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EMP Inquiry
Submission No. 99

**FaCS Submission to the
House of Representatives
Standing Committee on
Employment and Workplace
Relations**

**Inquiry into employment: increasing participation in
paid work**

October 2003

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Executive Summary

The Australian Government has identified the need to increase labour force participation among working age people as a key strategy to support the continuing economic growth necessary to respond to the challenge of an ageing population. This submission has been prepared for the House of Representatives Employment and Workplace Relations Committee which has been asked to “inquire into and report on employment issues with particular reference to:

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

The submission has been prepared with reference to the recently released consultation paper *Building a Simpler System to help jobless families and individuals* and the issues that were raised in the *Intergenerational Report 2002-03*.

The issues of concern to the Inquiry are also of considerable relevance to the Family and Community services portfolio. Family and Community Services is one of the largest Commonwealth portfolios and is responsible for around one third of Commonwealth budget outlays. The Department of Family and Community Services (FaCS) is responsible for family assistance – which the majority of Australian families with children receive and for income support for over four million individuals (of which around 2.75 million are of working age). In addition, FaCS administers a range of other programs covering housing assistance, youth and disability services, children’s and family services and community capacity building initiatives.

Many people of working age who are currently not participating in paid work are income support recipients. Australia currently has one of the highest rates of jobless families among OECD countries, with around 820,000 Australian children living in 416,000 jobless families in 2003. Moreover, in recent decades there has been a significant growth in the numbers of working age people who are reliant on income support. Increasing participation in paid work amongst income support recipients is likely to have a range of benefits as employment during the working age years contributes to family income and protects against financial hardship, contributes to a person’s income in retirement and there is evidence that children do better in later life if their parents are employed.

Maintaining high rates of participation in paid work will also be important to underpin economic growth as the Australian population ages over the coming decades. Population ageing – which will increase the demand for labour as the supply of workers reduces – also brings important opportunities for people who currently do not participate in paid work to do so. This makes it all the more important to ensure that people are ready and able to take advantage of these opportunities as they arise. Much of FaCS’ activity is concentrated on supporting participation across the lifecycle and building capacity for participation at the individual, family and

community level. Programs are in place to promote early childhood intervention, to facilitate access to educational opportunities and to ensure smooth transitions for youth from education to employment. People with disabilities are assisted in a range of ways to enter and remain in the workforce to the extent they are able. Families are provided with financial assistance, access to child care and relationship support so that they are able to find an appropriate balance between employment and raising children. A range of initiatives are also in place, or currently being explored, to support older workers to stay in the workforce for longer, or to re-enter it after a period out of the labour force.

The trends in income support and the evidence that employment is a key driver of individual, family and community well-being indicates that working age income support provisions need to give more emphasis to helping people to move off income support payments and into paid employment. In recent years it has become increasingly clear through comparative research and evaluation evidence that the best way of doing this is through an integrated approach to policy that balances incentives, requirements and assistance. The first stage in the Government's program of welfare reform – the *Australians Working Together* package implements a suite of reforms and initiatives that aim to simultaneously improve incentives to work, introduce reasonable requirements, and offer targeted measures of assistance to individuals so that they are better placed to move off income support and into employment. Further consideration of these issues is under way arising from the consultations on the *Building a Simpler System to help jobless families and individuals* consultation paper. The feedback from these consultations will guide future policy development for Government.

1.

Context: Increasing participation in a changing Australia

1.1 Introduction

The Australian Government has identified the need to increase labour force participation among working age people as a key strategy to support the continuing economic growth necessary to respond to the challenge of an ageing population. The House of Representatives Employment and Workplace Relations Committee has been asked to

...inquire into and report on employment issues in both regional/rural and urban and outer suburban areas with particular reference to:

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

The Inquiry documentation notes that the focus on employment is linked to the recently released consultation paper *Building a Simpler System to help jobless families and individuals* and the issues that were raised in the *Intergenerational Report 2002-03*.

These issues are of considerable relevance to the Family and Community services portfolio. Family and Community Services is one of the largest Commonwealth portfolios and is responsible for around one third of Commonwealth budget outlays. The Department of Family and Community Services (FaCS) is responsible for family assistance – which the majority of Australian families with children receive and for income support for over four million individuals (of which around 2.75 million are of working age). In addition, FaCS administers a range of other programs covering housing assistance, youth and disability services, children's and family services and community capacity building initiatives.

1.2 The need to increase participation in paid work

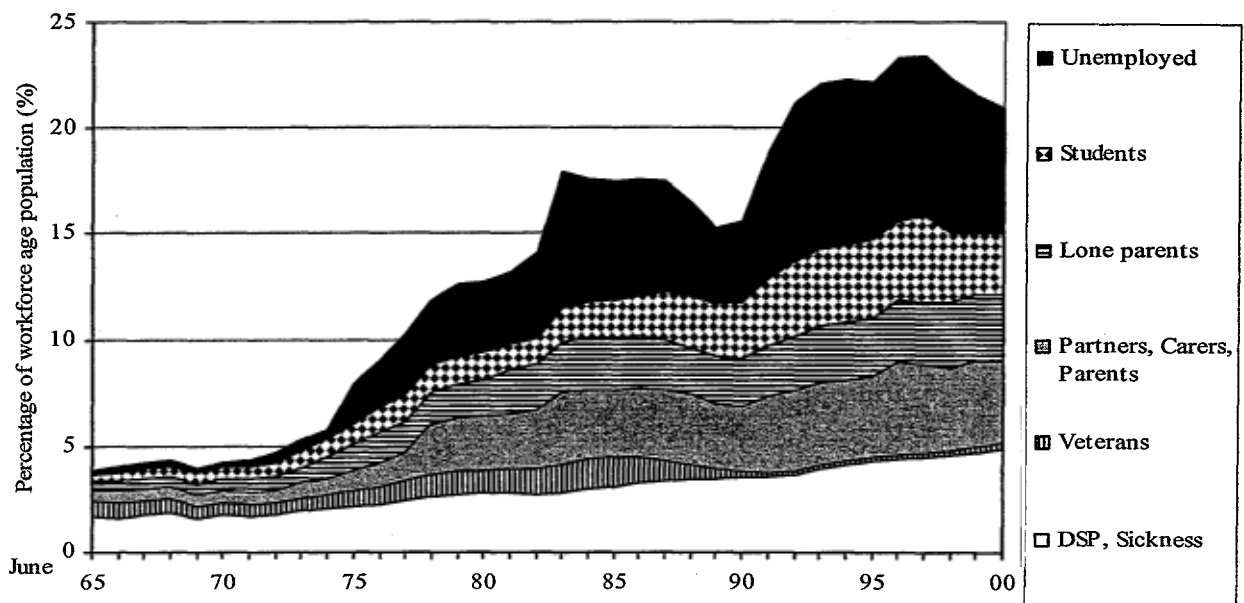
FaCS' interest in these issues and the Inquiry's terms of reference is driven primarily by the role that employment plays in the wellbeing of individuals and their families. Employment during the working age years contributes to family income and protects against financial hardship, but also contributes to a person's income in retirement. Furthermore there is evidence that children do better in later life if their parents are employed. As the Secretary of the Treasury, Mr Ken Henry, has noted:

“Improving participation outcomes is worth pursuing for its own sake – for the (constitutive) contribution it might make directly to wellbeing – and not just because of its (instrumental) contribution to GDP per capita” (Henry 2002)

Population ageing, high rates of relationship breakdown and structural changes to the labour market have resulted in a significant growth in receipt of income support payments amongst people of working age. Currently, over 20 per cent of all Australians of workforce age receive income support (up from less than 5 per cent in 1970). About one in six¹ working age adults receive more than half their income from welfare payments (income support and family assistance) while about one in eight receive more than 90 per cent of their income from welfare.

Like many OECD countries, Australia has experienced large growth in passive payments, for which no job search requirements apply. Whilst the number of people on unemployment benefits has been decreasing, Australia has had the highest rate of growth of disability pensions within the OECD over the last decade and high growth in lone parents on income support. There are now more people receiving Parenting Payment (partnered and single) and Disability Support Pension than there are on Newstart Allowance.

Figure 1: Growth in Working-age income support recipients 1965–2000



Source: FaCS 2003

Australia also has one of the highest rates of jobless families among OECD countries.² In 2003, three-quarters of jobless families with dependent children do not have a parent looking for work and around 70 per cent are lone parent families.

¹ This data is based on an ABS survey which excludes people living in institutions and does not fully capture social security payments. Thus, this estimate should be considered conservative. While not directly comparable, Centrelink administrative data suggests that the proportion reliant on income support for more than 50% of their income is nearer to one in five, and the proportion reliant for 90% of their income is about one in six.

² Australia has the third highest rate of jobless families for both one-adult (57%) and two-adult households with children (9%). These rates have improved somewhat, but are still 54% for lone parent families and 7% for couple families.

Almost 820,000 Australian children live in 416,000 jobless families. Children raised by parents out of work on income support payments for a very long time are more likely than other young people to leave school early, become unemployed, have children at a young age and come to depend on income support themselves. Less than 20 per cent of parents in couple families and less than 1 per cent of the lone parents were expected to look for work. Most parents in these households report to the ABS that they are not looking for work.

Table 1: Workless families in Australia 2003

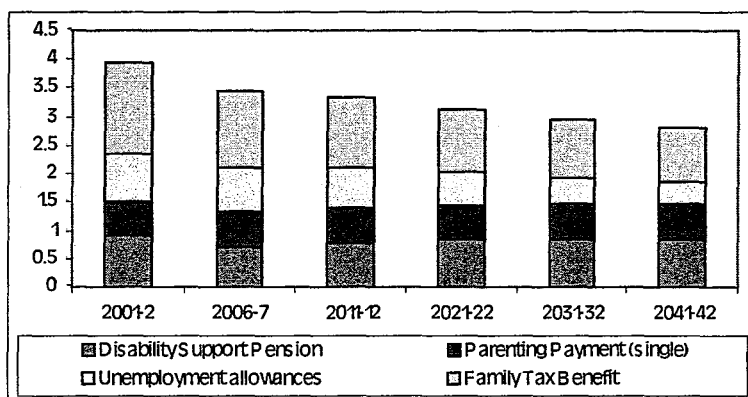
	Total family units	Sole parent families	Couple parent families
All families	2,616,700	583,700	2,033,000
Workless families	416,200	283,400	132,800
Dependent children in workless families	818,200	526,000	292,200

Source: Labour Force Australia 6203 and unpublished data (2003)

The Government's Intergenerational Report has drawn attention to the fact that demographic change over the next 40 years will involve substantial growth in both the proportion of the population over age 65, and associated government spending. This will be accompanied by a sharp reduction in the growth of the working age population – previously a strong driver of Australian prosperity.

The current rate of growth in income support reliance is unlikely to continue in the future. Although future trends are uncertain, projections indicate that expenditure on income support payments for people of working age as a proportion of GDP is likely to decline over the coming decades (Figure 2). This is mainly because of relatively lower proportions of the populations in the relevant age groups, lower projected unemployment, and the impact of indexing unemployment payments and components of family payments to the CPI, which grows at a slower rate than GDP.

Figure 2: Expenditure on payments to people of working age (%GDP)



Source: Treasury 2002

However, increased expenditure on aged pensions and in other areas – particularly health – together with lower productivity resulting from a lower ratio of working to non-working age people in the population, means that a continuing emphasis on

maximizing labour force participation is critical. In addition to noting the importance of increasing participation outcomes for its own sake, Dr Ken Henry also stressed that while the principal macro economic challenge for 30 of the past 40 years has been the unemployment rate, “for all of the next 40, our principal economic challenge will be the participation rate” (Henry 2002). Maintaining high rates of participation in paid work will ultimately reduce the need for income support, increase and sustain GDP, allow individuals to accumulate retirement savings and enhance individual health. However, it is also important to note that the lower rates of unemployment and increased demand for labour that will result from the proportional shrinking of the working age labour force presents opportunities for groups who currently do not participate in paid employment to do so in the future. This makes it all the more important to ensure that individuals are as ready as possible to take advantage of the employment opportunities that structural ageing will bring.

This submission is in three parts. The first section considers some social and labour market trends relevant to the FaCS portfolio. The second part of the submission briefly covers the broad role played by the FaCS portfolio in building individual, family and community capacity to support participation, including prevention and early intervention initiatives.

