*

Therefore, a higher taper rate should apply to the income test for these payments, so that they cut out at or below full-time minimum award wage rates.

However, where recipients of these payments are identified as likely to particularly benefit from part-time employment as part of a transitional plan¹ - for example mature age recipients who are close to retirement - the more liberal income test described above should apply.

R.15 Income tests to retain one-third of overall earnings

Income tests should be designed so that social security recipients retain at least one third of their overall earnings. As a first step towards this goal, the most severe income tests applying to people of workforce age should be eased by:

- a) replacing the current personal income test for Allowances with a single taper rate of 60 cents in the dollar for all income over a free area of \$40 per week;*
- b) replacing the Special Benefit income test with the proposed Allowance income test.*

R.16 Changing income tests for social housing subsidies

The income tests for social housing rent subsidies should be reformed to ease work disincentives.

R.17 Reforming superannuation policy

- a) The preservation age for retirement benefits from superannuation should be raised more rapidly from 55 to 60 years, and progressively to 65 years.*
- b) However, mature-age people with disabilities or caring responsibilities that are likely to prevent them from obtaining full-time employment until age 65 should be able to withdraw their retirement benefits from age 55.*
- c) Lump sum superannuation payments should be restricted to no more than \$100,000 (indexed to movements in average earnings), or payments in excess of this amount should be taxed at the top marginal rate of personal income tax, plus the Medicare Levy.*
- d) Superannuation benefits should not be transferable to the beneficiaries of the member's estate on death, except for a spouse or child with a severe disability.*
- e) Consideration should be given to implementing the above changes as part of the "lifelong savings system" proposed by ACOSS (see box below).*

¹ Transitional plans are described in recommendation 27 below.

R.18 Supporting lifelong learning

- a) *Provision of comprehensive and readily accessible programs to assist of lifelong skills development that are available both inside the workplace and in learning institutions;*
- b) *Introduction of a flexible income support system, including an Austudy payment that is adequate, and relevant to prime and mature age students, part-time students and trainees.*

R.19 Enabling carers to participate in employment

Improved support for carers, especially day care and respite care, so that people can combine caring and participation in the labour force.

1. Patterns of employment participation

1.1 Growth in employment participation

This inquiry into increasing rates of employment participation comes at a time when the proportion of the workforce age population in employment has been on an upward trend. In 1983, 63 per cent of the workforce aged population was employed and in 2002, 70 per cent were employed. Although there has been a slight fall in employment levels since reaching a peak in 2000, there has still been an overall significant increase in the proportion of the population aged 15-64 who are employed.

The patterns behind this growth in employment hide the disadvantage that has emerged in the labour market over this period, and which is partially responsible for the increased reliance on income support. Despite the rise in employment participation there are still very high levels of unemployment, underemployment and hidden unemployment.

The last thirty years has seen significant changes to the labour market that have resulted in a higher demand for highly-skilled workers, a decline in middle-level skilled jobs, and a decline in full-time low skilled jobs. The proportion of full-time jobs has declined in association with a rise in part-time and casual employment. There has also been a significant rise in the participation of women in employment and a decline in participation in the labour force by young people and mature age men. In association with these changes, there has been a change in the industries where jobs are available. The manufacturing sector has seen a decline in jobs, while there has been jobs growth in the services sector.

The growth in part-time and casual jobs has not been distributed equally across all occupation types or locations. Despite the increase in part-time work, there is a disturbing trend away from full-time permanent work for those who require it. The phenomenon of 'hollowing out' within the labour market has been identified with increases in full-time permanent employment at the very top end of the labour market and increases in low-paid casual and part-time employment, but also with a loss of middle jobs, such as trades and clerks.²

Looking specifically at the decade of the 1990s, the jobs growth pattern over the recession and recovery resulted in:

- 522,000 additional full-time jobs created for high-skilled workers, but with a net loss of 241,000 full-time jobs for low and medium-skilled workers.
- 661,000 additional *part-time* jobs created for low-skilled workers, compared to 135,000 for high-skilled workers and just 52,000 for medium-skilled workers.³

Most of the growth in employment, albeit mostly in part-time jobs, has gone to women with an employed partner. Meanwhile most of the reduction in male employment has been for men with no employed partner.⁴

² Borland, Gregory & Sheehan 2001, "Inequality and economic change", in Borland et al, *Work rich, work poor*, Victoria University

³ Borland, Gregory & Sheehan 2001; Keating, 2003.

These patterns in employment participation and jobs growth has led to growing inequality in employment opportunities, with particular implications for income support recipients. Increased part-time work means that people often need to supplement their income with social security, increased casualisation leads to people experiencing bouts of unemployment, and decreasing levels of male employment often leaves a household without anyone in a job.

1.2 Who is not participating in paid employment?

Joblessness – unemployment, underemployment and hidden unemployment

There is a significant proportion of the population who are not employed and would like to be, or who are not getting enough work and would like to more hours. These people are identifiable through ABS data as people who are *unemployed*, people who are *marginally attached* to the labour force, and people who are *underemployed*. The current unemployment rate is around 6 per cent, but the ABS identifies the *extended labour underutilisation rate*⁵ as 13 per cent, or 1,324,700 people, in September 2002.⁶ This is a measure of the number of people who would be willing and readily available to enter employment or work more hours if it were available.

The ABS has further estimated the number of potential extra hours that could be worked by calculating the number of hours that people who are unemployed want to work in addition to the number of extra hours that people who are underemployed want to work. This comes to a total of an extra 28.6 million hours per week of work that is wanted.⁷ This is the equivalent of approximately 1.14 million full-time jobs (at 40 hours of work per week), or an increase of 8.3 per cent in the number of hours currently worked. This is without even considering discouraged job seekers and other people with marginal attachment to the labour force.

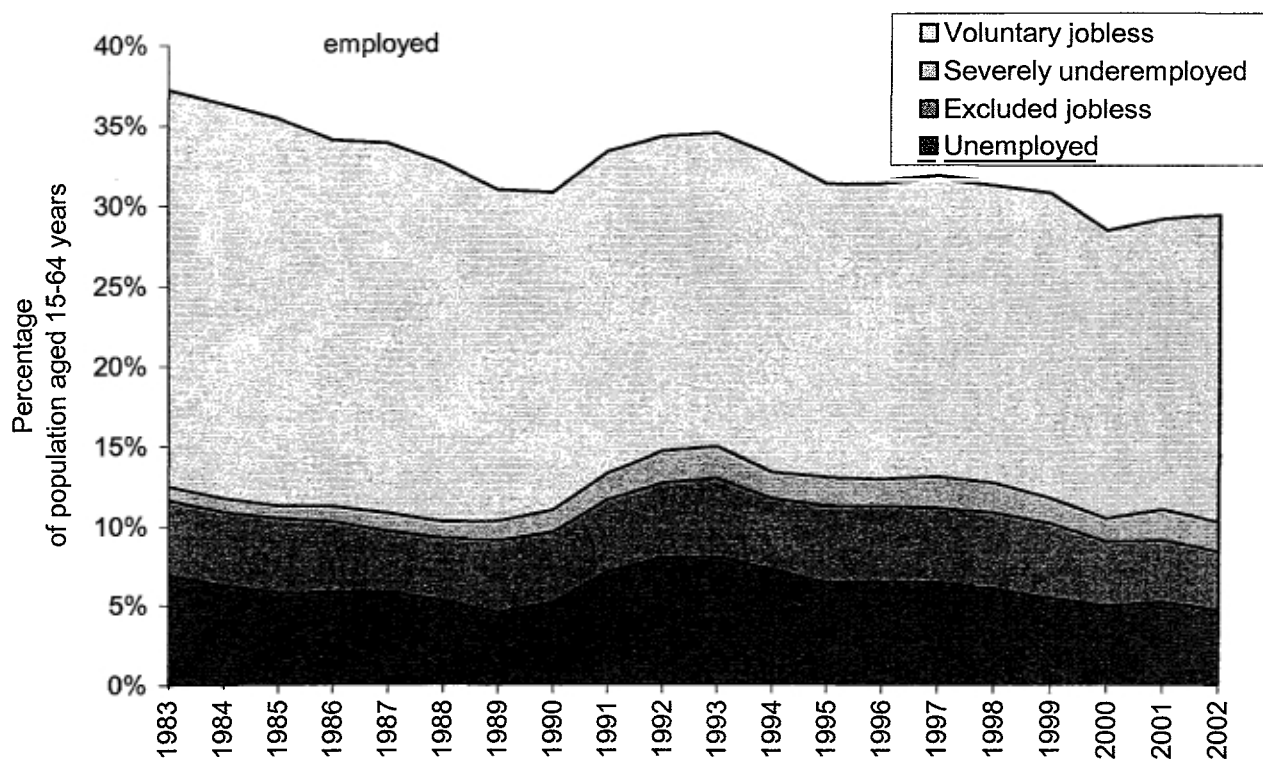
ACOSS has also identified the number of jobless people who are likely to be experiencing economic hardship as a result of lack of employment and would want to work, or work more hours, if a job were available. The rate of economic exclusion estimated by ACOSS was 12.9 per cent in September 2002, or 1,344,000 people. This includes people who are working less than sixteen hours per week who would prefer to work more hours, people who are marginally attached to the labour force but who do not have another primary activity taking them away from employment (such as studying or preferring to care for children). Figure 1 below shows the proportion of the working age population, people aged 15-64, who are without a job.

⁴ Henman and Perry 2002, p327-8.

⁵ This refers to unemployed plus underemployed (people working for less than 35 hours per week who want to work more hours) plus a subset of marginally attached (discouraged job seekers and people who were actively looking for work, not available in the reference week but available to start work within four weeks).

⁶ Australian Bureau of Statistics *Australian Labour Market Statistics*, Catalogue No. 6105.0, July 2003

⁷ Ibid, p14

Figure 1: Jobless rates by population 1983-2002⁸

Sources: ABS *Labour Force* Catalogue No. 6203.0, ABS *Persons Not in the Labour Force* Catalogue No. 6220.0, ABS *Underemployed Workers* Catalogue No. 6265.0, ABS *Australian Demographic Statistics* Catalogue No. 3101.0.

The bottom three categories in the graph – unemployed people, excluded jobless and underemployed people – can be considered to be the people experiencing employment disadvantage, that is people who are not working enough to earn a basic income and who would work, or get more work, if it were available. The top category in the graph, the voluntary jobless, may also be considered to contain people who could potentially enter the labour force at a time of labour shortage. While many of these people would prefer not to work and some are unable to work, in the right circumstances (such as having appropriate child care or disability supports), they may also enter employment. It is, however, the bottom three categories, who are most likely to be reliant on income support and who could benefit most from the opportunity to work.

The percentage of people who are above the top line, that is who are not shown on the graph, are the people who are employed. The graph shows that the percentage of people

⁸ Notes for Figure 1:

Unemployed refers to standard ABS count of unemployed.

Excluded jobless refers to people who are available for work but have not been looking, or people who have been looking for work but are not available to start immediately. It excludes people who are on holiday, have no need to work, whose main activity is childcare and do not want to work, and whose main activity is education.

Underemployed refers to people with less than 16 hours work per week and who want to work more hours.

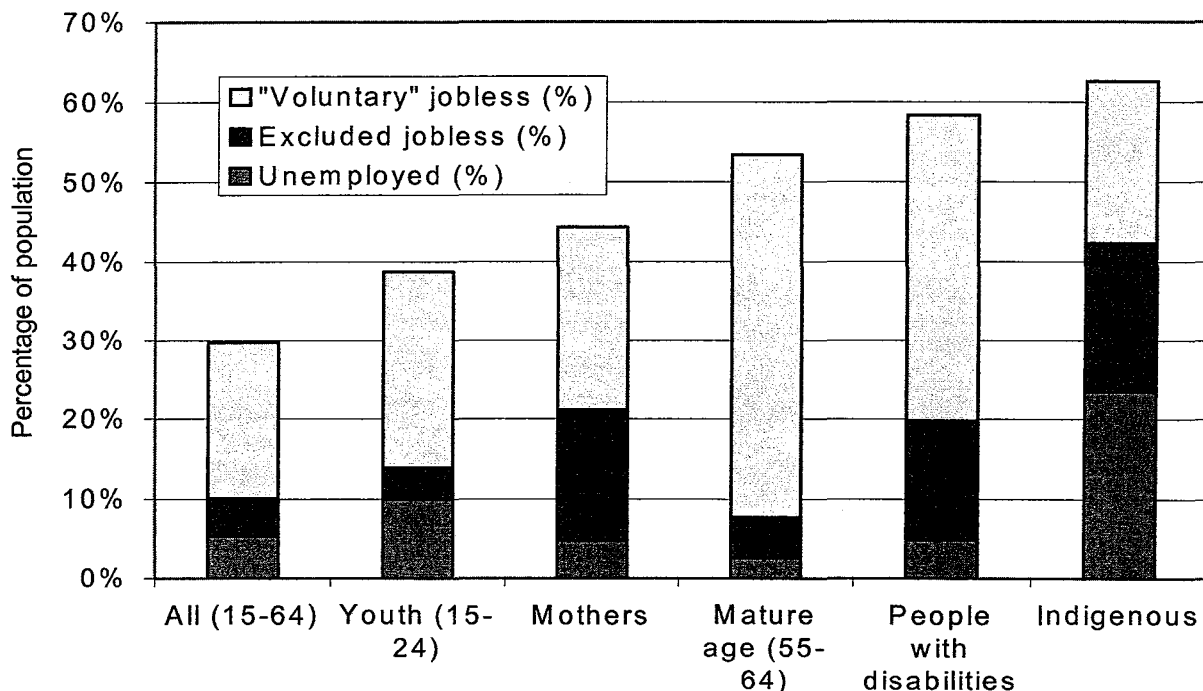
Voluntary jobless refers to the rest of the population who is not in the labour force.