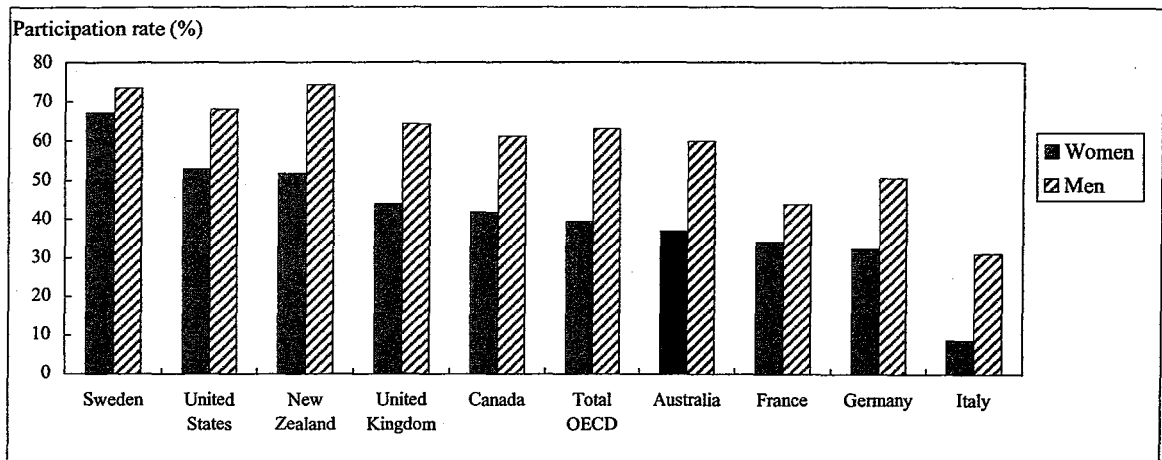
The third section considers the policy implications of these trends, including the issues raised about the social support system for working age people in the Government’s discussion paper *Building a simpler system to help jobless families and individuals*. It also surveys research and evaluation evidence about the most effective approaches to helping people on income support move into paid work.

Participation in paid work: dynamics and trends

2.1 Labour force participation

Over the past two decades, overall participation in the labour market has risen only slightly. Australia lags behind many overseas countries which have substantially higher participation rates than Australia for both men and women aged 25-54 years (see Figure 3).

Figure 3: Labour Force Participation Rates (ages 25-54), Selected OECD Countries

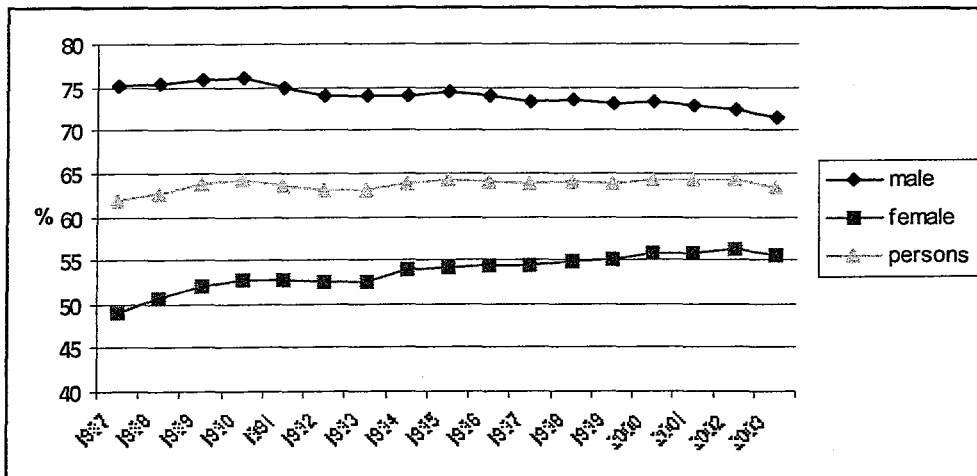


Source: OECD Employment Outlook, July 2002

The overall rate masks important changes in the distribution of participation in the labour market, especially between men and women.

The participation rate of women in the Australian labour force is lower than the rate for men. Figure 4 shows that male labour force participation has dropped steadily, from around 75 per cent in the late 1980s and early 1990s to around 71 per cent in 2003. In contrast, female labour market participation has increased from below 50 per cent in 1987 to around 56 per cent in 2003. This indicates that there may be scope both to raise male participation rates closer to levels achieved in previous decades, and to accelerate the underlying increase in female participation.

Figure 4: Labour force participation rates, by gender 1987-2003



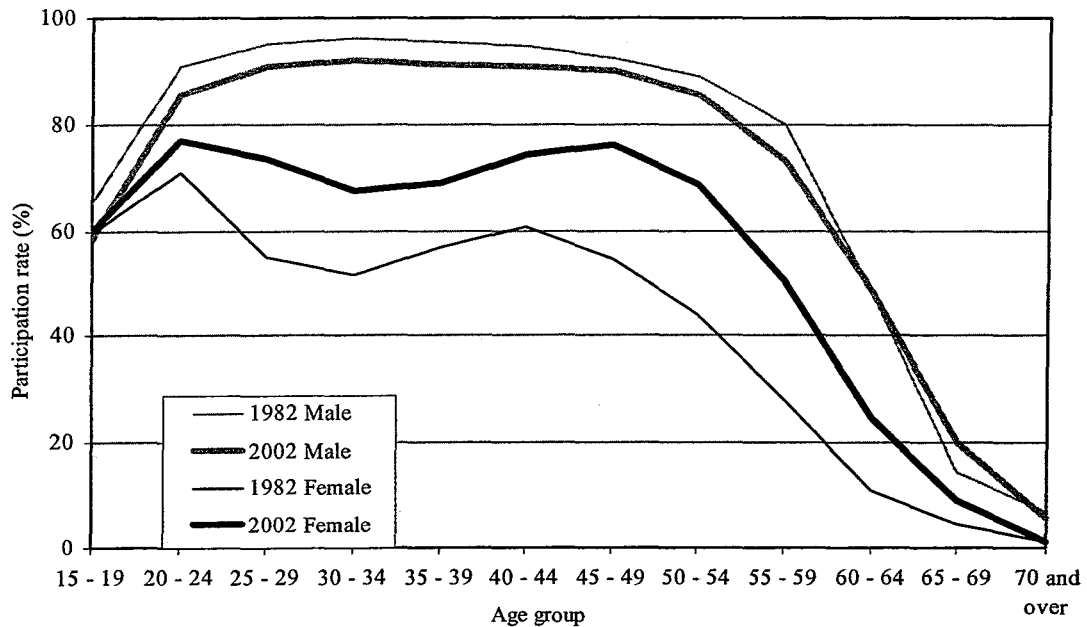
Source: ABS Labour Force, Australia Cat. No. 6291.0.55.001 Table 16, selected months

The lower participation of women in the labour force is now largely driven by child-bearing and the fact that they continue to bear primary responsibility for child care. Figure 5 shows that the gap between male and female participation rate increases during child-bearing years. Time out of the workforce to have and raise children is a significant cost for women, not just during the relevant period, but also over a woman's lifetime. However, Figure 5 also shows that women's trend towards combining child-rearing and paid employment contributes to the continuity of employment into more mature years. This, combined with the decline in labour force participation of older men, results in a narrowing of the gap between male and female participation rates in later years.

Recent decades have seen sustained growth in part-time work among both men and women. While almost half of part-time workers are women aged between 25 and 54 years, their share of part-time work has been falling, while that of other groups (especially young people and prime-age men) has been rising. Between 1982 and 2002, the number of people in part-time employment grew by 4.6 per cent a year on average, compared with overall employment growth of 1.8 per cent a year. The proportion of employment that is part-time increased from 16 to 29 per cent (see Figure 6).

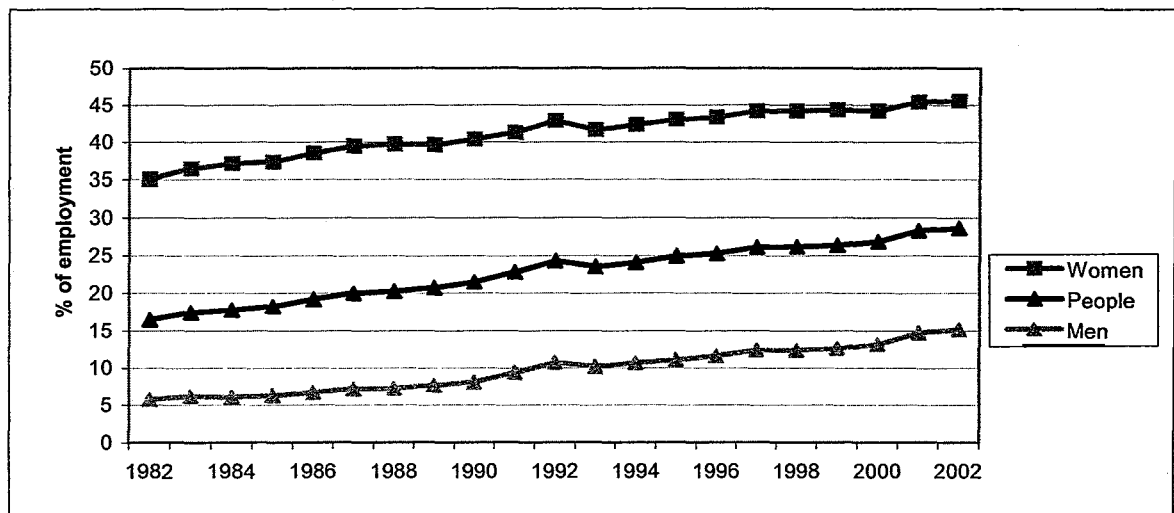
As a proportion of all employment, part-time work is most prevalent among: teenagers (around two-thirds); mothers (60 per cent); women aged 25-54 years (42 per cent) and people aged 55 and over (around a third). For many in these groups, part-time work suits their circumstances well, allowing them to combine paid work with study or caring activities or to accommodate declining capacity with age. As a result, although around one-quarter would prefer to work more hours (15 per cent would prefer to work full-time), the majority of people who work part-time are happy with the number of hours they work.

Figure 5: Labour force participation by gender and age, 1982 and 2002



Source: ABS Labour Force, Selected Summary Tables, Australia monthly (2003), Cat. No. 6291.0.40.001, Table C6.

Figure 6: Part-time employment as a proportion of all employment, 1982 to 2002



Source: ABS, *Labour Force Australia* time series spreadsheets (Cat No. 6291.0), August of each year.

The strong growth in part-time and casual employment over the past decade may also have helped many people by allowing them a phased entry to the labour force - they have been able to use a period of part-time or casual employment as a 'stepping stone' to permanent full-time or better paid employment. Despite only accounting for one-third of all employment, part-time work accounts for more than half of all entries to,

and exits from, joblessness. In any given month some people move from part-time to full-time work, while similar numbers move from part-time work to joblessness and vice versa. Indeed, especially for men, part-time work is a more insecure and unstable labour market state. Men employed part-time in one month are more likely than women employed part-time to be either jobless or in full-time employment in the following month. Women who work part-time are also more likely than men to have access to paid leave entitlements (45 per cent of female part-timers vs 26 per cent of male part-timers).

As Table 2 shows, the growth in participation in part-time work has translated into an increase in the percentage of income support recipients of working age having private earnings as well as an increase in the average amount of income earned.

Table 2: Labour Market Assistance – effectiveness measured by independence

Year	NSA	MAA	PA	WA	SpB	BVA	PPS	PPP	TOTAL
Percentage of clients with earnings									
2001-02	16.9	7.2	8.1	10.8	1.4	n/a	27.7	13.8	18.6
2000-01	16.1	7.6	8.1	11.1	1.2	n/a	26.2	7.7	16.9
Average amount of earnings p.f(\$)									
2001-02	271	202	250	219	180	n/a	561	267	406
2000-01	252	194	233	210	190	n/a	521	251	380

Source: FaCS Annual Report 2001-02

2.2 Groups with low participation in paid work

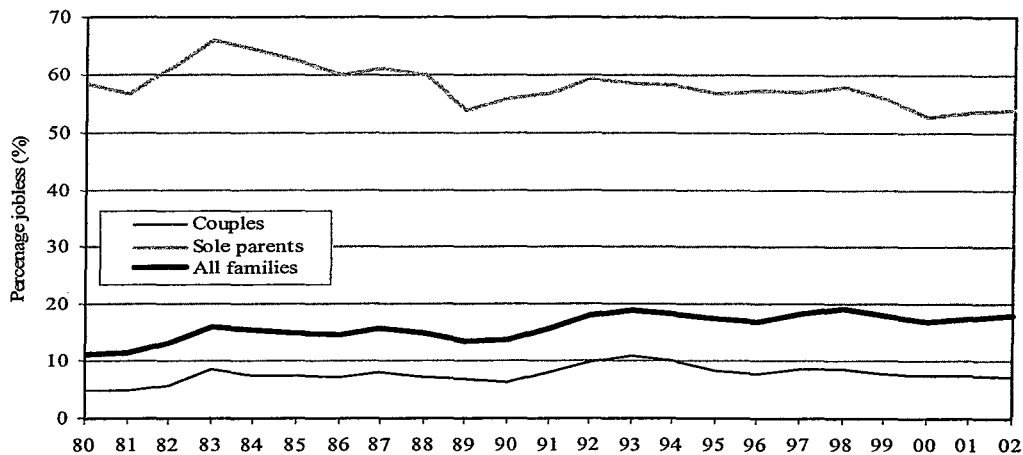
Rates of labour force participation are comparatively low for certain groups of people in Australian society – in particular, sole parents and jobless families, mature age people, people with disabilities, Indigenous people and the long-term unemployed. Increasing participation in paid employment amongst these groups is important if we are to minimise poverty, social exclusion and reliance on income support.

Sole parents and jobless families

Australia's high rates of family joblessness are primarily a function of increased lone parenthood and relatively low rates of employment among lone parent families. Two-thirds of jobless families with children aged less than 15 are sole parent families. The proportion of families with children under 15 and headed by a sole parent has increased from 12.2 per cent of families in 1980, to 22 per cent in 2003. More of these sole parents now work than ever (33.9 per cent in 1983 versus 46.2 per cent in 2002 – see Figure 7), but this has not been enough to offset the effect on overall rates of family joblessness of the increase in sole parent family numbers. In June 2003, labour force data shows that 60.8 per cent of partnered mothers and 44.3 per cent of lone mothers with children aged less than 15 were employed (ABS 6203.0).

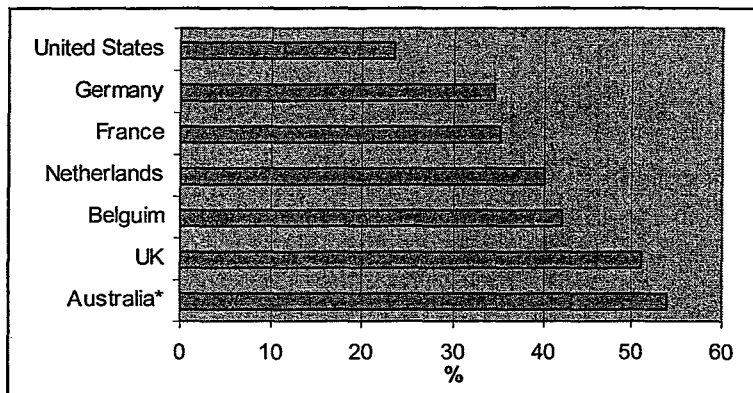
There is certainly room to further increase sole parents' employment – their rates of employment are lower in Australia than in many comparable OECD countries (see Figure 8).

Figure 7: Families with children – jobless rate 1980 to 2002



Source: ABS Labour Force Status and other Characteristics of families (1980 to 2000) Cat. No. 6224.0, Table 4; and ABS Labour Force Selected Summary Tables (2001,2000) Cat. No. 6291.0.40.001, Table FA3

Figure 8: Non-employment rates among single-adult households with children 2001



*Australian data is 2000

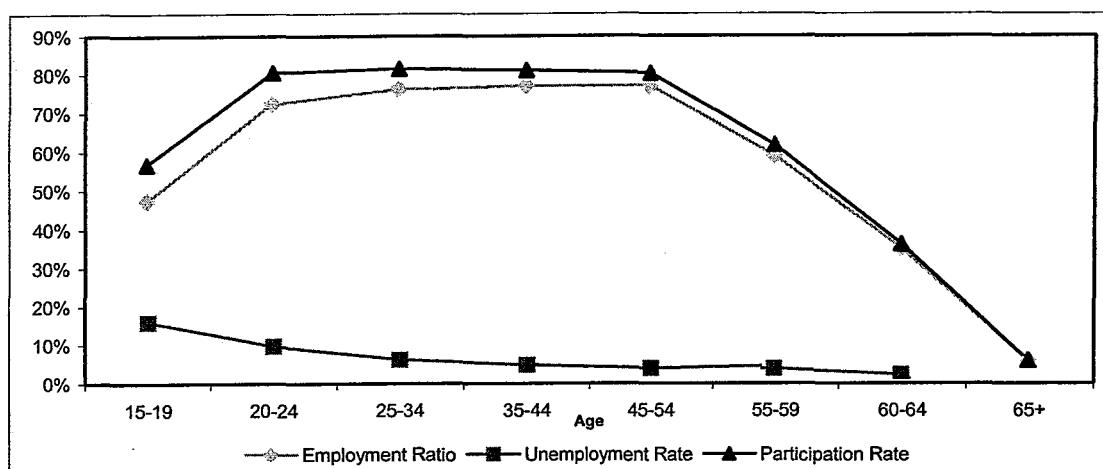
Source: ABS Labour Force Status and other Characteristics of Families; OECD 2003a Chart SS3.2

The number of people receiving Parenting Payment Single (PPS) has been increasing – up by 75 per cent since 1990. Many lone parents also continue to rely on other forms of income support, including DSP, for extended periods after they lose eligibility for PPS as a result of their child turning 16. Five years after losing eligibility 51 per cent remain on income support. New analysis using longitudinal data suggests that lone parents spend much longer periods on income support than analysis of single spells reveals. Recent research has estimated that, on average, lone parents spend at least 12 years on income support during their working life, aggregating multiple spells on income support.

Mature age people

Among people of mature age, workforce participation rates are low. As Figure 9 shows, the labour force participation rate drops sharply with increasing age, to the point where only half of men, and less than one quarter of women aged 60-64 are in the workforce. Australia's participation rates for mature age people (aged 55 to 64 years) are also below the OECD average for both men and women. This is a concern because this segment of the working age population is set to increase over the coming decades. Overall, in July 2002 the labour force participation rate for Australians aged 55 to 64 years was 48.6 per cent compared with 50.8 per cent for the OECD average (OECD, 2002). Australia ranks below Canada (51.3%), United Kingdom (54%), United States (60.2%) and New Zealand (62.9%).

Figure 9: Employment to population ratio, participation and unemployment rate, 2002, Australia, by age



Source: ABS Labour Force June 2002 (Cat 6203.0)

Research undertaken by FaCS³ shows that for many individuals, withdrawal from the labour force was not voluntary and came prematurely. A survey recently undertaken on behalf of FaCS⁴ shows that among people aged 55-64 years who left the workforce in the 9 years preceding the survey, about two thirds did so involuntarily.⁵ For men the rate is about 70 per cent and even among women (many of whom qualify for the age pension) the rate is 55 per cent. The main reasons given for leaving the workforce were ill health or disability, caring responsibilities and involuntary job loss. Many of those who sought another job were unsuccessful, and discouragement quickly led to 'early retirement'. Indeed, ABS data shows that in 2002, 41 per cent of all male 'discouraged workers' were aged between 55 and 64 years old (ABS 2002).

³ The 1998 FaCS Customer Participation Survey (CPS), a FaCS/Social Policy Research Centre project that examines the workforce circumstances and retirement intentions of older Australians (ie those aged 45 to 69 years), and the Mature Age Participation Pilot (MAPP).

⁴ *Workforce Circumstances and Retirement Attitudes of Older Australians Survey*, conducted in 2000 by Wallis Consulting for FaCS

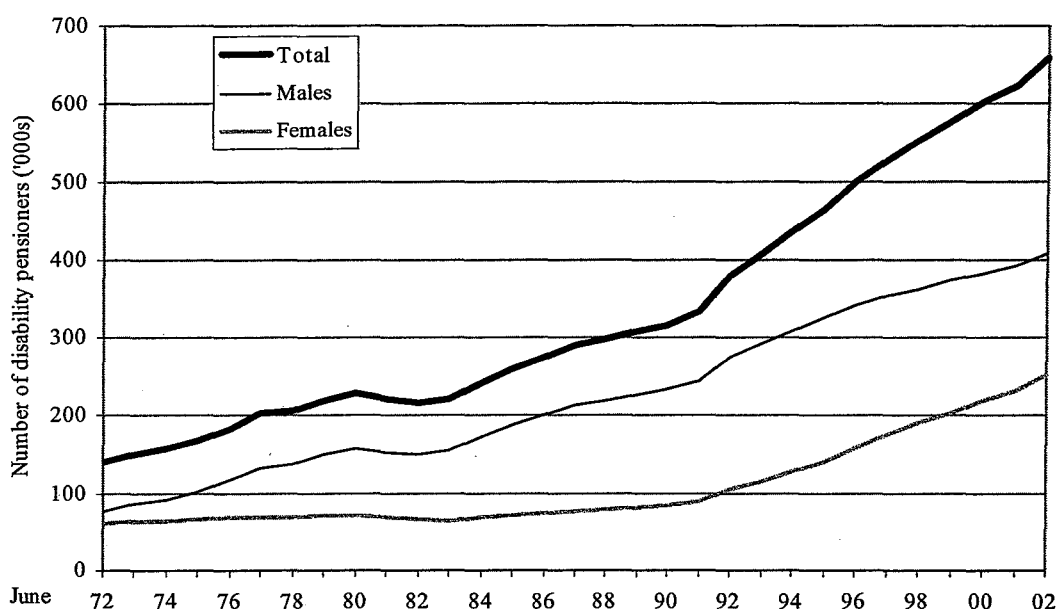
⁵ These figures are sensitive to the precise definition of 'voluntary' and 'involuntary'; for many people there are both voluntary and involuntary elements involved in the decision to retire.

People with disabilities

The labour force participation rate of working-age people with disabilities in May 1998 was 53 per cent compared to 80 per cent for the population as a whole (ABS 1998). A recent OECD report has found that, of 20 countries studied, Australia had the lowest employment rate of people receiving disability benefits (at around 10 per cent) (OECD 2003b, forthcoming).

The number of people receiving the Disability Support Pension (DSP)⁶ has grown substantially, with the number of people receiving DSP doubling between 1990 and 2002 (see Figure 10).

Figure 10: Number of disability support pensioners 1972–2002



Source: FaCS, Characteristics of Disability Support Pension Customers (2002) Table 1.1

DSP is now the most common income support payment made to people aged 45 to 64. Two-thirds of DSP customers are aged over 45 and on, average, DSP recipients stay on the payment continuously for seven years. Over half of the people coming onto DSP come from other income support payments, principally Newstart Allowance; and the vast majority stay on various payments for the rest of their lives (FaCS 2002b).

People with disabilities have a range of support needs, which can include secure long-term financial assistance for those with severely restricted work capacities. Receipt of DSP requires that a person be unable to undertake at least 30 hours of employment per week, or to be trained to do so over the next two years. However, the level of economic activity of participants is low. Administrative data for June 2002 indicate that only 9.7 per cent of DSP recipients reported any earnings in the month. Even allowing for the many recipients who have a very low potential for participation, this

⁶ DSP is available to adults who are unable to work 30 hours per week or more, or to be re-trained for such work within the next two years, because of their disability

figure suggests that there is scope for higher participation by many others – to the benefit of both the recipient and the taxpayer.

Indigenous people

The ABS estimates that the Indigenous population in 2001 was 460,140 (2.4 per cent of the total estimated population). Some 30 per cent of Indigenous people live in major urban areas, 42 per cent in other urban areas and 27 per cent in rural areas compared with 62, 23 and 14 per cent respectively for the general population.

The extent of Indigenous disadvantage across many indicators has been well documented. This unique situation of Indigenous Australians means that working-age Indigenous people have a higher level of reliance on and receive income support for longer periods than non-Indigenous people (Table 3).