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employed has increased substantially over the last twenty years, despite a slight rise since 2000.

The following graph depicts the jobless levels of particular groups within the community who are especially likely to experience low levels of employment.

Figure 2 Joblessness in population groups of workforce age, 1999



Note: Data for people with disabilities is from 1998. Data for Indigenous people is from 1994. The Indigenous unemployed does not include people working in the Community Development Employment Programme (CDEP). The *excluded jobless* category for Indigenous people and people with disabilities is not directly comparable with other groups.

Figure 2 above shows that the overall working age population has a jobless rate of 30%. Casual jobs, part-time employment and changes to dominant industries have had particular impacts on certain groups in our community, leading to unemployment and hidden unemployment being unequally distributed.

Young people who are not in education are experiencing high levels of underemployment as full-time jobs for young people have been dwindling. Meanwhile, men aged over 55 have been exiting the labour market all together as their jobs have disappeared and they have accepted early retirement. Mothers are experiencing increasing levels of marginal attachment to the labour force as they are increasingly interested in participating in employment but often find child care and job opportunities prohibitive.

Mature age people, people with disabilities, and Indigenous Australians all have joblessness levels of over 50% of their population. Indigenous people have the highest overall jobless rate of 63%, which is estimated at being over 80% if Community Development Employment Programme (CDEP) participants are counted as jobless. This

shows that less than 20% of the Indigenous workforce age population are in mainstream employment.

It is interesting to note the high levels of joblessness amongst mature age people and their lack of even marginal attachment to the labour force. This suggests that mature age people have mostly accepted early retirement and do not expect to gain work in the future. Similarly people with disabilities have low levels of employment participation and low levels of attachment to the labour force⁹. For each of these groups, with the exception of young people, it is clearly apparent that the unemployment rate does not accurately portray the jobless levels of these groups and their potential for higher levels of employment participation.

What these graphs show is that while there is a high level of joblessness among mature aged people, other groups are also experiencing high levels of joblessness with young people, mothers, people with disabilities and Indigenous people, all indicating that as well as having higher than average jobless rates, they also have much higher levels of *involuntary joblessness*. While they are not necessarily officially unemployed, they are indicating that they would prefer to work if they could. Some of these groups of people, such as Indigenous people, are quite small in terms of their proportion of the overall population. Therefore, increasing their employment levels may not necessarily have a major impact on increasing the percentage of the population of people employed. However, these groups do represent people who are often reliant on income support and who are often experiencing very high levels of disadvantage.

If measures are taken to improve employment levels of Indigenous people, people with disabilities, mothers and young people there would be a related reduction in social security payments. Even more importantly, there would also be a reduction in poverty and ongoing disadvantage by these groups who are some of the most disadvantaged within our community. Improving employment opportunities for people with disabilities may mean providing opportunities for people to become financially independent and gain the other benefits that employment brings, when they may otherwise experience a lifetime of being reliant on social security payments. If disadvantaged young people are able to make a transition into ongoing employment this may lead them to avoiding a lifetime of unemployment for insecure employment. Improving employment opportunities for mothers who want to work will not only benefit them but may also improve the long term prospects of their children. Similarly, significantly improving mainstream employment participation for Indigenous people will bring widespread benefits to this group of Australians who are experiencing the worst levels of economic exclusion and poverty within the country.

Regional unemployment

Employment opportunities differ significantly according to where a person lives. Long-term unemployment is especially concentrated in specific regions within Australia. For example, in Tasmania 70 per cent of job seekers have been receiving income support for over 12 months, compared with 58 per cent across Australia.¹⁰ Regional long-term unemployment increases the levels of social and economic disadvantage.

⁹ The marginal attachment rate in this graph estimated rather than obtained using the methodology of the other groups.

¹⁰ Commonwealth Department of Family and Community Services *Labour Market and Related Payments: A monthly profile*, July 2003, p7.

A study by Gregory and Hunter comparing employment levels across neighbourhoods in 1976 with 1991, found that in 1976 the employment levels were very similar across suburbs of different socio-economic status. However, in 1991 employment levels in higher socio-economic status suburbs had remained virtually unchanged while low socio-economic suburbs had experienced a major decline of 38 per cent less employment.¹¹

Pocketing of unemployment in particular regions and in particular areas of major cities may occur because of lack of employment opportunities and because industries have shut down. People on low incomes without jobs move to areas where housing is cheaper while households with two incomes move to more affluent areas.

With the incidence of regional joblessness, the overall resources of communities diminish and this has further implications for equitable access to services and a rise in social exclusion. For example, a school within a job poor region will have considerably fewer resources than a school in a wealthy region.

Jobless families

Along with a rising concentration of unemployment in particular regions and neighbourhoods there is also a concentration of unemployment in particular families. There has been a shift from nearly all families having one full-time earner to a situation where many families have two earners and many other families have no earners or only one part-time job that is often insecure. In 2002, 61 per cent of couple families had both parents employed with the majority have a father employed full-time and the mother employed part-time. Meanwhile, out of both single and couple families, 25.8 per cent had either no parent employed or only one employed part-time in 2002. Many of these are lone parent families and reflect a rise in the number of lone parent families, but there has also been a growth in low employment levels amongst couple families.¹² With over a quarter of families with children without a full-time job, a massive differential has emerged in families' income. Furthermore, this growth in families without a full-time worker means that there is necessarily a greater reliance by families on social security.

2. Patterns of receipt of income support

The situation has arisen whereby the proportion of the population in employment has risen, and in recent years the unemployment rate has declined, yet there has not been a related decline in the number of people receiving income support.

Increases in income support numbers are due to such factors as:

- ◆ Extended eligibility for income support – more people are now eligible for income support due to policy changes such as: both partners in a couple receiving a payment instead of just the 'primary breadwinner', greater

¹¹ Gregory R and Hunter B (1996) 'Increasing regional inequality and the decline in manufacturing'. In P Sheehan et al. (eds) *Dialogues on Australia's Future*. Victoria University Press, Melbourne. p322

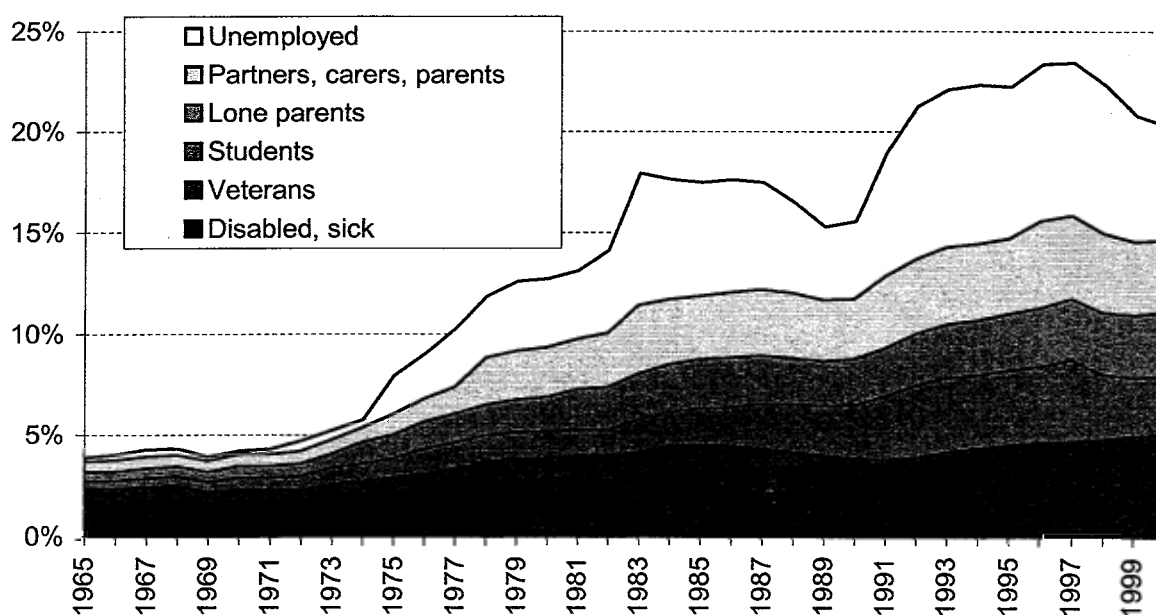
¹² Renda J 2003, "Polarisation of families according to work status: Where does part-time employment fit in?" In *Family Matters* No.64 Autumn 2003.

flexibility for undertaking part-time work, and increased eligibility for a partner of a low-paid worker.

- ◆ Changes to the labour market – the decline in full-time employment and increase in part-time and casual work mean more people receive part-payments of income support as they do not earn enough to be financially independent.
- ◆ Changes to the composition of households and families – increased numbers of single adults and increased family breakdown (at greater risk of requiring income support due to no other earner), and the concentration of joblessness in particular families has meant more people require income support than when jobs were distributed evenly amongst families.

The graph below shows the pattern of growth in income support recipients by income support type.

Figure 3: Income Support recipients as percentage of people of workforce age, 1965-2000



2.1 Participation of people receiving income support payments

The scarcity of secure full time jobs for people with low and middle level skills, combined with recent increases in opportunities for more part-time and casual employment, and the introduction of more generous income testing for social security, has resulted in an emerging trend for people to combine social security payments with part-time and casual jobs.

A study (Saunders, Brown and Eardley 2003) of levels of participation in economic and social activities by a sample of workforce age income support recipients (Youth Allowance and Austudy recipients were not included in the sample) found that the majority of people who are receiving income support are participating in some sort of "economic" activity. That is, 58 per cent of people on income support reported being engaged in at least one of the following: paid work, self-employment, job search, or study/training.¹³ This demonstrates that the majority of people are either already have some employment or are gaining qualifications to lead to employment, or are actively searching for work.

Most people receiving income support are indicating, through their activities, that they want to be engaged in employment. The study notes "there is little sign of any tendency to rely solely on income support in these statistics. On the contrary, the overall impression is one of intense and prolonged activity in the identified forms of economic participation".¹⁴

The extent to which people are involved in economic or job related activities is affected by particular characteristics of their personal lives and, by association, the type of income support they are receiving. Approximately 20 per cent of income support recipients are undertaking paid work and/or self employment.¹⁵ This reflects the scenario where people work part-time, but are not earning enough to be financially independent, and also people who have bouts of casual employment but do not work for a long enough period to come off the income support register.

Parenting Payment and Newstart Allowance recipients are more likely to have worked than any other income support recipients. Parenting Payment (Single) recipients have the highest level of employment participation of any group, with 41.5 per cent engaged in paid work or self-employment.¹⁶ Newstart Allowance recipients report working the longest hours, with almost one quarter working for more than 40 hours in a fortnight. They are also the most likely to have temporary work. This suggests that many are struggling with very temporary and insecure employment even though they would be able and wanting to work full-time.

People receiving other types of income support are more likely to have continuous work. Those receiving income support relating to disability, caring, or age have the greatest incidence of continuous work over five years. Many of these people may not be seeking more hours of work because of restrictions due to an illness or disability or caring responsibilities.¹⁷ There may be an acceptance by these people of only working a limited number of hours while having their income supplemented by social security payments.¹⁸

Job search activity was undertaken by 53 per cent of male income support recipients and 27 per cent of females. Job search activity is most prevalent for young people and drops away considerably for people over 50 years of age. Newstart Allowance recipients also have much higher rates (83.8 per cent) of job search activity than other recipients. This is not surprising as it is usually a condition of payment for these recipients. However, as

¹³ Saunders P, Brown J and Eardley T 2003, *Patterns of economic and social participation among FaCS customers*, Department of Family and Community Services, Canberra.

¹⁴ Ibid, p26.

¹⁵ Saunders, Brown and Eardley 2003, p31.