Table 3: Indigenous and non-Indigenous receipt of Newstart and Youth Allowance

Length of time on benefit	Indigenous %	Non-Indigenous %
1-2 years	87	51
2-5 years	81	31
5+ years	45	10

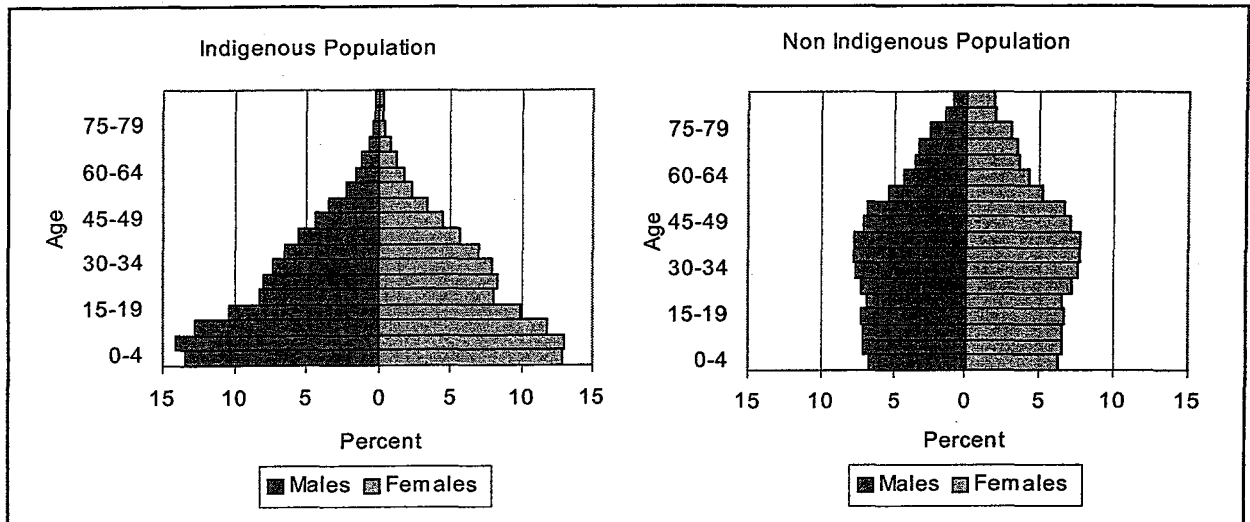
Source: Centrelink administrative data, February 2003

The 2001 Census showed a small decline in the Indigenous unemployment rate from 1996 data (from 23 per cent to 20 per cent), but the strong decline for other Australians means that the disparity between these two groups was slightly greater. The Indigenous unemployment rate is therefore almost three times the figure for the whole Australian workforce. If CDEP participants are included, the unemployment rate for Indigenous Australians is around 40 per cent.

Compared to the overall Australian population, the Indigenous population has a youthful age structure (see Figure 11). The number of young Indigenous people entering working age is growing rapidly. According to the ABS, the Indigenous working-age population is predicted to grow by almost 29 per cent, from 221,542 to 284,637, between 1996 and 2006.

This raises a different set of priorities to those raised by the ageing of the total Australian population. Combined with an already high unemployment rate, this population growth suggests an urgent need to address the significant and numerous barriers to participation in paid work for Indigenous individuals and communities. Recent research by the Centre for Aboriginal Economic Policy Research (CAEPR) noted that closing the gap between Indigenous and other Australians' participation in paid work will 'require an absolute and relative expansion in Indigenous employment that is without precedent' (Taylor and Hunter 1998; 2003 forthcoming). The authors conservatively estimate that to achieve employment equality for Indigenous Australians by 2006, 55,000 additional jobs would be needed.

Figure 11: Age structure of Indigenous and non-Indigenous Australians

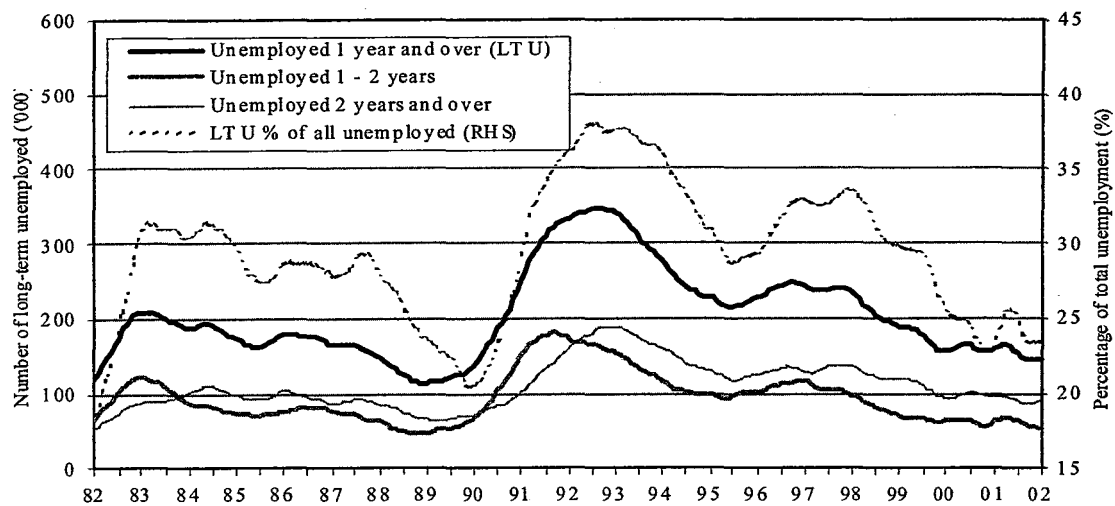


Source: Estimated Resident Population, based on ABS Census (2001)

Long-term unemployed people

Due to good economic conditions and lower unemployment rates compared to the early 1990s, long-term unemployment is now sufficiently reduced to be approaching the brief lows recorded prior to the recession. Its current level is well below the average of the previous two decades (see Figure 12).

Figure 12: Numbers of Long-Term Unemployed, 1982–2002⁷



Source: ABS (2003), Labour Force Australia, Table 21, Cat No 6291.40.001

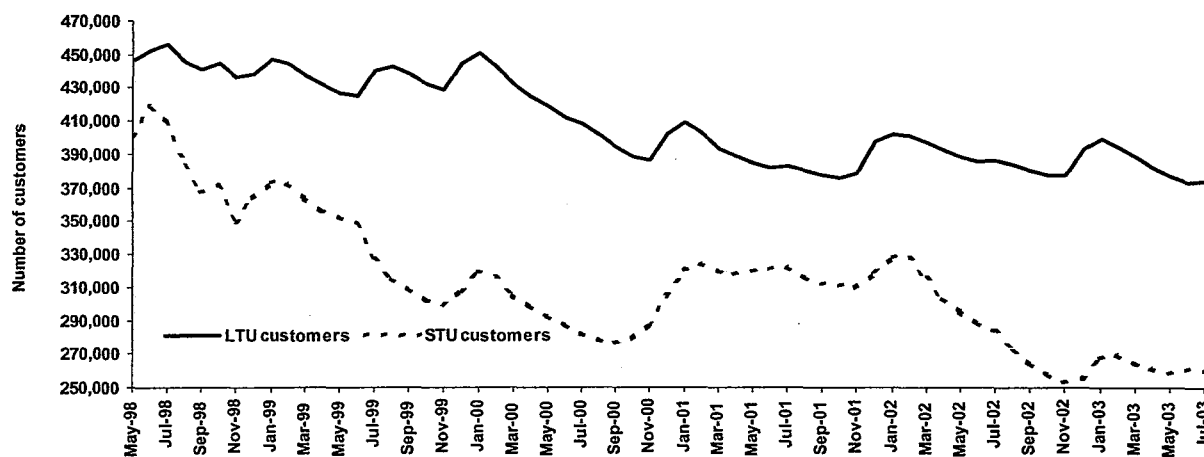
⁷ Figure 15 shows unemployment as measured by duration since last full-time job. In April 2001 the definition of duration of unemployment changed to refer to 'the period of time since a person last worked in any job for two weeks or more, regardless of whether it was full-time or part-time.' (ABS Cat. No. 6295.0) The questionnaire still collects data on duration of unemployment since last full-time job, allowing the time series data in Table 21 to maintain some continuity, however, other changes, including a redefinition from unemployed to employed of certain groups of people on unpaid leave, mean that data collected from April 2001 onwards are not strictly comparable with data collected in earlier periods.

There are now fewer unemployed people than there were in March 1996, and the proportion of unemployed people who are long-term unemployed has also fallen, from 29.6 per cent to 23.1 per cent today.

Despite this, a substantial number of people remain on unemployment payments⁸ continuously for long periods and the proportion of people on payments long term declined at a slower rate than shorter durations. This is of considerable concern as an extended duration on income support can be linked with greater difficulties in finding employment and a loss of connection with the labour market. The longer a person remains on income support, the lower the likelihood of leaving income support and becoming self-reliant.

A recent analysis by FaCS of long-term unemployed FaCS customers found that the number of long-term customers has declined but at a slower rate than the number of short-term unemployed customers (Figure 13). The percentage change in the number of unemployed customers by different durations between May 1999 and May 2002 is shown in Figure 14. The number of long-term customers dropped by around nine per cent, compared with a decline of about 12 per cent in the total number of unemployed customers. Short-term customers declined by around 16 per cent, almost double the percentage decline in the number of long-term customers. The largest percentage decline was in the number of unemployed customers on income support between two to three years, declining by around 33 per cent. However, there was a 40 per cent increase in the number of unemployed customers on income support for five years or more.⁹

Figure 13: Long-term and short-term unemployed customers May 1998 to July 2003



Source: FaCS administered data

⁸ The long-term unemployment figures differ from the numbers of people receiving unemployment payments for long periods. Nevertheless, the present favourable economic conditions and lower unemployment rates compared to the early 1990s are accompanied by a decline in the number of unemployed people on income support for a year or more.

⁹ These figures are very difficult to interpret; unemployed income support recipients can have periods of full-time employment with no income support for periods of up to 25 weeks and still be regarded as long-term unemployed for the purposes of the administrative system.

2.3 Regions with low participation in paid work

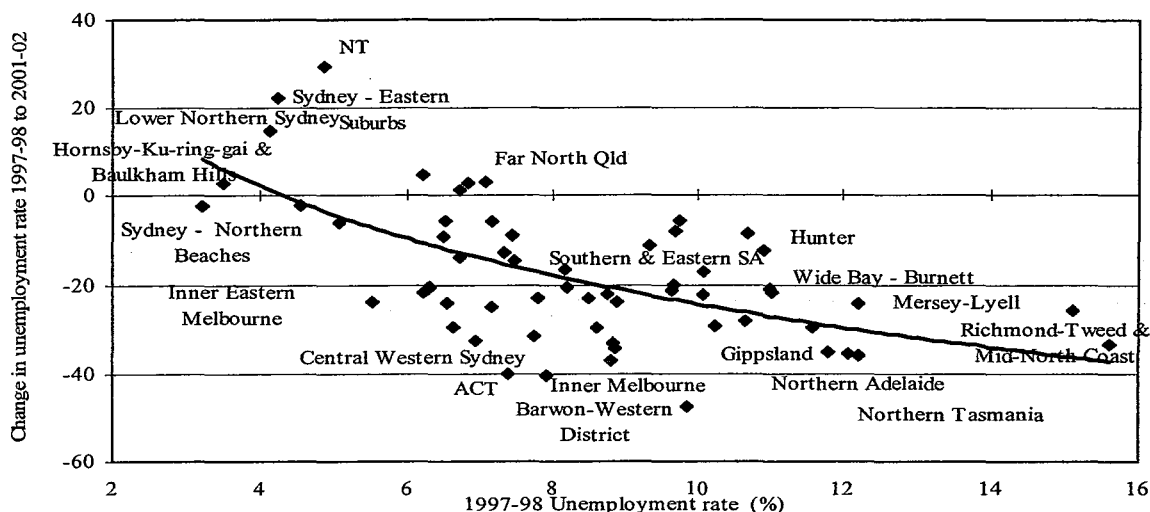
Low rates of participation in paid work is not only a characteristic of certain groups in the population, but also has an important regional dimension. Participation rates vary considerably depending on locational and geographical factors.

Regional Unemployment The benefits of falling unemployment have been broadly based, both across industry sectors and across regions. Regional disparity in unemployment has fallen markedly as a result both of growth in employment in local labour markets and also opportunities created elsewhere. While in 1997–98 there were 15 labour market areas (out of 59 regions for which ABS produce estimates) that had unemployment rates above 10 per cent. By 2001–02 this number had fallen to only two.

The pattern of these changes can be seen in Figure 14, which shows the percentage change in the unemployment rate of labour market areas between 1997–98 and 2001–02, charted against the same area's unemployment rate in 1997–98. It shows, as a general relationship, that the locations with the highest unemployment rates in 1997–98 are also those areas that have had the largest falls in unemployment between 1997–98 and 2001–02. For example, in 1997–98, Gippsland and Northern Tasmania had unemployment rates of around 12 per cent. By 2001–02 the unemployment rate had fallen by more than a third. Additionally, the figure shows that rates have fallen in both urban and regional locations with high unemployment.

These results run counter to much of the analysis of employment and unemployment trends in the 1980s and early 1990s that identified increasing concentration of unemployment in some regions. While there remain significant differences in the locational experiences of unemployment, many of these are a hangover of changes that became deeply entrenched in the earlier period.