¹⁶ Ibid, p34.

¹⁷ Ibid, p48-50.

¹⁸ Ibid, p48.

well as a greater proportion of people participating in job search amongst Newstart recipients, they are also more likely to engage in much more intense job search activity, with over 1 in 5 spending more than 21 hours a fortnight looking for work, and almost 3 in 4 making four or more contacts with employers.¹⁹

3. Increasing participation in employment

3.1 Labour supply and the ageing of the population

There is a paradox that while there is still a large number of people receiving income support because they are unable to obtain the level of work they need, Australia is expecting a labour shortage caused by an ageing population. Access Economics has predicted that the workforce will grow by just 125,000 for the entire decade of the 2020s, an average increase of just 12,500 workers per year, compared with a current average growth rate of 170,000 workers each year. As well as fewer people being in employment, there will also be a rise in demand for particular types of labour as an older population will require greater servicing through health and aged care.

The projected fall in labour supply offers a unique opportunity to reduce structural unemployment. Public policy will need to place greater emphasis on increasing labour force participation in order to forestall a large decline in economic growth.²⁰ *Employment rates* (the proportion of the population of workforce age that is employed) will assume the same importance in public debate that *unemployment rates* now have. This has already occurred in many European countries.

Data from Figure 2, shows that as of September 2002, 30 per cent of the workforce age population, that is over 3.9 million people, did not have a job. Of these, 627,000 people were officially unemployed and were actively looking for work and available to start immediately. Another 471,000 people had a marginal attachment to the labour force and would have worked if a job had been available and other barriers to their participation, such as lack of child care, were removed. Furthermore, of those employed, 246,000 people were severely underemployed, working less than 16 hours per week and wanting to work more hours. Therefore, just by looking at these three groups of people who have indicated that they would like a job, we have identified **over 1.34 million people** who would like to be participating in employment but are not. This is without even considering the number of people who have withdrawn so far out of the labour force, such as early retirees, that they are no longer considering employment.

A greater demand for labour through an ageing population should mean that barriers to employment for these people who are currently looked out of employment are progressively eased through a combination of employer demand and Government action. Currently mature age people, mothers, young people and other disadvantaged

¹⁹ Ibid, p49.

²⁰ See for example Henry, 2003.

job seekers are all finding their ability to undertake employment is limited and require positive measures in order to be assisted back into employment.²¹

In recent public discussions the primary focus of addressing the problem of an ageing and declining workforce has been on retaining older workers in the workforce for longer. Employers may be attracted to encouraging older workers to defer retirement, have current workers extend their hours, and encourage part-time workers to work full-time. This would enable employers to have their skill requirements met without any further investment in training.

However, it is important that the people who are currently wanting to work and are experiencing employment disadvantage, are also given the opportunity to benefit from a better ratio of labour supply to labour demand. Improving the skills and education levels of disadvantaged job-seekers and low skilled workers and developing a viable system of life long learning that works for both employees and employers is an important strategy to enable this to occur.

People who are currently seeking work or who are marginally attached to the labour force are unable to gain employment for reasons such as job shortage, lack of required skills and experiences, and personal barriers such as illness and disability. Effective policies are required to assist these people in gaining employment.

3.2 Movement into paid employment

The interest in increasing participation in paid work appears to have two particular objectives:

- to address an impending possible labour shortage in the context of an ageing population; and
- to reduce the extent of reliance on income support by the Australian population.

In order for more people to participate in paid employment in Australia, answers need to be found to the question: what are the barriers to participation in paid employment and how can they be removed?

The assumption underpinning much discussion about unemployment, income support and employment disincentives in the social security system, is that joblessness is a behavioural problem which can be addressed by improving incentives and tightening compliance.

Although incentives are very important, other factors - including inadequate growth in secure full-time employment, inadequate education and skills, disabilities and chronic illness, and social barriers to employment - are of greater importance. A whole of Government approach to these problems is needed.

²¹ For example, employer discrimination and a superannuation preservation age of 55 years in the case of mature age people, inflexible work practices and expensive child care in the case of mothers, and lack of skills and recent work experience in the case of disadvantaged job-seekers.

Any approach to reducing reliance on income support and increasing participation in employment must acknowledge: the failure of the economy to supply a sufficient number of full-time jobs; that some people receiving income support, such as carers and parents, are performing a desirable social activity from which the community as a whole benefits; and that any application of mutual obligation must include an obligation upon Government to assist with providing the supports that people require to be able to get a job.

Assistance, incentives and obligations always need to be integrated and to exist for the purpose of people moving from joblessness into employment, or to assist people with managing other responsibilities with employment.

3.3 A lack of jobs

The primary cause of unemployment is a lack of jobs. Despite a strong period of economic growth, there has not been sufficient jobs growth, particularly in full-time jobs to meet the increased supply in labour created by higher levels of labour force participation. If growth in labour force participation continues without an adequate growth in jobs, then the outcome will be higher rates of unemployment. The numbers of people receiving income support will not decline unless there are jobs available for them²² It is therefore essential to address the problem of a lack of jobs in reducing the number of people who are unemployed and the number of people receiving social security payments.

Generating jobs

To the extent that an outright lack of full-time jobs is causing unemployment and reliance on social security, the only effective response can be the creation of a greater demand for labour. That is, there is a need for more jobs – and especially full-time jobs.

A need for more jobs is a paradoxical concern in the light of expected emerging labour shortages in the next twenty years. However, we cannot simply wait for a period when there is a greater demand for labour. If nothing is done to provide employment opportunities for those who are missing out, there will continue to be a high level of reliance on social security. Without addressing current unemployment, there may be a further entrenchment of long-term unemployment, and there will be a large potential labour force who is so removed from labour market participation that they will be unable to fill the void in labour supply as their skills and overall capacity will diminish.

Increasing employment opportunities in areas of need can further act to address problems that may emerge with a lack of services and infrastructure in dealing with an ageing population.

Avoiding and easing the effects of recessions

Recessions generally have a long-lasting impact on unemployment, as it takes considerable time for unemployment rates to return to pre-recession levels and long-term unemployment appears permanently affected. While recessions may not always be

²² Henman and Perry 2002, p330.

successfully avoided, through a planned response Governments may successfully temper the effects of a recession.

The most effective way for Governments to help speed the recovery from recessions is to boost public expenditure and investment so that consumers have more money to spend. To ensure that this expenditure is of good quality and well targeted to boost the economy where it is most needed, Governments should develop the broad outline of their anti-recession plans well in advance. The goal should be to avoid or ease recessions without undermining public finances or economic growth during recoveries, and to remove barriers to stronger economic growth over the long-term.

Converting economic growth into jobs

It is generally assumed that economic growth will result in lower unemployment. However, the growth in the economy that has occurred after each of the last three recessions, and particularly in the 1990s, did not translate into sufficient growth in employment to match the growth in demand for jobs. Consequently, eleven years after the last recession we still have an unemployment rate that is around 6 per cent and a hidden unemployment rate of about the same level again. There are also still high levels of long-term unemployment, and long-term dependence on Newstart Allowance, with a very slow pace of decline following the last recession.

One strategy to assist with increasing employment demand is to engage in wage restraint. The "five economists" have proposed to do this by reducing the real level of minimum wages and to compensate low paid workers in low income families through an earned income tax credit (EITC).²³ The key problem with this proposal is that only a modest reduction in unemployment can be expected from the 15% reduction in real minimum wages proposed. Under the model, the proponents estimate unemployment would fall by 1.3 to 1.5 percentage points after four years. Most other estimates are lower (a reduction of one percent or less after four years seems more likely).²⁴ Moreover, such a tax credit, together with lost tax revenue arising from the reduction in wages, would be very costly. In addition, many low paid workers - mostly women working part-time who are married to a full-time wage-earner - would be worse off as they would not be entitled to the credit and this in turn could reduce labour force participation among married mothers.

The US and British experience shows also that, as labour costs are shifted from employers to Government and public demand for the tax credits increases, the cost of these subsidies rises exponentially. The cost of the US EITC increased four-fold over the 1990s, and the cost of British Working Families Tax Credit is estimated to double from 2001 to 2005.²⁵

Income restraint can help reduce unemployment, as Australia's experience of the Accord in the 1980s showed. However, minimum wages in themselves should not be the focus of restraint. Unlike the United States, in Australia there has been a decline in demand for

²³ It should be noted that it is the fall in minimum wages, rather than the EITC, that is expected by the five economists to generate the anticipated employment gains.

²⁴ See Employment and labour relations review Vol 5 No 2, 2002, Seminar proceedings: *Creating jobs- the role of Government*; Neville J, 2001.

²⁵ Moffit 2002; Brewer et al 2002. For more discussion see ACOSS 2003, *Fairness and Flexibility: reform of workforce age social security payments in Australia*.

both low skilled and "medium skilled" labour over the past 30 years.²⁶ This suggests that the solution lies in more broadly-based incomes restraint.

A cost-efficient alternative to reduce unemployment through subsidising low full-time wages is to carefully target subsidies towards employers of long-term and disadvantaged job-seekers. Reductions in long-term unemployment strike at the heart of structural unemployment, reducing its social impact and its future cost to the Federal Budget.

Another strategy is to target subsidies towards low-skilled workers and jobless people undergoing training, thereby reducing their future risk of unemployment. This approach can generate more jobs for the targeted groups, while minimising the risk that low wage subsidies will trap people in low-skilled jobs.

Expanding labour-intensive human services, and similar industries (such as environmental repair) provides another vehicle for increasing employment.²⁷ Policies designed for this purpose should lead to a permanent boost in employment in the targeted sectors based on the need for services.

Reducing unemployment in jobs-poor regions

Related to the problem of a lack of jobs generally, is the specific problem of a shortage of employment in particular regions. Places where extreme levels of unemployment are sometimes present include: depressed rural and remote areas; regional manufacturing centres; regional towns that have attracted low-income people from metropolitan centres; and some outer suburbs in capital cities.

The reasons for job decline in these regions vary and not all non-metropolitan regions have been affected, with strong growth in both population and employment in many regional towns. Although this growth is often at the expense of surrounding rural areas. Coastal towns have generally fared better than inland towns.

The main direct causes of high regional unemployment levels are as follows.

- In *rural and remote* areas the long-term fall in the value of agricultural goods on world markets and more labour intensive production methods in farming and mining are largely responsible. Also, fewer agricultural goods and minerals are processed in their region of origin. In remote Indigenous communities, population growth has been relatively high and out-paced employment growth. Meanwhile cultural links to the land reduce migration.
- Many *regional manufacturing centres* have suffered from the overall decline in manufacturing employment, especially in labour intensive areas such as the clothing and textile industries and food manufacture.
- Other regions have attracted low-income people from major cities due to low housing costs, but don't have enough jobs for them due to a narrow industry base.

²⁶ Vickery, 1999.

²⁷ See ACOSS 2002, *Generating Jobs*.

Crucially, most growth in service industry jobs - the fastest growing area of employment - occurred in the major capital cities. For example, almost all of the growth in financial and business services employment over the past decade occurred in Sydney, Melbourne and Brisbane. However, unemployed people face high housing costs in these cities and others do not have the relevant skills for the types of jobs available.

Once employment opportunities in a region dry up, a downward spiral begins. Young people leave in search of jobs and fewer people move into the region. Demand for services falls and businesses such as supermarkets and banks respond by withdrawing services. Government services should be a force for stability in declining regions. Instead, they have often engaged in public sector restructuring and cost-cutting.

Regional joblessness can be addressed with sufficient commitment by all levels of government. However, it needs to be done without taking jobs from other disadvantaged regions or *permanently* subsidising regional jobs from the public purse. To begin addressing the problems of regional joblessness it is worth targeting those areas that have especially high unemployment rates (ie over 10 per cent).

Essential community services

One of the problems facing regional areas is a lack of essential community services, and with the withdrawal of such services often occurring at a region's point of decline. Federal and State Governments should commit to national minimum standards of access to essential community services, including public health, education, and social welfare services. This commitment would help stem the loss of publicly-funded services in many parts of Australia and should lead to an expansion of services over time. It should be implemented jointly by the Federal and State Governments through the Council of Australian Governments (COAG) process. The present allocation of resources in non-metropolitan regions is neither fair nor adequate. For example, there is a major shortfall in nursing services in rural areas.

Public infrastructure development program

As a first step to filling the serious gaps in public investment in Australia, a national public infrastructure development program should be undertaken that is targeted to disadvantaged regions. A five year plan should be undertaken to raise public investment by at least 1% of GDP. Priorities include transport infrastructure in outer metropolitan areas and regional cities, and other social infrastructure including public housing²⁸, hospitals and schools.