Figure 14: Regional unemployment trends 1997–98 to 2001–02



Source: Derived from ABS (2003), Labour Force Selected Summary Tables, Cat. No. 6291.0.40.001, Table R1

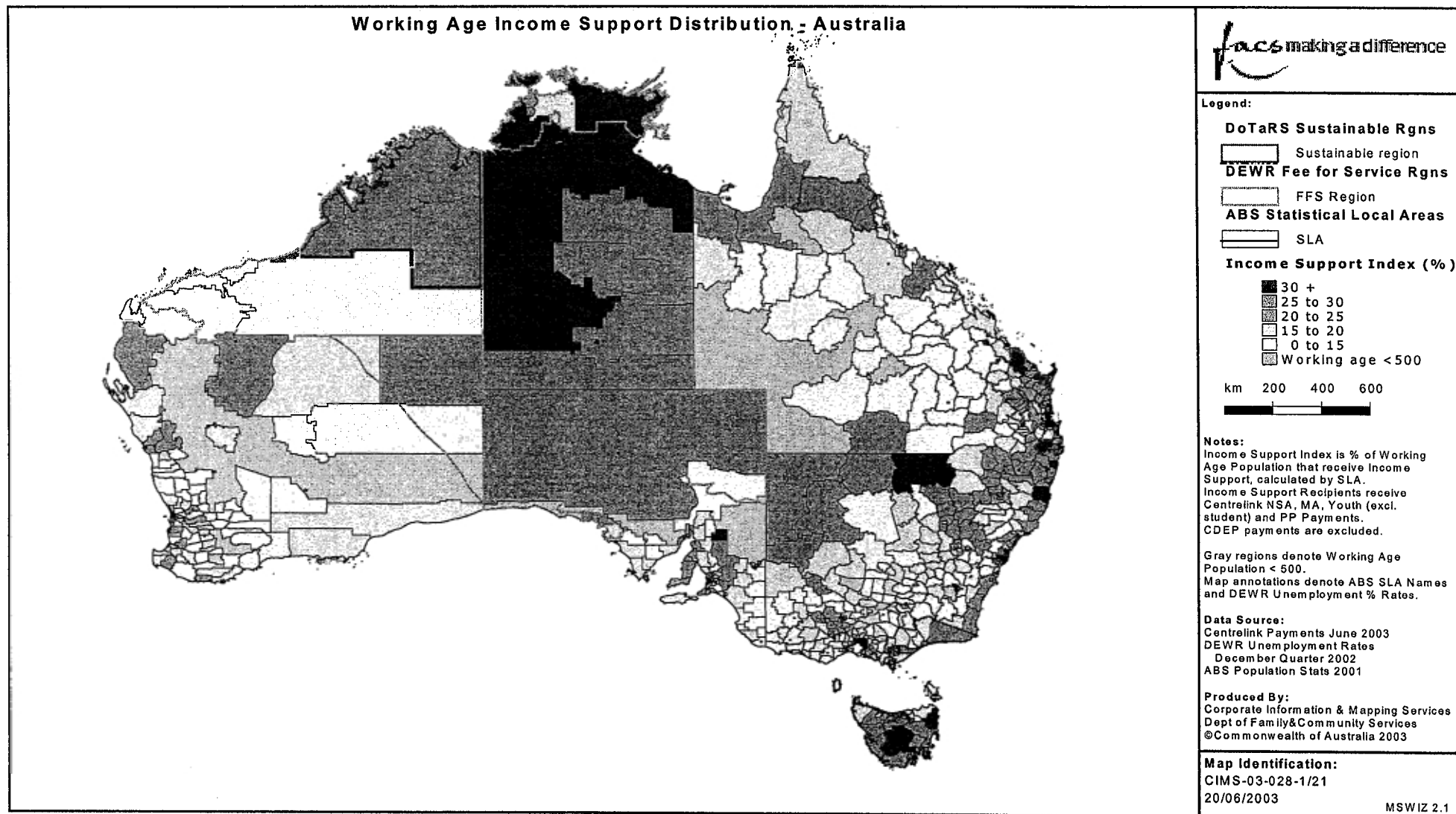
Unemployment figures, however, do not tell us the whole picture in relation to the distribution of participation in paid work. For a more comprehensive picture, we also need to know the distribution of people not in the labour force – that is, those not looking for work – especially those on income support payments. Figure 15 shows distinct patterns in the distribution of high and low participation using data on income support receipt. The map shows the ratio of income support recipients to the working age population in statistical local areas. Some areas – in particular, the Northern Territory, northern and western areas of NSW, as well as pockets in South Australia and Queensland – have a high concentration of income support receipt in the working age population.

2.4 Summary

This section has described some important dynamics participation in paid work in Australia, both in terms of overall participation rates and trends, and in terms of the groups of people and locational areas that have particularly low levels of participation in paid work. The description has shown that on many indicators, Australia has relatively low participation rates for many groups of people with labour market disadvantages, as well as significant variation in the regional distribution of participation in paid work. This suggests that there is considerable scope for increasing participation levels amongst these groups.

The following section sets out how the activities of the FaCS portfolio contribute to supporting participation across the lifecycle.

Figure 15: Receipt of income support across Australia: High and Low Participation areas



Early intervention and prevention through capacity building

This section outlines the range of programs and initiatives that are underway across FaCS' portfolio responsibilities to ensure that structural impediments to paid employment for certain groups are minimised and that set a good base for future levels of participation in paid work.

3.1 Early childhood intervention

Although evidence suggests that families' long-term reliance on income support can result in a cycle of inter-generational dependence (Pech and McCoull 2000) such outcomes are not deterministic – that is, many children who have been raised in families where parents rely heavily on income support do not repeat the cycle as adults. This suggests that there is also scope for well-designed interventions to maximise the chances of these children becoming self-reliant adults with higher levels of participation in paid work than their parents.

Early childhood research suggests that the balance between 'risk' factors, such as socio-economic disadvantage, and 'protective' factors, such as positive parenting, can have a significant impact on a child's outcomes later in life (The Centre for Community Child Health 2000; Australian Institute of Family Studies 2002). Research has also demonstrated that early childhood interventions can make a difference to outcomes in primary school and into adolescence. Not only do the effects continue, albeit at reduced levels, but the available research has also shown that the smaller continuing effects from early childhood interventions are still larger than the immediate effects of other interventions carried out later. Nevertheless, it is important to be realistic about the difference that short-term early intervention without any follow up can be expected to have (Brooks-Gunn 2003).

Recognising the importance of early childhood, and the need to address children's issues coherently across many different parts of the Commonwealth, the Government has established a Task Force on Child Development, Health and Wellbeing, which FaCS convenes. Much of the responsibility for children's services lies with state and territory governments, and with the many professionals and community organisations outside government. Accordingly, the Task Force is overseeing the development of a National Agenda for Early Childhood which will highlight national direction for action in three key areas: child and maternal health; early learning and care; and child-friendly communities.

The Task Force has prepared a consultation paper, *Towards the development of a National Agenda for Early Childhood* (Commonwealth of Australia 2003), proposing a framework for a National Agenda and possible goals under each of the three action areas. Structured consultation meetings are being scheduled with key early childhood organisations and state and local governments over the next few months. Written

submissions are also welcome from anyone with an interest. A report of the findings will be issued later this year, together with suggestions about next steps.

In the medium- to longer-term, understanding children's development will be enhanced through access to the results of the Longitudinal Study of Australian Children (LSAC), which FaCS is funding. This will enable policies to be developed which reflect the actual experiences of Australian children and families, and will permit programs and other activities to be evaluated.

3.2 Education and Youth Transitions

Education is critical to participation in paid work. Rates of employment and returns from work tend to increase with level of education – people with higher levels of education are more likely to be employed, and when employed to be in full-time employment, as well as having higher average levels of earnings (Table 4). Evidence from evaluations of labour market programs show clearly that they often find it difficult to make up for an incomplete education. Policies aimed at helping young people remain in, and succeed at school, are thus a vital investment for future levels of participation in paid work.

Table 4: Labour force status and average full-time weekly earnings by highest educational attainment for persons aged 25 to 45, 1997–98

Level of highest educational attainment	Labour Force Status (Per cent)				Total	Earnings (\$ per week)
	Employed full-time	Employed part-time	Unemployed	Not in labour force		Full-time
Degree or higher	69.6	18.3	2.6	9.6	100.0	946.85
Non-degree post-school qualification	65.8	16.9	4.3	13.1	100.0	731.94
Year 12	58.6	17.7	4.2	19.5	100.0	690.92
Less than Year 12	44.1	20.2	7.6	28.1	100.0	602.38
Still studying	7.5	34.7	12.5	45.3	100.0	635.20
Total	57.1	18.7	5.2	18.9	100.0	

Source: Derived from ABS Survey of Income and Housing Costs, Cat. No. 6544.0.30.001

Youth labour force participation also benefits from direct Commonwealth intervention, especially programs that support young people in their job search and placement. These include: the Job Network, the Job Placement, Employment and Training (JPET) program; work experience and development programs including Work for the Dole and Green Corps; assistance that empowers young people to make appropriate career choices, including the Job Pathway Program (JPP), the Career Counselling Program; the Career and Transition Pilots; and support for specific groups, such as the Jobs, Education and Training program (JET), which includes assistance with child care. New Apprenticeships also provide a pathway into the full-time workforce for many young people, enabling them to combine work with formal training.

New Apprenticeships are complemented by youth wage policies that allow employers to offer wages consistent with young people's lower skills and experience. Youth

wages help to ensure the existence of entry-level jobs for young people. Over time, with increasing workplace experience, most young people will move on to more complex jobs with commensurate increases in remuneration. These wages, and the apparent welfare outcomes for youth, need to be judged on a longer term basis.

3.3 Supporting families

Increasing the labour force participation rate of women depends to a large extent on ensuring that families are able to combine working and caring. A focus for policy, therefore, is to assist families to find the right balance to meet their needs and circumstances. Policies include providing financial support for families with children, access to child care, and services to support family relationships.

Financial assistance Three main forms of financial assistance are paid to families with dependent children:

- Parenting Payment is paid to people, whether single or partnered, who have the primary care of at least one child aged less than 16 years.
- Family Tax Benefit (Part A) is paid to the majority of families with children to assist with the associated costs. It has a means test that is generous, ensuring it is widely received, and rates are relatively high for low-income families.
- Family Tax Benefit (Part B) is specifically targeted to single-income families, whether a couple or sole parent, and as such complements the role of Parenting Payment, which is similarly targeted. It only income tests the primary child carer in a couple relationship or the sole parent, as it is designed specifically for single-income families. It is paid at higher rates for those families with children under five years old.

Improving support for families was one of the high priorities of reforms with the introduction of the New Tax System. These included an increase in support to families of an average of \$40 per fortnight. It also included \$12 billion in personal tax cuts overall, as well as changes to income tax and taper rates designed to provide greater rewards for working.

In addition to these payments, a range of supplementary payments is available to assist with various kinds of expenses: Rent Assistance, Mobility Allowance, Telephone Allowance, Pharmaceutical Allowance, Remote Area Allowance and several other minor payments.

Child Care Providing access to affordable and high quality child care is a key strategy to help parents to participate in the workforce and the broader community. Child care is an essential element in the Commonwealth Government's commitment to promote the well-being of Australian families with young children. FaCS has responsibility for national child care policy, research and data collection through child care support. The objective of this support is to assist families with dependent children to participate in the workforce and the general community by supporting the provision of affordable, quality child care. A range of benefits and services are available for families:

- Child Care Benefit was introduced as part of the New Tax System in July 2000, and subsidises around 70 per cent of child care costs for a low-income family (that is, with combined income less than \$30,806). It is available to low- and middle-income parents. For example, a family with two children can receive more than the minimum amount of Child Care Benefit on a family income of \$95,000.
- The Commonwealth has allocated around \$8 billion over four years, from 2002–03, for child care. In 2001–02, it spent over \$1.6 billion, which covered around 720,000 children in approved (formal) care. Of the 508,000 families with children in approved care, an estimated 37 per cent are low-income families.
- Up to 50 hours of Child Care Benefit a week is available for each child if both parents or the sole parent are working, studying or training; otherwise, 20 hours a week is available. A major priority for child care places is those families with parents who are working, looking for work, studying or training; these account for around 91 per cent of Commonwealth-funded child care.

The low rates of participation in rural and regional Australia highlight the importance of providing innovative child care options in these areas. FaCS is establishing a range of flexible and innovative services in small rural and regional communities with dispersed population, where the need for formal child care has been identified but where the usual models of care are either inappropriate or unavailable. Models developed to date include a range of services, delivered from one site, for example long day care, family day care, occasional care and playgroups, mobile multipurpose services covering a number of communities, on-farm care and multi-sited child care services with mobile support unit. Services can also be tailored to the specific needs of the local community, rather than using an urban model or a 'one size fits all' approach to child care.