This program should be designed to generate jobs in two ways: in the construction of infrastructure, and by improving the efficiency of the regional economy. Contractors should be required to source as much of the labour for these projects as possible from within the regions concerned, and to establish partnerships with local Job Network services to take on local unemployed people.

Local employment and social development initiatives.

The efforts of many regional communities to address social and economic disadvantage in a systematic way should be supported. This should include seed funding and ongoing

²⁸ An exception to the regional strategy would be the location of building public housing. One problem with past public housing policies is that too much of this housing is located in severely disadvantaged regions with poor access to jobs and services.

support for regionally-based employment development organisations, and for innovative community based projects to generate jobs and improve social cohesion.

Community capacity-building is often a crucial first step towards the economic and social revival of disadvantaged regions. Initiatives planned by local people are more likely to achieve their objectives than those which are delivered from the top down.

Encouraging expansion of labour-intensive private sector services in regional centres

Governments should stimulate the growth of labour-intensive private sector services in disadvantaged regions. This is probably the most sustainable basis for employment growth in disadvantaged regions. Agricultural and mining industries are now highly capital intensive and ongoing increases in public funding for community services cannot be justified in the long run unless the regional population is growing.

Service industries that take advantage of new information technology to reduce the "tyranny of distance" (for example, call centres and clerical processing centres) have the potential to boost employment in these regions, as does tourism.

Governments can help disadvantaged regions compete for employment opportunities by investing in education and training to improve the region's skills base. Institutions such as regional universities also generate jobs in their own right. Local public infrastructure such as roads should also be improved to help attract both employers and consumers.

On the other hand, across-the-board tax concessions or other subsidies to encourage employers to relocate to disadvantaged regions are a costly way to improve job opportunities.²⁹ They may also have unintended consequences, such as drawing employers away from surrounding regions that may not be much better off. A related problem is the destructive competition between State governments to attract private sector investment using tax and other concessions. Although some of these programs are useful, at the end of the day this is a zero sum game - for every state that gains jobs, another loses them.

Improving housing, transport and mobility for job-seekers in disadvantaged regions

Where disadvantaged communities are located reasonably close to employment opportunities (for example, in outer-metropolitan areas), policies that improve people's housing choices and mobility will help reduce joblessness and stem regional decline. Public housing policies should encourage tenants in large estates to remain in the community rather than move out once they find a job. Affordable and reliable public transport services and improved subsidies for jobless people to use them would help people in these communities to get jobs. This, in turn, would boost the local economy and strengthen the community.

For many years, governments have avoided building large public housing estates, as they became aware of the adverse effects of concentrating social and economic disadvantage in the one place. However, many public and community housing residents still live in large estates. Public and community housing policies, especially rental policies, should encourage a mix of residents in these estates. This should be supported by improvements in local community services and regional employment strategies along the lines of those proposed above.

²⁹ US studies suggest that these across the board tax concessions cost on average around \$30,000-\$60,000 per additional job created. See Freeman R & Gottschalk P (1996).

Alternative approaches to improve the employment prospects of people in severely disadvantaged regions include relocation assistance and an expansion of low cost housing in regions where jobs are available. These policies would encourage people to move out of these regions. The benefits for those who get a job as a result would have to be carefully weighed up against the loss of jobs for the regions concerned.

Recommendations

R.1 Avoiding and easing the effects of recessions

Improve national public infrastructure planning and develop projects to implement in recessions; introduce paid employment experience programs for long-term unemployed people and expand them during recessions; boost the incomes of the poorest Australians during recessions; tighten the Federal Budget during economic booms; avoid high interest rates; and foster innovation and industry development to increase the speed of growth.

R.2 Converting economic growth into more jobs

Jobs growth should be achieved by: addressing shortfalls in publicly funded community services (mainly health, education and social welfare services); developing an investment strategy to repair the natural environment; restraining growth in incomes in an equitable way; and reducing excessive working time in return for higher productivity.

R.3 Reducing unemployment in jobs-poor regions

National minimum standards for access to essential community services should be set; national public infrastructure development programs targeted to disadvantaged regions; local employment and social development initiatives supported; expansion of labour-intensive private sector services in regional centres encouraged; and improvements made to housing, transport and mobility assistance in disadvantaged regions.

3.4 Skills, education, training and labour force transitions

One of the causes of joblessness is people not having the skills required to undertake the jobs that are available. This has implications both for the education of young people and for the ongoing education and training of people who are already in the workforce or who are of workforce age. A related issue is people successfully managing periods of transition into the labour market and moving between jobs.

People's education levels are correlated with their likelihood of experiencing unemployment and their duration of unemployment. The stark difference in employment rates are particularly apparent when comparing people who have not completed high school with those who have completed a higher education degree. People who have not completed secondary school have an unemployment rate of 11% and a labour force participation rate of 74%, while people with a bachelor degree have an unemployment rate of 3% and a participation rate of 93%.³⁰ Furthermore, people who

³⁰ ABS *Education and Work*, Catalogue No 6227.0, May 2002, Table 14

have not completed secondary school have a much higher likelihood of becoming long-term unemployed once they are unemployed³¹.

In a labour market where secure full-time jobs are increasingly being rationed to those with the highest skills, and the skill requirements of employers are changing rapidly, people with limited formal education and vocational training are disadvantaged. Even if they hold a full-time job, the loss of that job may usher in a life of insecure employment or prolonged joblessness. This is particularly relevant in the current environment where there has been a structural change in the types of jobs available and therefore in the types of skills required. With the decline in the manufacturing sector and the shift away from manual work there is a skill gap that is especially apparent for low skilled manual workers.

If people from low income backgrounds obtain post-school qualifications and jobless people and low skilled workers retrain, in theory they face a much lower risk of being locked out of secure, well paid employment. Extending this argument to the labour market as a whole, fewer people would face prolonged periods of joblessness or insecure employment, even if the overall jobless rate remained the same. Joblessness would more readily be "shared around" and long-term unemployment would be reduced. While not the ideal scenario, it would still represent an improvement because poverty would decline. Better still, would be a broader spread of skills across the labour force that would remove bottlenecks in the labour market and improve overall productivity, raising the level of economic growth and job creation and offering the prospect of reduced joblessness generally.

There is some international evidence to support this view:

- Sweden maintained one of the lowest unemployment rates in the OECD until 1990 (well under 5%), in part because of its large investment in education, and labour market assistance to re-skill unemployed people and workers in declining industries.³²
- Ireland's substantial investment in education and training in the 1970s and 1980s skilled its workforce up in preparation for the massive growth in investment in manufacturing for export (especially in information technology industries) in that country over the following decade.³³
- Germany's renowned vocational training system (combining formal education and vocational training) appears to have helped the Germans to avoid the extreme levels of wage inequality between highly skilled and less skilled workers that have plagued the US labour market. Unemployment is higher in Germany than in the US, but growth in joblessness since the 1970s in Germany was more evenly distributed across the labour force.³⁴

³¹ DEWRSB 1998, *Job Seeker Classification Instrument (JSCI) Report*, p25.

³² There was much more to the story than this, including wage restraint, an open economy, and the active pursuit of export opportunities, but the high skill level of the workforce was an important factor. See Therborn G 1991.

³³ Again, there were other factors at work, including substantial investment by the European Commission. See Dorgan S 2001.

³⁴ Nickel & Bell 1996, p302.

Education and training programs must be designed with the scarcity of secure employment in mind. Well-designed programs to lift the skills and work experience of the most disadvantaged groups in the labour force can have major benefits. A strong emphasis on mainstream work experience and pathways to employment is of paramount importance.

As the population ages over the next two decades, and the supply of labour declines, an opportunity will open up to improve the employment prospects of many groups that are presently excluded from "mainstream" jobs. A stronger investment in employment, education and training programs is essential to maximise jobless people's ability to take full advantage of this opportunity.

Education and training needs to be considered throughout a person's life. Improving school completion rates and participation in further education and training will improve the employment prospects of young people over the long term. It is of concern that school completion rates in Australia actually fell over the 1990s. Young people who do not complete school or undertake vocational education are at risk of long-term disadvantage in the labour market.

As well as attending to young people's education, there also needs to be a focus on retraining and lifelong learning. There has already been a massive change in skill requirements in the workforce and it can be expected that there will be similar rates of change in the future. People who fall by the wayside when there are substantial changes to the skill requirements of the workforce, are at risk of never re-entering employment.

One way of preventing unemployment, and certainly long-term unemployment, is to ensure not only that people have the skills they require to compete effectively in the labour market, but also to ensure that people are able to successfully manage transitions into and within the labour market at key times. This includes: entry into employment for young people when they complete their education; re-entry into employment after a period out of the workforce, such as when caring for children; and successfully managing a change in jobs, especially after retrenchment.

Recommendations:

R.4 Improving school completion rates

A national commitment to providing all people with the opportunity to complete year 12, or its equivalent in education or training, either at school or with an appropriate alternative provider.

R.5 Transitional School to Work Support Scheme

A comprehensive transitional support scheme for young people in secondary schools should be introduced. This might take various forms including case management and personal support, mentoring, peer support and post-school follow up.

R.6 Improving access to further education

Greater participation in further education should be fostered through ensuring that vocational education, TAFE and university are equally accessible for young people from disadvantaged backgrounds. This will require addressing economic, social, academic, regional and motivational barriers.

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R.7 Education for Indigenous Australians

Indigenous young people face the greatest barriers to educational participation and achievement. Targets should be set to improve outcomes in Indigenous education. Whole of government and whole of community strategies need to be developed that draw on previous examples of successful outcomes in Indigenous education. Further, ABSTUDY should receive additional funding to ensure that eligible people are provided with the full range of supports to which they are entitled. It should be the subject of a public review involving participation by Indigenous communities and organisations.

R.8 Transitional skills based education and training

A system should be developed to provide skills based education and training opportunities specifically for people facing key transitions in their labour market participation (eg retrenchment, carers re-entering the labour market, potential retirees and others who are wanting to return to work). Such a system should enable people facing a labour force transition to gain skills in a field that will lead to employment rather than face long-term joblessness.

3.5 Personal barriers to employment

The category of 'personal barriers' to employment can be inclusive of an extremely broad range of factors such as having a disability, being long-term unemployed, not having access to transport, not having access to child care, or experiencing discrimination by employers.

These barriers may be considered as falling into two categories: those that are immovable barriers and those that have the potential to be addressed and removed. It is apparent from the analysis of the income support recipient population that while nearly all Newstart Allowance recipients will be engaged in extensive job search activity, people receiving other types of income support may not be looking for paid work and may be restricted in the amount they are able to do. This is indeed the purpose of these different payment types. They are an acknowledgement of a person's inability to undertake full-time work because of other factors. Under *Australians Working Together* and the review of workforce age payments, *Building a Simpler System*, there has been some questioning of these activity restrictions and consideration of bringing more people into paid employment.

It is important in this context to recognise two things. Firstly, the benefits that employment brings to an individual and to a family needs recognising – through employment there is a much lower risk of a person or family living in poverty and from experiencing certain types of economic exclusion. However, the extent to which this is true depends on the quality of the employment. Secondly, it is necessary to recognise that the community benefits by the unpaid activity that many people undertake. For example, caring for children, caring for ill or aged relatives, or caring for people with disabilities, may often best be done by people who are receiving Parenting Payment or Carer's Payment. It would often not be in a family's or community's best interests to have those activities restricted by a person's need to be employed. Provision of care by unpaid family members is likely to be a great saving to the community.

Barriers to employment for income support recipients

The fact that the majority of people receiving income support are engaged in employment, job search or study suggests a willingness and desire to work by most people. Some people may already be working the number of hours they want, or are able, and are relying on income support to supplement their income. Others are in the process of trying to get a job or get more work.

There are other people receiving income support who are not participating in any economic activity or who are limited in the extent of their participation. The reasons for this are varied, but the two primary structural barriers identified are having children or adult relatives who require care, and having an ongoing medical condition that requires treatment. As many people are receiving a type of income support that specifically relates to their caring activity (Parenting Payment, Carer's Payment and Wife's Pension), and others are receiving a payment that relates to their medical condition (Disability Support Pension), it is to be expected that these situations will affect people's capacity to engage in work related activities.

It was found that 45 per cent of workforce age social security recipients engaged in caring activities, but that this only affected their economic participation in certain circumstances. For example, having dependent children tended to affect economic participation only when the children are under the age of three. People with older children are actually more likely to be in employment than people without children. However, people with no dependents are more likely to engage in job search. This finding together with the finding that children are identified as a barrier to full-time work for those who are working part-time, suggests that parents on income support are more likely to have part-time work but are also less likely to want and to search for full-time work due to their child related responsibilities.³⁵

A large proportion (43 per cent) of people on income support report having an ongoing medical condition. Those requiring treatment spent an average 11.3 hours per fortnight in treatment.³⁶ Therefore, it is not surprising that people with a medical condition are half as likely as those without a medical condition to engage in economic participation.³⁷

People who were not engaged in either employment or job search most often cited injury or poor health as the reason. This was followed by being too old, and children's needs as the next most common reasons. For those engaged in job search, almost 40 per cent stated either no jobs available or being unable to find a suitable job as their reason for not gaining employment. Lack of education, being too old to work and poor health or injury were also common reasons given. Well over half of job seekers mentioned that a least one of the factors of education, age or health status prevented them from finding work. These findings suggest that problems exist on both the demand and supply side of labour in reasons for ongoing joblessness and dependence on income support.

Lone parents

Lone parents face particular disadvantage within the labour market with unemployment rates that are almost double that for other people. Lone parents face greater barriers in

³⁵ Saunders, Brown and Eardley 2003, p69.

³⁶ Saunders, Brown and Eardley 2003, p26.

³⁷ Saunders, Brown and Eardley 2003, p67.

getting paid employment as they do not have another parent to share child-care and must rely much more on paid child-care.

Policies that are supportive in providing for the needs of lone parents may be very effective in improving rates of employment for lone parents. For example, joblessness among lone parents is very low in Sweden and Denmark, due to the ready availability of quality child care and the social custom for all mothers to re-enter the workforce when their children are young.³⁸

The high rate of joblessness among lone parents in Australia appears to be due to their lower skills base, in addition to their sole responsibility for the care of their children. The average educational attainment of lone parents is considerably lower than for other people. In 1998, 52% of lone parents had completed year 10 or less compared with 34% of the labour force as a whole.³⁹

Along with other low-skilled women, the majority of lone parents in Australia find it difficult to progress from low paid casual and part-time employment to more secure full-time jobs.⁴⁰ Further education and training are key factors in overcoming these barriers to full-time work. Hence, lone parents show greater interest in, and benefit more from, labour market assistance of this kind than other groups of jobless people.⁴¹

The interest that lone parents have in working is apparent in their participation rates in employment and in their rates of job search. Of all people receiving income support, Parenting Payment (Single) recipients have the highest rate of paid work, and the second highest rate of job search after people who are receiving Newstart Allowance.⁴² It needs to be recognised that sole parents do exhibit preferences for working but that also as the sole carers of their children they require flexibility in their workforce participation. The different needs of individual children and each family's situation may affect a parent's capacity to work. For example, it cannot be assumed that all adolescents will not require a parent to be at home after school.

People with disabilities

People with disabilities have both higher unemployment rates and lower labour force participation rates, resulting in much lower participation in employment than the general population. This partly reflects an unwillingness by society to recognise that different capacity does not necessarily mean reduced capacity, an attitude that frequently leads to the exclusion of people from mainstream employment.

The number of Disability Support Pensioners rose from 312,000 in 1990 to around 650,000 today. An examination of this trend reveals that at least half the growth in recipients was due to social security policy changes that restricted access to other payments, especially for mature age women, and growth in the overall number of people with a disability.

³⁸ Australian Council of Social Service 2003, *The Bare Necessities: Poverty and deprivation in Australia today*, ACOSS Paper No.127, ACOSS, p135.

³⁹ See Gray M et al 2002.

⁴⁰ See discussion of "insecure employment and churning", above.

⁴¹ ACOSS 2002, *The obligation is mutual*, ACOSS Paper No 120.

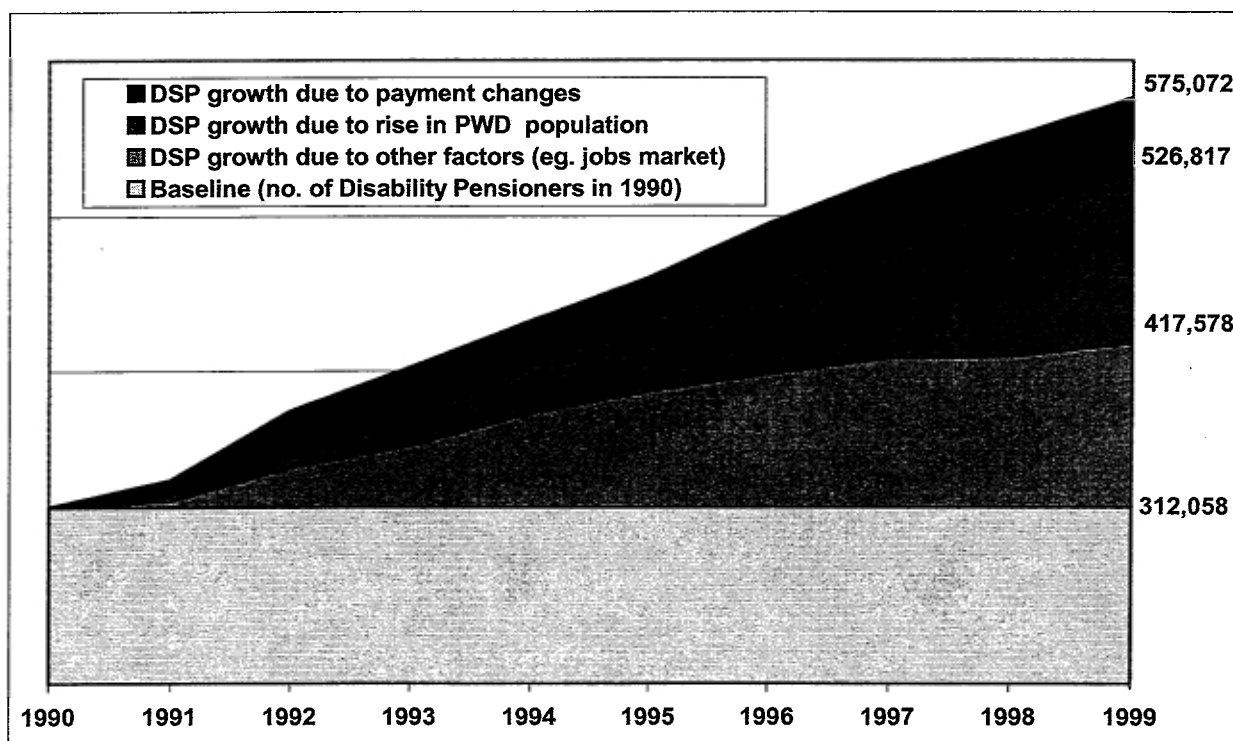
⁴² Saunders, Brown and Eardley 2003, p34.

Another major factor was labour market developments, especially the impact of the recession of the early 1990s (see Figure below).⁴³

There is also a high level of disability and chronic illness amongst the job seeker population who are not receiving a Disability Support Pension. The Department of Family and Community Services found that 30 to 40 per cent of sole parents, married parents, and Newstart Allowance recipients interviewed for a welfare reform pilot program reported a disability or chronic illness.⁴⁴

In addition to having a low income through joblessness, people with disabilities often have higher living costs. This can include high and continuing costs of medication, equipment or aids, appropriate housing, transport, and services for personal care or home maintenance. These issues are not well recognised in the social security system, which imposes significant penalties for moving off a pension and into work or study.

Figure 4: Growth in Disability Support Pension(DSP) recipients (1990-99)



Source: ACOSS 2003, *Key Causes of the Rise in Disability Pensioners in the 1990s*. ACOSS Info No 322.

An increasingly recognised problem in developing effective social policy in this area is the need to develop a greater understanding of the episodic nature of many disabilities and chronic illnesses. For example, many people with Acquired Brain Injury or with a mental illness will not report their disability, and as such can easily fail to meet

⁴³ ACOSS 2003, *Key Causes of the Rise in Disability Pensioners in the 1990s*. Relevant changes to social security payments include abolition of Widow Allowance and raising the age at which women qualify for Age Pensions. According to the ABS, the number of people of workforce age with disabilities grew by 400,000 in the ten years to 1998 due to a combination of increased life expectancies, improved health technologies and treatments, and better identification of disabilities. At the same time the labour market has demanded higher skills and educational qualifications, effectively excluding many people with disabilities from labour market entry or re-entry - especially in the labour market conditions prevailing during and after the recession.

⁴⁴ Carlisle et al 2002.

inappropriate obligations placed on them. They may not identify themselves as having a disability and on any given day may present as being quite well.

Many people with disabilities are reliant to some extent on income support. This is primarily because:

- they experience significant discrimination in being seen as suitable employees;
- they lack the supports to enable them to secure and retain jobs;
- the labour market and employers are not sufficiently flexible to accommodate episodic or different work capacity.

A key strategy for dealing with issues of disability in public policy is to identify not only the needs of the individual in seeking to overcome the barriers and costs associated with a disability, but also the external barriers found in patterns of discrimination, work rigidity, inappropriate or inadequate assistance and support, and physical and other access issues. Any contemporary program of support to assist people with disabilities gain greater economic independence must take into account all these issues.

Recommendation

R.9 Assisting with costs for people with disabilities

People with disabilities often have high medical, transport and independent living costs. People with disabilities who are in paid employment, but require frequent medical attention, should have access to medical, pharmaceutical and allied health concessions. People in this situation should be able to register for this concession status through Medicare, and have their eligibility periodically reviewed by a general practitioner.

Long-term unemployment

Australia has a high rate of *long-term* unemployment. The Australian Bureau of Statistics identifies 144,200 people as long-term unemployed (unemployed for over 12 months). This is 23.2 per cent of the unemployed population. 59.8 per cent of people who are long-term unemployed, 86,600 people, have been unemployed for over 2 years.⁴⁵ Of even greater concern is the number of people who have been registered for unemployment benefits for over 12 months. Unlike the strict definition of unemployment used by the ABS⁴⁶, these figures include people who are in part-time work and are not earning enough to come off income support, as well as people who have less than three months continuous employment and move in and out of short-term casual jobs but rely substantially on social security for long periods of time. There are currently over 373,700 people who have been receiving unemployment benefits (Newstart Allowance and Youth Allowance [other]) for over 12 months. This is 59 per cent of all people receiving unemployment benefits. This means that a high proportion of unemployed people rely on unemployment benefits, for at least part of their income, over a long period.

⁴⁵ ABS *Australian Labour Market Statistics*, Catalogue no. 6105.0, p62.

⁴⁶ The ABS counts people as unemployed only if they have less than one hour of work in a week, and if they are actively seeking work and are able to start work immediately. People are counted as long-term unemployed if they have had less than 2 weeks of work in the past 12 months.

People who are long-term unemployed are more likely to have personal barriers and skills deficits that make finding sustainable employment especially difficult. Centrelink administers the Job Seeker Classification Instrument (JSCI) at a job seeker's initial interview to predict the likelihood of a person becoming long-term unemployed. The factors which have been identified as key predictors of long-term unemployment include: being older, having a disability, lower educational attainment, poor English language and literacy skills, living in a region with high unemployment, being a lone parent, being an Aboriginal or Torres Strait Islander, having been imprisoned, not having a telephone, being homeless or in insecure accommodation, not having recent full-time work experience, not having any vocational qualifications, and being from a country which has very high unemployment rates.⁴⁷

The table below illustrates the extent of the key workforce barriers by comparing the main reasons given by short-term and long-term unemployed people for being unable to secure a job.

Table 1: Main difficulty finding work (2001)

	Short-term unemployed people (% of total)	Long-term unemployed people (% of total)
Lack of job opportunities	37%	23%
Lack of skills or other barriers, including:	46%	70%
Skills/education	12%	18%
Too old/young	9%	15%
Health/disability	5%	11%
Other reasons	17%	7%
Total	100%	100%

Source: ABS (2001), Successful and Unsuccessful job search.

Another critical barrier to finding a job is long-term unemployment itself. Employers use the duration of unemployment as a yardstick of a person's employability, even where the person is capable of performing the work. A large and growing proportion of long-term jobless people have had no ongoing connection with mainstream employment for many years. For example, 29% of people on Newstart Allowance in 1995 were also on that

⁴⁷ Department of Employment, Workplace Relations and Small Business 1998, *Job Seeker Classification Instrument (JSCI)*, DEWRSB, Canberra.

payment in 2000, and another 16% had moved on to other workforce age payments.⁴⁸ People receiving the Disability Support Pension and Parenting Payment are often even further removed from employment.⁴⁹

3.6 Employment Assistance

Providing employment assistance to people who are jobless can do two things:

- Assist people to gain employment more quickly than they otherwise might through matching them with job vacancies and/or providing job search skills to enable them to find their own employment.
- Assist people who are particularly disadvantaged in the labour market to overcome their barriers so they can compete more effectively with other people in seeking employment.

The majority of unemployed people get a job within three months. However, there are still substantial numbers of people who do not find work so easily. Effective employment assistance is important for enabling people who are unemployed to move into work at the earliest possible stage. The longer people are unemployed, the more difficult it becomes for them to get a job, and the more likely they are to experience poverty and ongoing disadvantage in the labour market.