Achieving work and family balance also requires engaging the business sector and paying attention to workplace relations including anti-discrimination legislation and the various approaches to leave for parenting and other caring responsibilities.

Family relationships Providing direct support for relationships and parenting can reduce the impact of family stress on people's capacity to manage their work and family responsibilities. Because relationship breakdown can increase the incidence of income support reliance, financial vulnerability in retirement, and children growing up in jobless families, policies to stabilise and support families in crisis is also a key to providing a pathway to increased employment. Pro-employment welfare policies will also support family stability by reducing the incidence of jobless families, particularly jobless couple families.

The Commonwealth provides products and services to enhance parenting and relationship skills, and to minimise the economic and social costs of relationship disruption and breakdown. The *Family Relationships Services Program* contracts some 100 non-government organisations to provide services to families, with expenditure in 2002–03 of some \$50 million. The *Child Abuse Prevention Program* aims to prevent child abuse by promoting positive parenting. In addition, assistance

to families and others with financial problems is provided by means of the *Commonwealth Financial Counselling Program*, and through *Emergency Relief*, which provides grants totalling \$28 million a year to a range of religious, community and charitable organisations to provide emergency financial assistance to individuals and families.

3.4 Retirement and extending working life

To support older Australians continue in employment, governments have taken action to remove barriers to workforce participation. For example, the compulsory retirement age of 65 was removed for federal public servants in 2000. A number of options exist to further enhance the capacity of older workers to remain in paid work for longer.

- *The Pension Bonus Scheme:* encourages people of Age Pension age to defer claiming the Age Pension while continuing to work. If they choose to continue working they can accrue a tax-free lump sum at the time they claim and receive the Age Pension.¹⁰ Take-up of the Pension Bonus will depend on the number of people reaching Age Pension age who are still working. The number of people registered on the pension bonus scheme, 48 740 at 31 December 2002, is around one quarter of those of Age Pension age who are working, which is a relatively high take up. Low rates of labour force participation among people of Age Pension age reflect the fact that most people reaching Age Pension age have withdrawn from the labour market.
- *Increasing the preservation age for superannuation:* To reduce incentives to retire prematurely and assist preservation of savings there will be a progressive increase in the superannuation preservation age from 55 to 60 years between 2015 and 2025;
- *Increasing the age pension age for women:* The age at which women qualify for age pension is gradually increasing. By 1 July 2013 it will be 65 years, the same as for men.
- *Promoting transitional retirement:* This could enable people to combine some workforce participation with other responsibilities and interests. Phased or transitional retirement allows for a gradual transition from full-time work to no paid work, providing flexibility to accommodate other responsibilities or interests, for example, caring responsibilities and volunteering. There is also potential for retirement incomes to be supplemented by earnings for those people who can and wish to work beyond Age Pension age, perhaps on a part-time or casual basis.
- *Attitudinal change:* The low rate of participation for mature age people is, in large part, attributable to the persistence of negative attitudes to employment of mature age people. Research conducted by Drake Personnel for FaCS shows that employers currently favour younger job applicants when recruiting and selecting employees, and no employers reported that they preferred people aged 50 and over. The ABS *Job Search Experience Survey* confirms these findings. In exploring the reasons that unemployed people had difficulties in finding work, the

¹⁰ To qualify, people must work for at least 960 hours each year - an average of 20 hours a week over 48 weeks each year.

survey includes an option that they were considered 'too young or too old by employers'. Over 90 per cent of older unemployed men and 76 per cent of women reported this as the reason that they had difficulties in finding work (ABS 2002, p. 13). Australia does not have an official retirement age and proposed age discrimination legislation would prohibit dismissal on the basis of age unless specified exemptions apply.

- *Lifelong learning*: to ensure sufficient learning and re-skilling opportunities are available over longer working lives, together with chances to develop education and skills relevant to changing labour markets. Life skills training in financial planning, problem solving and resilience building and opportunities to support increased social and business entrepreneurship may also be relevant to building people's capacity to participate economically and socially.

It is important to understand that the future reduction in the relative supply of younger workers may prompt employers to give greater consideration to hiring older workers, although this is uncertain. Businesses that meet this challenge may derive substantial competitive advantage in the labour market. This will require effective workforce planning, including recruitment practices focusing on skills and experience rather than assumptions about age and ability; retention policies for experienced and effective employees and anticipating needs of people to build and maintain their skills and abilities.

3.5 Partnerships with business

It is clear from the preceding discussions that business has a crucial role to play in the provision of participation opportunities for certain groups of people – especially mature age people and those with disabilities, as well as in regional areas where employment opportunities are low. FaCS works with the Prime Ministers Community Business Partnership which is the principal vehicle for working with business to identify and generate opportunities to increase participation in paid work. This Partnership comprises a group of prominent Australians from the community and business sectors who advise the government on issues concerning community business collaboration. The Prime Minister has also recently asked the Partnership to focus on practical ways for Government to encourage the private sector to employ more mature age workers. Terms of reference for this task are currently being finalised.

FaCS is also exploring opportunities to work with and encourage business to provide opportunities through:

- a number of financial incentives such as wage subsidies;
- provision of various brokerage services facilitating the take up of various government programs by business;
- information provision and awareness raising; and
- facilitating joint discussions regarding the changing composition and nature of the Australian workforce of the future.

3.6 Supporting communities

FaCS also recognises that participation in paid work can be supported and encouraged indirectly through creating stronger, more sustainable communities and offering opportunities for social participation – particularly for those who are currently a long way from finding a job. The AWT initiative has, as a key objective, the creation of ‘stronger communities that generate more opportunities for social and economic participation’. FaCS is committed to supporting communities overcome disadvantages faced by communities that have poorer educational, social and transport infrastructure and less job opportunities. Without intervention, the cycle of decline in disadvantaged areas may continue despite employment gains in the economy overall.

The development of stronger communities has been identified as a key strategic outcome for FaCS. The commitment to support and strengthen communities encompasses rural and regional issues, housing and homelessness assistance and related support, the particular needs of Indigenous communities and people from diverse cultural and linguistic backgrounds, and issues around pressures within communities and their capacity to respond positively to changing circumstances and emergency situations. It also recognises the importance of ensuring that, as far as possible, service delivery arrangements do not disadvantage people, by virtue of their location, in their access to government programs and services. Objectives are achieved through a combination of services and community-based approaches, with an emphasis on bolstering partnerships between government, the community and the business sector.

The major initiative to promote stronger communities is the *Stronger Families and Communities Strategy*. Programs include: encouraging community participation through projects such as the Voluntary Work Initiative, designed specifically to support income support customers, particularly those aged 50 and over; a matching and referral service to voluntary organisations; supporting grandparents who have caring responsibilities, and the Prime Minister’s Community Business Partnership which encourages businesses in local regions to generate opportunities for groups with low levels of participation in paid work.

FaCS is also aware that many disadvantaged communities and associated organisations are looking for alternative means of increasing opportunities for participation in paid work for people on income support. Often referred to as ‘social enterprises’ these initiatives can be a major source of hope and opportunity for individuals and communities where few opportunities for participation in paid work exist, and, if undertaken well, can serve goals of sustainable improvements by empowering communities to develop sustainable collaborative relationships and networks. Accordingly, FaCS is currently exploring ways to support social enterprise initiatives and promote alternative means of increasing participation in paid work through community empowerment.

A particular focus of this work is in Indigenous communities which have the highest rates of joblessness and economic disadvantage in Australia. The concepts of reciprocity/responsibility, community capacity building, improved and individualised service delivery associated with Welfare Reform have come to be reflected in the

Government's approach to addressing Indigenous disadvantage. In many ways, the Community Development Employment Project (CDEP) that is now 26 years old is testament to the fact that these issues have been at the forefront of indigenous welfare policy for a long time.

In considering opportunities for increasing participation in paid work in these communities, complementary strategies will be required to address particular structural or systemic issues such as very low educational attainment, poor health, nutrition and housing standards, significant lack of infrastructure such as banking services or communications or transport. Tackling these endemic, cross portfolio issues require new and innovative approaches to community capacity-building in Indigenous communities. FaCS is currently involved in a range of these types of initiatives including:

- FaCS funds the Family Income Management (FIM) project under the Stronger Families and Communities Strategy. FIM is a two-year action research project based in three Cape York Indigenous communities (Aurukun, Coen and Mossman Gorge). Beginning in January 2002, the project is concerned with maximising social and economic outcomes through improving management of family/group pooled income. The project builds on the strong bonds existing in Indigenous extended family groups and the high cultural value placed on resource sharing. On information to date, the project is very successful with the potential to make a significant difference in many communities. However, it requires significant levels of resources which may not be able to be sustained particularly given the remote location and lack of infrastructure in the communities to which it is targeted. Consideration is being given to ways in which this assistance might be delivered more efficiently and how it might be extended to other communities.
- The Community Participation Agreements (CPAs) under AWT. These have been developed in recognition of the fact that there are few opportunities in many remote Indigenous communities for people on income support to meet activity test requirements. In others, people have been exempt from activity testing. It is intended that CPAs will operate in around 100 remote Indigenous communities and will involve the community in identifying practical ways people can contribute to their families and communities in return for their income support. Communities will also be able to plan for better service delivery at the local level. ATSIC will assist communities to develop and manage the CPAs and support activities such as leadership, strengthening culture and community governance.
- Working with the Indigenous Communities Coordination Taskforce (ICCT). In March 2003 FaCS signed a Shared Responsibility Agreement with the Wadeye community in the Northern Territory to work jointly on priority areas identified by the community – women and family, youth, housing and construction. FaCS is working with DEWR and the Wadeye community to develop a 'local people for local jobs' employment strategy, and is also working with other agencies to develop innovative participation pathways for Wadeye residents.

3.7 Summary

This section has provided a broad overview of the role that the FaCS portfolio plays in building the foundations to support increased participation, both in the short and long

term. These foundations include building community capacity, supporting families, engaging with business as well as promoting early intervention for children, providing educational opportunities, and supporting life transitions in order to prevent or minimise factors that place people at risk of low participation. Without attention to these broader structural factors, the more direct, individually focused approaches such as those outlined in the next section will be less effective. This is especially true where labour market opportunities are limited or not appropriate for particular individuals or communities. For this reason, continued good economic management and further reform of labour markets is essential to the success of increasing participation.

Policy responses to increase participation in paid work among working age people

This section outlines a range of strategies to increase participation in paid work, taken from international and Australian evidence. In seeking to learn lessons from overseas evidence and how it might apply to the Australian context, it is important to first understand how the Australian system of income support differs from systems operating in most other similar countries.

Many overseas countries have two tier systems to support people of working age. They provide a time limited system of unemployment insurance system where benefits for jobless people are based on their prior employment and earnings, backed up by a system of social assistance that operates as a safety net with less generous rates of payment and income tests that insurance based payments. In contrast, the Australian system of income support differs from other countries in a number of ways:

- It provides flat-rate benefits regardless of prior work history.
- Benefits are income tested which means that they can create workforce disincentives due to high effective marginal tax rates when benefits are withdrawn.
- There is no general hours-based preclusion for eligibility from income support so long as a person meets other qualification criteria. In the case of Newstart Allowance (unemployment benefit) a person must be actively seeking and available for suitable paid work (generally understood to be full-time work). It is thus more common for recipients to combine welfare and work in Australia than in other OECD countries.
- In-work poverty has been a less of a problem than it has been in other countries, particularly the US and UK, where there has been a clearer divide between people in work and those receiving transfers and where low minimum wages are low. By contrast, the Australian transfer system (income support and family assistance) has played an important role in providing financial support to people on low to moderate incomes and Australian minimum wages are among the highest in the OECD.

4.1 Australia's approach to welfare reform – balancing assistance, requirements and incentives

In light of the trends identified in section one of this submission, the Government commissioned the Reference Group on Welfare Reform, headed by Mr Patrick McClure, to review the social support system for working age people and make recommendations for its reform. The McClure report argued that the social support system for working age people needed to balance its goal of poverty alleviation with a more explicit goal of increasing participation:

“Australia’s social support system must do more than provide adequate levels of income support for people in need. It must ensure that people are actively engaged a social and economically, including in the labour force, to reduce the risk of long term social and economic disadvantage for themselves and their families.”