Under the new model of employment services, introduced by the Government in July 2003, the focus is on:

- keeping unemployed people active and connected in the community with a priority on “mutual obligation”;
- provision of low level assistance, primarily job matching, to people who are short-term or very long-term unemployed; and
- provision of higher level of assistance for people who have been unemployed for one to two years or are identified as at very high risk of long-term unemployment. This includes provision of a job seeker account.

The Productivity Commission report into the Job Network notes that in providing employment assistance “the focus of concern should be on the most disadvantaged unemployed (such as the long-term unemployed or those at risk of long-term unemployment)”.⁵⁰

In order to combat the labour market disadvantage facing the majority of long-term unemployed job seekers, substantially more assistance is required than is provided in the *Active Participation Model*. Of particular concern is the lack of assistance for those people who are very long-term unemployed and fail to get an outcome in Customised Assistance. After two attempts at Customised Assistance there is no further substantial assistance. Such people are severely circumscribed in their future work possibilities. A

⁴⁸ Dockery & Webster, 2001.

⁴⁹ Flatau & Dockery, 2001.

⁵⁰ Productivity Commission, *Independent Review of the Job Network: Inquiry Report*, Report No.21, AusInfo, Canberra, p2.1.

person who is very long-term unemployed is so highly disadvantaged within the labour market that moving into sustained employment is unlikely without substantial intervention. Given the large numbers of people, on long-term income support this is of particular concern.

Overall, Australia invests much less than the average OECD country in labour market assistance. Most of the assistance received by disadvantaged job-seekers is in the nature of counselling, job search training and coaching. This is despite evidence of a serious mismatch between the skills and work experience of long-term jobless people and the requirements of employers. If we are to take the principle of *mutual* obligation seriously, the Government's obligations do not stop at paying income support. In the present labour market, which systematically excludes many low skilled jobless people from secure full-time jobs, the traditional guarantee of income support for jobless people should be extended to an *employment assistance guarantee* for disadvantaged job seekers. This is in the long term interests of both recipients and Governments, since many recipients will rely on social security for many years if they do not get substantial help now to re-enter mainstream employment.

How can an *employment assistance guarantee* for disadvantaged job seekers be implemented, and integrated with social security activity requirements, without undermining the effectiveness of labour market assistance?

Every disadvantaged job seeker faces different employment barriers and therefore has different labour market assistance and other service delivery needs. Therefore a flexible employment assistance guarantee is required. The new Job Seeker Account could be the basis for this type of a guarantee for long term and disadvantaged job-seekers. If, in addition to the standard account amount (\$900-\$1,450), providers were offered a multiple of any money they invest from their own funds in employment assistance, they would be encouraged to invest in order to improve their employment outcomes. From the Government's standpoint, even a marginal improvement of, for example, 10 per cent more long-term jobless people gaining employment would be worth a great deal over time. It would be worthwhile for the Government to risk a substantial investment of this kind, especially as the risk would be shared with providers.⁵¹

An *employment assistance guarantee* of this kind should not be a standardised offer of assistance. It should be an offer of substantial help of a kind judged by the service provider as most beneficial for each individual job seeker. A transitional plan with such investment as its centrepiece would bring compliance arrangements into alignment with the actual needs of job seekers, rather than the other way around.

A similar approach could be taken to transitional plans and employment assistance arrangements for groups with special needs such as people with disabilities. Where a person is a long way from being able to get a job, a staged approach is required. For example, the outcomes-based component of funding could recognise the achievement of significant milestones such as successful completion of a rehabilitation program. There are already elements of this model in the proposed funding arrangements for open employment services for people with disabilities.⁵²

⁵¹ Providers would have a strong incentives to invest wisely to improve outcomes, because they would still have to commit some of their own funds.

⁵² FaCS Federal Budget 2003-04, *What's new, what's different?* For an example of a funding model along these lines in the US, see Frumkin 2001.

This approach to employment assistance should be targeted towards long-term jobless people and other highly disadvantaged job seekers who are some distance from achieving full-time employment, but not so far removed from this prospect that the changes of success are negligible.

Recommendation

R.10 Employment Assistance Guarantee

Disadvantaged job seekers required to undertake economic participation activities should receive more than income support in return. They should also receive an employment assistance guarantee that is sufficient to overcome their particular employment barriers. This guarantee should be implemented in the following way:

- a) *The employment assistance guarantee should apply to:*
 - *long-term unemployed people at regular stages, such as after 12 months of unemployment;*
 - *those assessed as facing a high risk of long-term unemployment;*
 - *other social security recipients with substantial barriers to employment such as a disability or a combination of low education and skill levels and limited employment experience.*
- b) *The guarantee should be underpinned by a funding regime for employment assistance providers that combines payments for employment outcomes and a shared investment by Government and providers in assistance such as wage subsidies, employment experience and training. The nature of the help offered to job seekers pursuant to the guarantee should be negotiated between them and the service provider.*
- c) *The guarantee should be linked to any job seeker activity requirements through a transitional plan. The negotiation of the contents of the guarantee should reside with employment service providers.*

3.7 Obligations

Activation

Most OECD countries, including Australia, have progressively increased activity requirements for social security recipients. This generally boosts labour force participation, but provides no guarantee of success in securing employment.

“Activation” policies that are tailored to individual circumstances and underpinned by strong investment in labour market assistance can lift social security recipients out of poverty. Inflexible activation policies are more likely to lead to financial hardship and a lack of faith in the social security system and service providers.

Activation is more successful in achieving employment outcomes among people who are jobless for short periods and have no major labour market barriers. For more disadvantaged job-seekers, activation is likely to yield small and diminishing returns without substantial help to overcome workforce barriers.

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Another important and unresolved issue is the appropriateness of activation where people have disabilities or caring responsibilities. Much of the current debate assumes that labour force participation is desirable in its own right, when the social security system should also give priority to supporting caring.

Recommendation

R.11 Activity Requirements

- a) *The rationale for any activity requirements in workforce age payments should be to encourage progress towards economic independence. Therefore, only reasonable requirements likely to secure employment, such as job search, education and training, should be mandated by the social security system.*
- b) *Economic participation requirements should not apply, or they should be subject to reasonable adjustments, where a recipient has a disability or illness-related barriers to employment, or caring responsibilities. In this way, the social security system should recognise caring responsibilities without attempting to regulate them.*
- c) *Any economic participation requirements should be realistic, relevant to people's employment prospects, and supported by appropriate labour market assistance, flexible work practices, and other supports.*
- d) *The scope of requirements should be spelled out in legislation. They should be evaluated regularly to ensure that they are achieving their intended outcomes, and are not being imposed in an unfair or inconsistent manner.*

Compliance

The present system of mutual obligation relies very heavily on the social security compliance regime to change *behaviour*, on the assumption that joblessness is largely a *behavioural problem*.

In a social security system that uses behaviour modification as its primary strategy to reduce joblessness, linking employment assistance to activity requirements can be counter-productive. This is because the purpose of employment assistance will be distorted – to test and enforce compliance rather than to help people move towards employment. Examples of these distortions in the present system include the high level of breach recommendations (ie Participation Reports) by Job Network members and Community Work Coordinators. An unfortunate outcome of this over-emphasis on compliance is that disadvantaged job-seekers can be reduced to being passive rather than active recipients of employment assistance services.

This does not imply that compliance systems, of themselves, are counter-productive. Well-designed compliance systems can help reduce unemployment, especially among short-term jobless people. Rather, the problem is the current imbalance between positive employment assistance and social security compliance.

This creates understandable apprehension about social security reform among social security recipients on non-activity tested payments. It is probably also a major reason for increased reliance on non-activity tested payments such as Disability Support Pension. Many people with disabilities who cannot cope with the compliance regime imposed on unemployed people have applied instead for DSP.

Unemployed income support recipients are required to comply with various requirements linked to the receipt of income support. The fairness and impact of tests

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and the associated penalties imposed for non-compliance has been a major concern for the community services and welfare sector for a number of years.

Partial or full loss of income support incurred as a result of an activity or administrative breach frequently has devastating and counter productive outcomes on income support recipients. There are a number of issues of concern in relation to the current system of compliance and penalties:

- the harshness of penalties (far harsher than fines imposed by for criminal convictions);
- the high numbers of people breached;
- the lack of flexibility in taking into account personal issues and circumstances in both setting and adjusting compliance requirements and in responding to non-compliance;
- the high level of administrative (non-client) error associated with breaches;
- the lack of appropriate supports and services generally available to assist people to find a job, live in the community or to comply with requirements.

Large numbers of disadvantaged people who have been breached turn to help from the charitable and community sector. The most vulnerable Australians are particularly exposed – people with a mental illness, people with low literacy levels, people with substance abuse issues, and homeless people. The financial penalty incurred often works to further prevent unemployed people from looking for work, and can threaten the security of their living arrangements. For instance, services that work with homeless people note that many clients have become homeless as a result of their social security income being reduced, suspended or withdrawn⁵³.

A further problem with the present compliance regime is the penalty of 26 weeks without payment applied to people who move to regions where their employment prospects may be more limited. There are very few exemptions to this rule to take account of legitimate reasons for moving to these regions.

To redress the negative impact of breaching ACOSS seeks a 'rebalancing' of the income support system to a greater emphasis on encouragement rather than punishment, and on building capacities for economic and social participation.

ACOSS and others continue to argue that the high rates of fines imposed and the length of time for which they are imposed cannot be justified, and prove to be counterproductive. This is especially the case for vulnerable groups, such as homeless people, people who have a mental illness, young people and others who may not have the capacity to comply and subsequently incur a penalty that further distances them from social and economic participation.

We continue to support the Pearce Report recommendations that⁵⁴:

⁵³ Council to Homeless Persons 2003, p 6.

⁵⁴ Pearce et al, 2002.

- penalties should be fully recoverable if the job seeker takes 'reasonable steps' to comply with reasonable requirements not later than four weeks after the imposition of the breach;
- the duration of penalties should not exceed eight weeks;
- the rate of reduction in allowance not exceed 25% of income;
- job seekers be allowed to declare extra income from casual or part-time work when it is received so they know exactly how much they have earned.

Recommendations

R.12 Penalty regime overhauled: reducing rate and duration of breaches

The current breach penalty regime for unemployed people should be overhauled, the rate and duration of penalties reduced, and systems further enhanced to ensure they are used only as a last resort. Specifically:

- Penalties should be recoverable as far as possible in activity test cases where compliance can be achieved, eg. where an interview with a Job Network provider is missed but is rescheduled and attended. Payment reductions should be fully recoverable in administrative matters where compliance is met, eg. where someone attends a Centrelink office or eventually supplies the information requested. In such cases, penalties would take the form of a suspension of part payment. Suspension of payment should not take place on a day when Centrelink will be closed the following day;*
- Penalty rates should be set at the minimum amount necessary to achieve compliance. They should not escalate for a second or subsequent breach*
- Where Centrelink is already withholding payment to recover a debt, any penalty should be applied consecutively and not concurrently.*
- Failure to correctly declare income should not constitute an activity test breach. Problems with current reporting requirements in relation to the declaration of income should be addressed by changing from an "income earned" to an "income received" reporting period.*
- No penalty should be imposed without Centrelink having to implement a comprehensive procedure involving at least the following:*
 - *a series of clear, communicated warnings;*
 - *significant, documented attempts to contact and interview the job seeker to obtain any possible explanation;*
 - *the breach recommendation being considered by an additional officer at a higher level;*
 - *consideration given to whether the original activity demand was reasonable;*
 - *the provision of standardised material on, and an explanation of, the individual's review and appeal rights;*
 - *consideration being given to whether or not the breach should be waived due to 'special circumstances'.*

R.13 Allowing flexibility in moving areas

The Government should substantially reduce the 26 week non payment breach penalty period applied due to 'moving to an area of lower employment prospects' and broaden the range of circumstances in which people with legitimate reasons to move are exempted.

3.8 Work incentives

While financial incentives are important, too heavy an emphasis on this factor in current policy debate in Australia would be misplaced. It needs to be remembered that most unemployment is caused by structural problems within the labour market.

Australia's relatively high minimum wages, combined with low benefits, means that financial incentives to move from benefits to low paid *full-time* employment are relatively strong, especially for single people.⁵⁵ The scarcity of full-time jobs appropriate to the skills and other characteristics of social security recipients is a much greater problem.

High effective marginal tax rates (arising from income tests and taxation) do appear to discourage *part-time* employment among social security recipients although our income tests on part-time work are already more liberal than most other OECD countries.

Policies to improve work incentives are usually costly because they typically affect the entitlements of large numbers of people. Therefore, it is important to weigh up the cost-effectiveness of policies to improve work incentives against alternative policies such as investment in employment assistance.

The table below compares the cost and estimated effects of a range of policies to ease income tests, the five economists' Earned Income Tax Credits, and greater investment in labour market assistance. These are rough estimates only, as research on the effects of changes in financial incentives is in its early stages, we know little about how financial incentives actually affect behaviour, and no substantial work has been done in Australia on estimating the effects of improved labour market assistance on employment outcomes.⁵⁶

The table indicates that easing income tests directly for specific payments is likely to be less costly than introducing an earned income tax credit to offset them indirectly. This is because it is easier in this way to target the most severe benefit traps. However, results from preliminary modelling of the effects of easing income tests on labour force participation are discouraging.⁵⁷

⁵⁵ Single adults double their disposable income if they move from Allowances to a full-time job at minimum award wages. These incentives are weaker for couples, but this problem was substantially addressed by reforms in the mid 1990s that extended eligibility for payments such as Newstart Allowance to each member of a married couple and also applied the income test separately to each partner.

⁵⁶ Chapman & Piggott 1996, describes a model to measure the costs and benefits of expenditure on labour market assistance, but this has not been applied to contemporary employment assistance programs.

⁵⁷ Other research has found that reforms to income tests for unemployed couples introduced in the mid 1990s (splitting the payments made to a couple and the income tests applying to the family, in two) were effective in boosting labour force participation among married women in low income families. The greater apparent effectiveness of this reform may be due to the fact that it was a major structural change specifically targeted towards low-income married women - a group known to be sensitive to financial work incentives. See Warburton et al, 1999.

Even when reform of income tests boosts labour force participation, it is often hard to "convert" this into employment outcomes. For example, sole parents, a group particularly sensitive to financial incentives, have an unemployment rate that is double the national average.

A further advantage of investment in labour market assistance is that it can be more precisely targeted and fine-tuned to meet the needs of the most disadvantaged job-seekers. The most costly support is usually reserved for long-term jobless people and people with disabilities, thereby reducing "deadweight cost" and having the greatest effect on *long-term* reliance on social security.

Table 2: Cost-effectiveness of policies to improve participation and employment

Policy change	Target groups	Number of people affected	Cost
Ease Family Payment taper from 50% to 30% ⁵⁸	Families on \$30,000 to \$50,000 Current EMTRs: over 50%	Couples: 8,000 increase participation 10,000 reduce participation Sole parents: limited effect?? ⁵⁹ Overall outcome: Minimal	\$285 million
Ease 70% Allowance taper to 60%	Unemployed single people on less than \$18,000 Married unemployed people and parents on less than \$30,000 Current EMTRs: over 75%	Couples: 5,000 increase participation 16,000 reduce participation Singles: increase participation?? Overall outcome: Minimal	\$415 million
5 economists' Earned Income Tax Credit ⁶⁰	Families on less than \$50,000 Current EMTRs: over 30%	Sole parents: 26,000 increase participation Couples: reduce participation?? Overall outcome: participation increases by around 20,000?	\$2,500 million
More effective labour market assistance for long-term unemployed people through Customised Assistance ⁶¹	A 5% rise in net employment outcomes for long-term unemployed people using the Job Network ⁶²	Overall outcome: 10,000 gain employment	\$500 million

Sources: Kalb & Kew (2002), *Effect of a reduced allowance and pension taper rate*. Melbourne Institute Working paper No 25/02, Kalb, Kew & Scutella (2002), *Effect of a reduced family payment taper rate*. Melbourne Institute Working paper No 26/02, Duncan (2002), *Work incentives and labour supply of sole parents*. Towards Opportunity and prosperity conference, Melbourne April 2002.

⁵⁸ Implemented as part of the new tax system changes in 2000.

⁵⁹ Few sole parents earn more than \$30,000 and they would already be in full-time employment.

⁶⁰ Based on Lambert's tax credit proposal in Dawkins, 2002.

⁶¹ For example, through greater investment in such interventions as wage subsidies, training, and practical help. Costing assumes an average of an extra \$2,500 is spent per Customised Assistance participant.

⁶² This is a rough guess, assuming that net employment outcomes (the proportion of people who secure a job they otherwise would not have obtained) vary from around zero for the worst programs to around 20% for the best.

Income tests and social security payments

Income tests for social security payments should be determined with consideration of the following principles:

- That income support payments should not be used as a subsidy to low full-time wages (extra payments for other dependent family members are an exception); and
- That income tests should not unfairly penalise earned income from employment. Part-time employment should be rewarded but full-time employment should be the primary aim where possible.

Minimum full-time award wages should themselves form part of a basic income guarantee, with the responsibility to provide adequate incomes shared between governments and employers. This means that minimum full-time award wages should provide an adequate income for a single adult living alone, and that the social security system should not be called upon to supplement minimum wages for these workers. This does not preclude the supplementation of minimum full-time award wages where other family members are being supported by this wage. Indeed, the present social security system does so for couples with and without children and for sole parents.

It is important that income testing encourages part-time employment both as an acknowledgment that this may be the only available or suitable employment for some people, and also so that people do not become unduly disaffected with the social security system by receiving little return for their work effort. For the same reasons it is also important that when full-time work is possible this is also adequately financially rewarded and that people will not find it preferable to rely on a combination of part-time work in combination with some social security payments.

A *targeted approach* to subsidising part-time employment is supported. Action to improve financial incentives could focus on:

- aiming to ensure that social security and Family Tax Benefit recipients retain at least one dollar in every three of their overall earnings;⁶³
- addressing work disincentives associated with public subsidies for key services such as child care and social housing;
- encouraging part-time employment as a form of *transitional employment*, especially for people with caring responsibilities and people with severe labour market disadvantages.

If full employment is achieved in Australia in the foreseeable future it will not resemble the "old" system of *full-time employment* when all male breadwinners who sought work were quickly successful and when it was assumed that married women were financially dependent on their husbands. A contemporary model of full employment should recognise that part-time employment is more appropriate for many people who are

⁶³ This would mean targeting the most severe income tests including those for Newstart Allowance, Special Benefit, and those for families receiving combinations of Family Tax Benefit and Youth Allowance.

combining employment with other activities and those who are *in transition* to or from full-time jobs.⁶⁴ These groups include:

- parents and carers combining employment and caring;
- those combining employment and study or training;
- mature age workers phasing into their retirement;
- people with disabilities who are unable to move immediately into full-time employment or whose attachment to the workplace is periodic.

Income tests could be used to better target payments towards people on less than full-time minimum wages.⁶⁵ Ideally, this means that the cut out point (the private income level at which the income test reduces a payment to zero) for workforce age payments should be less, or close to, the national minimum award wage of around \$22,000 per year.⁶⁶

The current Newstart Allowance income test for a single adult cuts out at around \$16,000 per year, well clear of full-time award wages, while the current pension income test cuts out at around \$31,000 per year.

⁶⁴ The idea of "transitional jobs" as a new component of a full employment economy was developed by Schmid, 1997.

⁶⁵ Any attempt to *specifically* exclude full-time award workers would be unfair and ineffective if the income test allowed others on similar incomes (for example, part-time workers on relatively high hourly wage rates) to receive part-payments.

⁶⁶ If the cut out point is above minimum award full-time wage rates, it would be difficult to enforce any restriction on payments for full-time wage earners. For example, workers and employers could subvert the restriction by declaring that they are employed for less than full-time hours at a higher hourly rate. A key question that needs to be resolved is whether extending a very small social security entitlement (to a part-payment under the income test) to full-time award workers generally would make a significant difference in practice to wage-setting practices. If the cut out point is only slightly above minimum wages, it may not matter. On the other hand, a large subsidy for minimum award wages would have an effect on wage setting.

Table 3: A comparison of pension and Newstart Allowance income tests

	Thresholds (\$ per year)	Taper rates above thresholds (% of additional income)	Cut out points (\$ per year)
Pension income test (single)	\$58	40%	\$32,013
Pension income test (married - on combined income)	\$102	40%	\$53,456
Newstart Allowance income test (on own income)	\$31 \$71	50% 70%	\$15,704
Newstart Allowance income test (on partner's income)	\$288	70%	\$27,690

Source: Centrelink, *Guide to Commonwealth payments (March-June 2003)*.

The Newstart Allowance income test is too strict to encourage and facilitate part-time employment. Over most of the private income range affected by this income test, it "claws back" 70 cents for every dollar earned. It is possible to ease this income test, and increase the maximum rate of payment without raising the cut out point above \$22,000 (see Table 4 below).

However, such an income test is not appropriate for those recipients who would particularly benefit from part-time employment. We indicated above that these should include parents and carers who are combining part-time employment and caring, students and trainees who combine part-time employment and education or training; and others including people with disabilities and mature age people who are undergoing transitions towards full-time employment or retirement.

In these cases, it would be sensible to relax the requirement that workforce age payments should not subsidise full-time employment, in order to facilitate part-time employment. On the other hand, if the income test for these groups is eased too far, the following problems emerge:

- Full-time employment would be subsidised unnecessarily, at a substantial cost to Government;⁶⁷
- There is a greater risk that people will become "locked in" to a reliance on combinations of low paid part-time work and social security payments instead of progressing to a full-time job where appropriate.
- People in the above groups would be treated much more generously than those unemployed people who are subjected to a more stringent income test, creating an inequity. This last problem already exists in the present system. Pensions are withdrawn at the rate of 40 cents in the dollar but allowances are withdrawn at 70 cents in the dollar.

There is a further constraint on proposals to ease income tests for workforce age payments. If a family with children has a combined gross income over around \$30,000 per year, the income test for the Family Tax Benefit (Part A) applies. If workforce age payments also apply in this income range, the income tests for the two payments would "stack" together, creating very high effective marginal tax rates. It would be costly to substantially increase the income test free area for FTB as the payment would then apply to a much larger number of middle income families.⁶⁸

Therefore, it would be best to ensure that workforce age payments cut out below a family income of \$30,000:

- The pension income test for a single person cuts out marginally above that level.
- Of much greater concern, the married rate of pension cuts out at around \$53,000 (although not many families with children receive the married rate of pension).
- For couples with children on allowances such as Parenting Payment (Partnered) and Newstart Allowance, the income test cuts out at a combined income of around \$29,000.

The table below illustrates the effect of a series of hypothetical income tests on cut out points for a payment at pension rates. It shows how difficult it is to design an income test that balances the competing requirements outlined above.

⁶⁷ This is of less concern where wages are subsidised through Family Tax Benefits to prevent child poverty. As indicated above, full time award wages are not sufficient in themselves to prevent poverty in families with children, and they should not be expected to do so on their own.

⁶⁸ In any event, we would give priority to easing the rate at which this payment is withdrawn rather than raising the free area.

Table 4: Effect of three hypothetical income tests on cut out points for a payment at pension rates (June 2003)

	Cut out point for a single person (\$ per year)	Cut out point for a married couple (\$ per year), same income test for recipient and partner ⁶⁹	Cut out point for a married couple (\$ per year), tighter income test for partner ⁷⁰
<i>Target cut out point (minimum wage or FTBA free area)</i>	\$22,000	\$30,806	\$30,806
Free area of \$40pw, taper rate of 60%	\$21,160	\$33,930	\$31,655
Free area of \$40pw, taper rate of 50%	\$24,976	\$40,300	\$34,840
Free area of \$40pw, taper rate of 40%	\$30,700	\$49,780	\$39,617

Source: Centrelink, *Guide to Commonwealth payments (March-June 2003)*.

The objectives of limiting subsidies for low paid full-time employment, encouraging part-time work, and improving equity across the system, should be carefully balanced.

Recommendation

R.14 Personal income tests with two different taper rates

Two personal income test regimes should apply to different workforce age payments. These income tests should have common income definitions and free areas, so that only their taper rates distinguish them. The difference between the two taper rates should be substantially less than that between the present pension and allowance income tests (which have taper rates of 40% and 70% respectively).

- a) *Payment categories for people who particularly benefit from part-time work, including parents and carers with primary caring responsibilities and people with disabilities, should be targeted to facilitate part-time employment, even if this means extending part-payments to some full-time award wage earners.*

Therefore, a lower taper rate should apply to these payments, so that they cut out somewhat above full-time award wage rates.

⁶⁹ Under the present "dual income test" for married people on Allowances, the same taper rate (70%) applies to both the recipient and the partner. Here we assume that this rule applies.

⁷⁰ Here we assume that above the free area for the partner income test, the partner's income reduces the payment by 70% in the dollar, regardless of the taper rate for the personal income test.

- b) *Other payment categories, including for unemployed people and students without primary caring responsibilities, should be targeted to exclude people earning more than full-time minimum award wage rates, without unduly discouraging part-time employment.*

Therefore, a higher taper rate should apply to the income test for these payments, so that they cut out at or below full-time minimum award wage rates.