The McClure Committee was influenced by international comparative research, which suggests that effective welfare reform policy generates synergies between three policy levers – work incentives, participation requirements and assistance measures – and that no one lever on its own will be sufficient to achieve welfare reform goals (OECD 1999; Grubb 2000; Martin 2000; Martin and Grubb 2001; Grogger 2002).

The Australians Working Together Package

The principle that successful welfare reform relies on a balance between the three policy levers underpins the Government’s initial response to the McClure Report, the Australians Working Together package of measures (AWT) announced in the 2001-02 Budget. The central thrust of AWT is to reorient the social support system towards consistently encouraging participation by working-age people. AWT has the following policy objectives for working-age people on income support:

- Tackling barriers to workforce participation (such as poor literacy and numeracy, lack of access to job search assistance, lack of skills or difficult personal circumstances);
- Providing working-age people with more choices and opportunities to participate socially and economically;
- Offering working-age people further financial incentives to participate in the workforce; and
- Targeting participation assistance to working-age people based on their individual capacities, skills and circumstances.

Changes to the social support system that form part of Australians Working Together include:

- A Working Credit which will encourage people to take up full-time, substantial part-time or irregular casual work by allowing them to keep more of their income support payment while working;
- A Transition to Work program that builds on the Jobs, Education and Training (JET) and the Return to Work programs that have been helping people, particularly women and mature age people, return to paid work after long absences;
- A network of Centrelink Personal Advisers to provide better assessment and referral for eligible mature age workers, parents with school age children, indigenous Australians and people with special needs to help them get a job or to participate in the community;
- A Personal Support Programme to replace the existing Community Support Program helping people with severe or multiple obstacles to getting a job;

- More disability employment assistance, rehabilitation and vocational education and training places for people with disabilities;
- Additional participation requirements for many working-age people on income support.

The timetable for the implementation of AWT measures can be found at Attachment A.

Reforming working age income support

AWT is the first step on a longer path of reforming the Australian income support system so that it more consistently encourages people of working age with the ability to participate in paid employment to do so. The McClure Report identified a need for a more wide-ranging set of reforms that reconceptualise existing income support payments for people of workforce age as 'participation support payments' (p. 55).

On 12 December 2002 Minister Vanstone and Minister Abbott released the consultation paper *Building a simpler system to help jobless families and individuals* to elicit feedback about the current system of working age support and directions for reform. The consultation paper argued that 'an effective and responsive social safety net depends upon a balance between assistance, incentives and requirements and maximises returns from participation' and identified a number of shortcomings in this regard with the current system, including:

- It is out of step with contemporary social values and labour market opportunities.
- It does too little to discourage long periods of income support reliance among individuals who could build their capacity for paid work and self-reliance.
- It does not always provide clear and consistent incentives for paid work or for people to build their skills through education.
- It contains complex and inconsistent provisions that can be unfair to people in otherwise similar circumstances.
- Perverse incentives arise from the differences between pensions and allowances.

In determining how settings for working age payments should be structured (eg rates, eligibility and coverage, income tests, participation requirements, access to supplements and assistance) it is important to recognize that making these decisions involves a set of trade-offs, which cannot be avoided. In particular there is tension between program affordability, incentives for self support and payment adequacy which has to be borne in mind. The Government's consultation paper notes that such trade-offs will have to be considered in determining directions for reform.

The consultation process sought feedback on a number of questions to help guide reform and achieve a better balance between incentives, requirements and assistance. These questions included: how incentives should be structured to best encourage participation and provide fair rewards for working, who should receive income support conditional on participation requirements and what form they should take and what additional assistance individuals need to support them to participation or build

their capacity for participation. A copy of the full consultation paper can be found on the FaCS website.¹¹

While many OECD countries have adopted active welfare policies, there is no precise recipe for the specific contribution that each policy lever of incentives, requirements or assistance makes. Rather, it is more likely that no simple answer exists and that the definition of what is an 'appropriate balance' varies depending on prevailing institutions, policy settings and social values in each labour market jurisdiction. Evidence from the USA, for example, stresses the importance of combining work requirements with strong financial incentives (Grogger et al 2002) while in Europe, the emphasis leans more towards the importance of combining requirements with appropriate assistance (Martin 2000; Martin and Grubb 2001). The rest of this section will review the overall lessons that can be drawn from overseas evidence and their relevance in Australian settings.

4.2 Incentives¹²

Financial rewards for paid employment are affected by the design of the income support system, the level and structure of wages and the interaction of these with the tax system. When the income gap between work and income support payments is small, disincentives to leave income support for employment can arise (Chapman and Gregory 2002), as paid work is assumed to carry costs in both leisure and in household production (child caring, etc) for which money must compensate. The recognition of this phenomenon as a major issue for income support systems around the world led to the emergence of 'Making Work Pay' as a key policy area from the OECD's major initiative, the Jobs Strategy of the late 1990s (OECD 1999, 2000).

A range of policy instruments can be used to change financial incentives, including social security means tests, payment rates themselves, parameters of the tax system, like tax thresholds and rates, wage settings, specific in-work benefits and earnings subsidies. A common strategy to minimise disincentives in income support is to make certain benefits conditional on employment – either through the provision of direct supplements, or through the tax system. Another strategy is to allow people to keep more of their earnings before losing benefits – either by increasing the 'earnings disregards' or altering the taper rates of means tests. Less common – and used principally in the USA – is a strategy to place time limits on benefits.¹³

Choosing strategies to 'make work pay'

Australian and international research strongly suggests that people's workforce participation behaviours can be affected by changes in work incentive structures in the social support system. However, the choice of a particular approach to making work

¹¹ http://www.facs.gov.au/internet/facsinternet.nsf/aboutfacs/programs/esp-welreform_simplesystem.htm

¹² Incentives here refer to the rewards received for work. Most analysis is on financial rewards, partly because of the relative ease of measuring these, and partly because it is a policy lever over which we have good control. But it is very important to bear in mind that many of the costs and benefits of paid work are not well captured by point-in-time cash rewards. The standard framework of labour supply measurement tries to deal with this by grouping these non-financial costs and benefits under the general rubric of the value of leisure and/or household production (ie unpaid work), which must be traded off for paid work.¹² This approach, though, has its limits.

¹³ Virtually all other countries which are said to have time limits on benefits in fact only time limit their generous unemployment insurance benefits – their unemployment assistance benefits (comparable to Newstart Allowance), to which the unemployed revert after their insurance time limit expires, are not time limited.

pay and its likely effectiveness depends upon the other institutional and social policy settings in place – such as the interactions between the income support, tax and wages systems, social attitudes, tax-transfer system parameters, and underlying patterns of work and distributions of income.

For example, some countries (the US and the UK most notably) have adopted a system of providing in-work benefits through the provision of tax credits on earned income which, in those particular settings appear to be reasonably successful.¹⁴ Other strategies, such as providing employment supplements (eg., the Canadian Self-Sufficiency Project) and high levels of earnings disregards (eg., the Minnesota Family Income Project)¹⁵ have also shown positive results in reducing poverty and increasing employment (Knox et al 2000; Blank and Schoeni 2003). However, as Hotz and Scholz (2000) point out, systems that offer tax credits on earned income might not be useful in countries like Australia that have existing transfer systems that help working families and have more compressed earnings distributions.

This means that given the distinctive features of the Australian system, policies that work well in other countries may not translate directly into the Australian context (Ingles and Oliver 1999, Watson 1999, Apps 2002).¹⁶ Participants in the *Building a simpler system* consultations were asked what form work incentives measures should take and whether employment or earnings conditional benefits such as tax credits should be used to improve work incentives. Feedback on these issues will be taken into account by the Government in developing responses.

What is Australia doing to make work pay?

The FaCS Submission to the Tax Inquiry identified the history of measures to make work pay in Australia and analysis of their impacts. A brief chronology of such reforms since 1980 is at Attachment B. Below, we highlight recent and significant policy directions that Australia has adopted, or is currently exploring, to make work pay.

Tax Reform

Recent reforms to the tax and income support system have made workforce participation more attractive to working-age people. The New Tax System reforms to family assistance and the personal income tax scale that commenced on 1 July 2000 had a major focus on improving the after-tax returns from employment in order to reduce disincentives for working-age people to increase their workforce participation or undertake training or education to improve their prospects of employment or advancement. The reforms included the following key initiatives:

¹⁴ Evaluations of the US' Earned Income Tax Credit (EITC) ((Council of Economic Advisors, 1998, 2000; (Hotz, Mullin and Sholz 2000) and the UK's Working Family Tax Credit (WFTC) (Vegeris and McKay 2002, McKay 2003) have shown that the programs have been responsible for decreases in poverty and increasing employment.

¹⁵ The Canadian Self-Sufficiency Project (SSP) replaced income assistance payments with the SSP supplement for lone parents who left welfare for full-time work within a year of entering income support. The Minnesota Family Investment Program (MFIP) is the longest running experiment providing high levels of earnings disregards. Many other US states have introduced similar programs.

¹⁶ These authors have argued that in the Australian context similar results are better achieved by changes to income tax or social security tapers.

- Introducing Family Tax Benefit and Child Care Benefit, reducing the number of different forms of assistance to families from 12 to 3;
- Expanding child care subsidies with the introduction of Child Care Benefit;
- Simplifying and reducing personal income tax rates so that 80 per cent of taxpayers paid only 30 cents or less tax for each extra dollar they earn (see Table 1); and
- Reducing family assistance income test withdrawal rates from 50 cents in the dollar to 30 cents (so that most working families face withdrawals from their overall income of 61.5 cents rather than 85.5 cents for increases in their earnings).

As Table 5 shows, the majority of Australian families have better work incentives as a result of the new tax system. Family Tax Benefit in particular significantly improved the financial return that working families get when they increase their income.

Table 5: Comparison of the personal income tax scale before and after The New Tax System reforms

Pre reform tax scale		Post reform tax scale	
Taxable income	Tax rate (%)	Taxable income	Tax rate (%)
\$0 – \$5,400	0	\$0 – \$6,000	0
\$5,401 – \$20,700	20	\$6,001 – \$20,000	17
\$20,701 – \$38,000	34	\$20,001 – \$50,000	30
\$38,001 – \$50,000	43	\$50,001 – \$60,000	42
\$50,001 +	47	\$60,001 +	47

Source: FaCS 2003a

As well as concerns about effective marginal tax rates (i.e., the net return for every extra dollar earned after taking account of tax and social security means tests) there has been concern in Australia and overseas about people facing high benefit replacement rates. Net replacement rates (NRRs) measure the ratio of benefits to a given wage and are used to assess whether particular households are better off as a consequence of taking up work than they would be remaining on income support. High NRRs (that is, those that are close to 100 per cent) are widely considered to carry considerable disincentives to taking up paid work. Many of the measures set out in Attachment B have attempted to address this issue. As a consequence of these measures and the 2000 tax package, the group with the highest level of net replacement rates – single earner families with children, have seen their NRRs fall to about 78 per cent. Such couples with children now face similar replacement rates to those without children – that is, the ration of incomes while unemployed between those with children and those without is similar to the same ratio while they are earning a minimum wage.

Welfare Reform – AWT and Building a Simpler System

The Australians Working Together package includes a major initiative – ‘Working Credit’ – which began operation on 20 September 2003. Working Credit is designed to encourage people of working-age who get income support payments¹⁷ to take up

¹⁷ Working Credit is available for people receiving Newstart, Youth, Mature Age, Partner, Widow, Bereavement, and Sickness Allowances; Disability Support, Wife and Widow B Pensions, and Carer and Parenting Payments. People who have reached Age Pension age (65 for men and 62 currently or 62½ for women after 1 July 2003), or who receive

full-time, part-time or casual work by allowing them to keep more of their Centrelink payments while working. The scheme also improves incentives to accept jobs by removing the requirement for people to reapply for payments after taking up a short-term job (for up to 12 weeks), allowing instead an automatic resumption of payments once the job has ended. People will also be able to keep extra benefits such as the Pensioner Concession Card, the full rate of Family Tax Benefit (Part A) and Child Care Benefit (for up to 12 weeks). Working Credit has also replaced complex income test rules used for people on a pension or a parenting payment with simpler fortnightly assessment of earnings. This makes it easier for people to understand how income from work affects their Centrelink payment, and means that assessment of earnings is now consistent across working-age people on pensions, parenting payments and allowances.

The consultation paper on working-age income support identified that working age recipients are subject to widely different income tests. The allowance income test gives greatest emphasis to incentives for full time work but provides relatively meagre returns from part-time work, even though part-time work is the most common route out of joblessness. On the other hand the pension income test extends entitlement well into the range of full-time wages. The better conditions offered by pensions can create incentives for people to go on pensions rather than allowances, thus reducing their focus on seeking paid work. For example, as the consultation paper points out, people with mild or moderate disabilities may downplay their abilities in order to qualify for the Disability Support Pension rather than an allowance, especially if they believe they will never get another job.