However, where recipients of these payments are identified as likely to particularly benefit from part-time employment as part of a transitional plan⁷¹ - for example mature age recipients who are close to retirement - the more liberal income test described above should apply.

High effective marginal tax rates

Paid work should be adequately rewarded within the social security system. Current income tests do not ensure this. There is a strong case for easing the most severe income tests to reduce high effective marginal tax rates (EMTRs) as the current system is unfair, inconsistent and unreasonable to comply with.

The Allowance income test is withdrawn at 50c in the dollar of fortnightly earnings between \$62 and \$142, and 70 cents in the dollar for earnings above this. Combined with a 20% tax rate this results in extremely high marginal tax rates.

The worst poverty traps occur when two or more income tests stack together (eg Family Tax Benefit, Youth Allowance, Child Care Benefit) subtracting 60-100 cents from every additional dollar earned. The family assistance income tests, together with tax, mean that 20% of workers in married couple families and 50% of sole parent workers, lose over 60 cents for every extra dollar earned above benefit. By contrast, people in receipt of a pension payment are subject to a withdrawal rate of 40 cents in the dollar for all income over a free area of \$116 a fortnight.

Unemployed people, then, have a much higher EMTR than aged and disability pensioners, despite the fact they face extra expenses in looking for work and improving their work skills. They also have much higher marginal tax rates than Australians on the highest incomes.

While EMTRs and work incentives are only one of the sets of barriers to mobility and opportunity, it is important to make sure work is consistently rewarded and that we are constantly seeking to wind back the highest and most damaging EMTRs that would affect lower income households.

There is significant scope for easing the taper rate for the allowance income test without extending these payments to full-time award wage-earners. This is desirable to address the main problem with current income tests - their effect on incentives to undertake part time employment.

The following groups would benefit most from easing EMTRs, particularly improving incentives for part time employment:

- people on allowances;

⁷¹ Transitional plans are described in recommendation 27 below.

- low income families with children in both the Family Tax Benefit and Youth Allowance systems or the Family Tax Benefit and Child Care Benefit systems;
- social tenants (who face the loss of public rental subsidies - usually at a rate of about 25 cents in the dollar - as well as social security payments if they obtain employment); and
- recipients of Special Benefit Payment (who face severe "dollar for dollar" claw back of *any* additional income earned).

Some of these EMTRs are illustrated in the table below. The percentages represent the extent to which extra earnings are *clawed back* through income tests and taxation. They are all much higher than the top marginal rate of income tax.

Table 5: Benefit traps

Characteristics of tax-payer	EMTR on the next \$ of earnings (%)	Main reasons for this high marginal tax rate
Unemployed adult on Newstart Allowance	75% (on personal earnings from \$70pw-\$300pw)	Income test for Newstart Allowance, income tax at 17%
Low income family with two young children, one in day care	70% (on family earnings from \$600pw-\$900pw)	Income tests for Family Tax Benefit (Part A) and Child Care Benefit, income tax at 30%
Low income family with two children aged 15 and 17 years	78% (on family earnings from \$600pw-\$800pw)	Income tests for Family Tax Benefit (Part A) and Youth Allowance, income tax at 30%

Another problem with the current income test regime for Allowances is that the "free areas" are not indexed. Their real value erodes over time.

The Working Credit scheme to be introduced from September 2003 addresses another work disincentive - the disincentive to engage in short bouts of casual full-time employment because all entitlements are lost over this period. The working credit assists people to undertake relatively short periods of casual work. It does so by allowing people to "store up" part of their income test free area over a longer period. However the Working Credit is complex, and a lack of understanding of it may restrict its use.

The most important financial disincentive for many parents to undertake employment is not social security income tests - it is the high gap fees for child care services, especially for full-time care for pre-schoolers. The average gap fee that has to be paid by parents with preschool children in full-day care is \$50 per week. In many areas it is much higher. The problem is the failure of Child Care Benefit to keep up with increases in child care fees over the 1990s, despite the welcome respite provided by increases in this payment - especially for children in part-time care.

The following recommendations focus on workforce age payment recipients rather than necessary changes to Family Tax Benefit, Youth Allowance, and Child Care Benefit to address work disincentives in child and youth payments. These issues will be addressed elsewhere, in our proposals for reform of family assistance payments.

Recommendation

R.15 Income tests to retain one-third of overall earnings

Income tests should be designed so that social security recipients retain at least one third of their overall earnings. As a first step towards this goal, the most severe income tests applying to people of workforce age should be eased by:

- c) replacing the current personal income test for Allowances with a single taper rate of 60 cents in the dollar for all income over a free area of \$40 per week;*
- d) replacing the Special Benefit income test with the proposed Allowance income test.*

R.16 Changing income tests for social housing subsidies

The income tests for social housing rent subsidies should be reformed to ease work disincentives.

4. Workforce participation by mature age people

The participation of mature age people, 55 to 64 year olds, in the workforce is likely to increase. This will occur as people in this age group have improved health, and as the demand for their labour increases. With relatively fewer younger people in an ageing population employers will require more mature age people if they are to have a sustainable workforce.

Over the past 20 years there has been an increase in the employment participation rate of mature age women as a result of the higher rates of employment by women more generally. There are now indications to suggest that the trend towards earlier retirement for males is reversing. Since 1995, the participation of people in the workforce aged 55 to 64 in has increased from 45 per cent to 53 per cent. Men have increased their participation from 57.5 per cent to 63 per cent, and women have increased their participation from 32.5 per cent to 39.5 per cent.

It is important to accelerate this process in order to maintain GDP growth, ease the fiscal cost of an ageing population, and improve the living standards of the next cohort of retirees (who will not fully benefit from the implementation of the Super Guarantee).

Policies should be giving priority to continuing to boost the participation in employment of people aged 50 to 65. If this is done there should be no need, for the foreseeable future, to raise the age-pension age. Further, we do not support a further easing of pension income tests to encourage workforce participation. The existing income test allows a couple to earn up to \$53,000, and a single person to earn up to \$32,000 before the pension, and pensioner concessions, are totally withdrawn. The former amount is well over average weekly earnings. The pension income test withdrawal rate of 40 cents in the dollar may discourage part-time employment to a limited extent, but the financial disincentives for pensioners are much less severe than those for unemployed people or mothers in low income families.

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More importantly, a more liberal pension income test would be very costly. Treasury modelling already indicates that the vast majority of retirees over the next 40 years will be eligible for at least a part-pension. If the income test is eased further, access to at least a part pension will be almost universal.

The lynchpin of the early retirement trend is not age pension requirements, but rather it is early access to superannuation benefits at age fifty-five. This not only encourages employees to retire early - it also encourages employers to regard mature age workers, especially those with limited education and skills, as "expendable". This is supported by evidence that most early retirees are people who have lost their jobs rather than people who have chosen to leave.

Raising the preservation age of superannuation to 60 more rapidly (than is currently proposed), and then raising it further to age 65, is vital to any effective strategy to increase workforce participation among mature age people. However, this would create particular problems for people with disabilities or those with caring responsibilities. Therefore, we propose that people in these circumstances should still be able to obtain their superannuation benefits from age fifty-five.

This policy change may be more acceptable to superannuation fund members if it were implemented as part of a wider policy package of superannuation reform that allows people to withdraw a limited part of their superannuation savings prior to retirement, for purposes such as child rearing, further education, home purchase or early retirement. Such a "lifelong savings package" is proposed by ACOSS. Under the ACOSS proposals, people could withdraw up to a fixed amount of superannuation benefits (for example, up to a total of \$50,000) for any purpose before they reach the preservation age. One implication of this policy would be that people who have not drawn down this amount before they reach mature age could use the remaining amount to retire early. However, those who decided to use these funds as a house deposit when they were younger would not be able to do so. This ACOSS proposal would improve the flexibility of the superannuation system to respond to the diversity of long-term savings needs, without excessively undermining retirement savings.⁷² The overall package should reduce the extent of early retirement and increase overall retirement incomes for most superannuants.

A second important change to superannuation rules is to restrict lump sum payments and require more fund members to take out pensions or annuities for life, as most other OECD countries do. This would ensure that superannuation benefits are fully expended during retirement. Given the purpose of superannuation, and its tax-preferred status, it is inappropriate for superannuation benefits to be passed on to the next generation. Inheritances should not be subsidised by the tax-payer in this way. Another advantage of curbing large lump sum payments is that this should ease age pension costs, and reduce the need to offer wasteful and regressive tax incentives for retirees to convert lump sum payments into pensions and annuities.

It would not be reasonable in the Australian context to ban lump sums entirely. Many low and middle income-earners use their lump sums to prepare for retirement, for example by paying off debts - especially on their homes. Given that home ownership is still the most important form of long-term saving in Australia, this is important for retirement living standards.

⁷² Another element of the package is a compulsory employee superannuation contribution of up to 3%.

A sensible compromise is to cap lump sum payments at a flat rate close to the current lump sum tax free threshold (eg, \$100,000). This would have little impact on most of the present cohort of retirees, but it would have a gradually increasing impact as the Super Guarantee kicks in.

However, raising the preservation age *without* improving the actual employment prospects of mature age workers, would be unfair. It would lead to hardship, especially among low skilled workers with limited non-superannuation savings. Many mature age people would simply be shifted out of the superannuation system and onto lower social security payments such as Newstart Allowance and the Disability Support Pension.

More generally, it is important to ensure that any change to financial incentives to discourage early retirement is part of a comprehensive strategy that actually improves the employment prospects of mature age workers - both those still in employment and those who have lost their jobs.

This must include:

- legislative and other measures to combat age discrimination in employment and in the workplace;
- comprehensive and readily accessible programs to assist lifelong skills development - both inside the workplace and in learning institutions;
- a flexible income support system, including an Austudy payment that is adequate, and relevant to prime and mature age students, part-time students and trainees.
- improved support for carers, especially day care and respite care, so that people can combine caring and participation in the labour force.

Recommendation

R.17 Reforming superannuation policy

- a) *The preservation age for retirement benefits from superannuation should be raised more rapidly from 55 to 60 years, and progressively to 65 years.*
- b) *However, mature-age people with disabilities or caring responsibilities that are likely to prevent them from obtaining full-time employment until age 65 should be able to withdraw their retirement benefits from age 55.*
- c) *Lump sum superannuation payments should be restricted to no more than \$100,000 (indexed to movements in average earnings), or payments in excess of this amount should be taxed at the top marginal rate of personal income tax, plus the Medicare Levy.*
- d) *Superannuation benefits should not be transferable to the beneficiaries of the member's estate on death, except for a spouse or child with a severe disability.*
- e) Consideration should be give to implementing the above changes as part of the "lifelong savings system" proposed by ACOSS (see box below).

R.18 Supporting lifelong learning

- a) *Provision of comprehensive and readily accessible programs to assist of lifelong skills development that are available both inside the workplace and in learning institutions;*
- b) *Introduction of a flexible income support system, including an Austudy payment that is adequate, and relevant to prime and mature age students, part-time students and trainees.*

R.19 Enabling carers to participate in employment

Improved support for carers, especially day care and respite care, so that people can combine caring and participation in the labour force.

Lifelong Savings System

The proposed Lifelong Savings System would have following features:⁷³

1. Compulsory savings would be held in approved Lifelong Savings Accounts operated by a range of superannuation funds and financial institutions.
2. Voluntary savings could be added to these accounts.
3. Two-thirds of compulsory savings would be preserved until age 60 for retirement purposes (with earlier access under special circumstances such as disability), with lump sum benefits either limited to around \$100,000 or taxed at a penal rate above that level.⁷⁴
4. The remaining one-third would be available for use *for any purpose* after five years of saving. This would, however, be subject to a limit on the frequency of withdrawals and an overall ceiling on pre-retirement benefits of around \$50,000⁷⁵ throughout working life.
5. To enhance retirement savings, the above ceiling on lump sum retirement benefits could be reduced, dollar for dollar, by any withdrawals from the account before retirement. For example, if \$25,000 were withdrawn for a home deposit, the ceiling on lump sum retirement benefits would be reduced from \$100,000 to \$75,000.
6. Subject to the introduction of the above life-long savings system, the overall level of compulsory saving could be progressively raised to around 12% of earnings. This would mean that a *minimum* of 8% of earnings is devoted to saving for retirement. However, *ACOSS would not support an increase in the level of compulsory Superannuation Guarantee contributions devoted exclusively to retirement saving purposes.*

⁷³ The amounts used in the proposal (the Superannuation Guarantee level, and the ceilings on pre-retirement and post-retirement lump sum benefits) are illustrative only.

⁷⁴ This is around the current tax-free threshold for lump sum benefits. It would be indexed to movements in average earnings.

⁷⁵ This is half the limit for lump sum retirement benefits in point 3 above. This would also be indexed to movements in average earnings.

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