In considering measures to promote work, we need first to ask what work we are seeking to maximise. In our context, any of the three following are possible:

- to maximise the number of people doing **some** work;
- to maximise the number of people doing **full time** work; or
- to maximise **total earnings** by the population. This may mean maximising full-time work for those we consider capable of it, while also maximising part-time work for those who are not.

This is a threshold question, because a tax-benefit system aimed at one of these will have inevitable trade-offs. For example, while rewarding part-time work may maximise participation in the labour market, doing so may weaken incentives to full time work. Alternatively, encouraging full-time work may cut some people out of the labour market altogether, remove the bridge that part-time work can form to full-time work, and be out of step with what employers need. This may then lead to the co-existence of a large number of part-time vacancies with substantial unemployment. How to resolve these trade-offs is a key question raised in the consultation paper.

It is also important to realise that changing elements of the system needs to be undertaken with close regard for any knock-on effects, or trade-offs that may be encountered in other parts of the system. Examples of issues to consider include:

Special Benefit are not able to get Working Credit. Full-time students who receive Youth Allowance, Austudy or Abstudy, will continue to access the Student Income Bank instead of Working Credit.

- the effect of the measures on households outside the transfer system (as they may trigger an overall fall in participation measured in terms of aggregate hours worked amongst middle and upper income households);
- uncertainty regarding how income test and tax withdrawals will affect labour supply preferences and behaviours of working-age people;¹⁸
- how to isolate and measure the effect of changed work incentives from the effect of changes in the labour market and the broader society.

4.3 Requirements

Requirements refer to the rules that are used to regulate job-search behaviour, participation in active labour market programs and to curb benefit abuse. These include tightening of eligibility criteria or activity tests such as job-search requirements, the definition of suitable work, and penalties for voluntarily quitting employment. However, around the world these tests have generally been extended under welfare reform to include intensified job-search verification, participation in a variety of mandated programs and the signing of an agreement that specifies actions to be taken to improve work prospects.¹⁹ When requirements are not fulfilled, sanctions are often imposed. These usually take the form of the withdrawal of all or part of the person's benefit for a period of time (or in some cases permanently).

The apparent success of welfare reform measures around the world is commonly attributed to the tightening of requirements and the imposition of sanctions on non-compliance with requirements. For example,

- Many US studies²⁰ have concluded that the introduction of a stricter benefit regime played an important role in the substantial reductions of welfare caseloads throughout the 1990s.
- UK research also has concluded that the stricter benefit regime contributed to the marked falls in registered unemployment²¹ (Sweeney and McMahon 1998).
- A study of four European countries²² that enjoyed labour market success during the late 1980s and 90s found that 'all resorted to a much stricter enforcement of job search and suitable work provisions' (Auer 2000, p. 70)

Evaluating these results, the OECD notes that '(a)lthough empirical evidence remains rather patchy, it does suggest that these countries get into a "virtuous circle" with sustained falls in unemployment and tighter implementation of eligibility criteria'

¹⁸ For example, some people will work less, and others more, in response to changed work incentives. Also, the rise in participation of some people may be accompanied by an overall fall in the average hours worked if the work incentives of middle and upper income households are worsened.

¹⁹ In the USA criteria often go further for the target population of sole mothers – incorporating requirements to send children to school, immunise them and a range of other non-employment related actions.

²⁰ Rector and Youssef 1999; GAO 1998; Riccio and Hasenfeld 1996; Council of Economic Advisers, 1997, 1999

²¹ That is, the number of people registered at Job Centres as unemployed – that is, applying for benefits. This does not necessarily correspond to the population of unemployed under the ILO definition.

²² Denmark, Ireland, the UK and the Netherlands

(Grubb 2000, p.141).²³ The presence of requirements in labour market policies are therefore important in maintaining the employment prospects of income support recipients. They have a number of positive effects:

- engage people who would not otherwise participate in programs. If the program is then effective and appropriate, requirements can have the effect of moving people into work;
- encourage people who may be 'cruising' or defrauding to leave;
- send the message that recipients who are able to become self-reliant are expected to do all in their capacity to do so; and
- generate public support for income support and labour market assistance measures.

What is Australia doing about requirements?

Requirements for unemployed people have been a key feature of the Australian system of benefits since its inception in 1945. Originally restricted to a fairly limited 'work test', the requirements were extended from the late 1980s to include a range of 'activity tests' which required unemployed people in younger age brackets to undertake a range of job-search and other labour-market activities in order to maintain eligibility for benefits. Benefits other than unemployment benefits were not subject to activity tests. Recipients of non-activity tested allowances, such as allowances for mature age unemployed people, sole parents or people with disabilities, have been assumed to have withdrawn from the labour force to some extent. As a result, limited strategies have been in place to help people on non-activity tested payments to access employment or other services that could assist them.²⁴

The growth in reliance on non-activity tested payments and the strong correlation between income support reliance and entrenched poverty prompted review of this approach. Non-activity tested allowees have longer durations on payment, lower incidence of earnings, and lower levels of earnings than activity-tested customers of the same age. The current system fails to recognise that the circumstances, skills, levels of economic and social participation and aspirations of older allowees vary considerably, and that many individuals on these payments may obtain considerable benefit from an activity-tested regime of requirements and assistance.

Evidence from the Parenting Payment Intervention Pilot (PIIP) conducted by FaCS in 2000 found that compulsory interviews were much more effective than voluntary interviews in reaching those who need help. Attendance under a compulsory approach was 81 per cent compared to 17 per cent with a voluntary approach. Those called in on a compulsory basis were likely to respond as positively as those attending

²³ Evaluations have found it difficult to separate out the independent effect of requirements compared to the effect of mandatory activities and assistance programs (Riccio and Hasenfeld 1996; Martini and Wiseman 1997; Grubb 2000). The effect of sanctions or penalties should also be evaluated separately from the effect of requirements *per se*. This is because, depending on the way a particular program or system is designed and implemented, requirements may either be accompanied by high or low sanction rates, and the sanctions can be mild or severe. In some cases, sanctions may be only rarely applied (Pavetti et al 2003).

²⁴ The Jobs, Education and Training Program has been available on a voluntary basis to Parenting Payment and certain other recipients.

on a voluntary basis (Pearse 2000). However, there was a poor rate of follow through with agreed plans. Only a third of customers with teenage children agreed to plan economic activity and only a third of those subsequently followed through on that agreement.²⁵ This indicates that compulsory activities, as well as compulsory interviews, are required to help those customers who most need to translate intentions into action.

Concerns about the lack of opportunity or assistance for non-activity tested recipients, the international and Australian evidence of the importance of requirements in achieving better outcomes for people, combined with widespread consultation led the McClure Reference Group to support an extension of mutual obligations to cover all people of workforce age. The final report of the Reference Group recommend that the new system

‘must engage people more actively, and to be successful that engagement must be reciprocal. ...the Reference Group believes that some form of requirement is necessary.’

The Reference Group argued that the system should adopt a ‘participation framework’ for people of working age on the basis that it is in the long-term interests of individuals, and the key strategy for addressing the prospect of entrenched economic and social disadvantage. Noting strong community support for the idea that individuals should avail themselves of appropriate opportunities for economic participation, the Reference Group argued that a system that provided an obligation to participate would reinforce community expectations and will encourage the minority of individuals who might be reluctant to take-up appropriate opportunities.

The changes to the participation requirements under AWT measures respond to the McClure Report’s recognition that obligation may be necessary to encourage engagement with those most difficult to help.

The participation supports and requirements across all payments for workforce aged income support recipients represent a graduated framework of expectations and consequences consistent with both customer characteristics and community expectation. The table at Attachment C provides an outline of this framework and shows the graduated nature of expectations across all payments from those participating in the Personal Support Programme, through parents, mature age Newstart and Youth Allowance to younger Newstart customers.

The Helping Parents Return to Work measure of the AWT initiative takes a first step towards building the capacity of parents with teenage children to move towards greater self reliance, while at the same time recognising and accommodating their parenting responsibilities. Similarly, the A Fair Go for Mature Age People measure also introduces new modified requirements for the mature aged unemployed. In line with the evidence that shows that requirements should relate to meaningful activity, meet individual needs and circumstances, and take account of labour market opportunities, the participation requirements developed under AWT for parents and mature aged people are modest and flexible:

²⁵ Unpublished FaCS data

- Clear participation expectations and requirements for older working age people should encourage the maintenance of a connection to the workforce for as long as possible, thereby discouraging premature retirement. However, in recognition that mature age jobseekers face greater challenges in the labour market, the requirements have been designed to be consistent with their capacities and individual circumstances, and are not as strict and are more flexible as those placed on the younger unemployed.
- The *Helping Parents Return to Work* measure assists parents to prepare for the transition to work. People receiving parenting payments whose youngest child is aged 13-15 have a participation requirement of an average of 6 hours per week to help them prepare for a return to work. The requirements are carefully tailored to individual circumstances and are administered by specially recruited and trained Personal Advisers. The measure is accompanied by extra assistance and services.
- The timing of the interventions for parents (at a minimum of six months duration on payment) is designed to balance providing help at the earliest opportunity with the fact many customers stay on payment for only a brief time.²⁶ For customers remaining on payment for longer periods, that initial transition into welfare receipt may also be accompanied by problems, such as legal, accommodation or health issues, that would be better stabilised before trying to engage with the person on participation issues.
- For both parents and mature aged unemployed, a modified set of penalty arrangements applies, and depending on the circumstances, includes the capacity for all or part²⁷ of the penalty to be waived.

Changes have also been made to the requirements provisions for Newstart customers. Since 1 July 2002, Centrelink has been able to suspend the payment of a jobseeker who has a suspected breach and who cannot be contacted.²⁸ This is to prompt the jobseeker to contact Centrelink so that their reasons for failing to meet their requirements can be discussed and considered before any breach is imposed. From 22 September 2003, jobseekers who incur a first breach (within the previous two years) can have their penalty period shortened if they comply with their requirements at the earliest opportunity. Upon compliance the penalty period is reduced from 26 weeks (in the case of an activity test breach) or 13 weeks (in the case of an administrative breach) to 8 weeks. This gives those jobseekers who fail the activity test without good reason a second chance to meet their requirements and provides a significant financial incentive for them to do so. This option is not available to jobseekers who have committed certain more serious breaches, such as failing to declare earnings correctly or refusing a job offer.

²⁶ This could, for example, be due to temporary breakdown and reconciliation of a relationship or through finding employment.

²⁷ For parents, there are provisions to waive the penalty in total, and for mature age unemployed, part of the penalty may be waived.

²⁸ Before suspending payment Centrelink must try to contact the jobseeker by telephone or in writing.

Notwithstanding these changes, it is important to understand that only 15 per cent of working age people on income support currently have a job search requirement and only modest results are anticipated from the approaches taken in AWT.

Accordingly, the Building a Simpler System paper sought feedback on the role that requirements can or should play in a redesigned income support system for working age people. Key principles to underpin the design of a new income support system set out in the consultation paper include 'clear expectations and requirements' in which

'people who can work, whether full-time or part-time are expected, and assisted to do so. People who are not yet job ready are expected and assisted to improve their chances of getting paid work over the longer term' (p. 9).

The consultations have therefore focused on teasing out the question of who should face requirements and what form they ought to take.

Similar questions have been asked of the Australian public through various surveys and consultations in recent years.²⁹ The responses have generally provided consistent messages that there is very high level of overall support for the principle that people who can work should be expected to do so, but that requirements should:

- be meaningful and suitable;
- take account of individual circumstances;
- move people closer to self-reliance, or at least make a demonstrable positive difference to their lives; and
- take account of labour market opportunities.

4.4 Assistance

The effectiveness of activity requirements depends to some degree on the extent to which participating in the required activities is helpful in finding work. This section examines the evidence regarding the effectiveness of a range of assistance measures in achieving welfare reform objectives.

Assistance measures associated with welfare reform policies include improving job search by enhancing job search skills and activities and optimising timely and accessible information; improving skills and employability through education and training programs; and individualised assistance including the use of case managers and personal advisers, individual action plans and intensive interviewing programs to address different needs and barriers. In some cases this may include assisting with costs of work (i.e. cover transport or childcare costs) or of training or education.

Depending on a range of situations and methods of implementation, a range of assistance programs and measures have been shown to contribute to successful

²⁹ For example Colmar Brunton Social Research 2001; Roy Morgan Research 2000;

welfare-to-work outcomes. However, the approach to assistance measures has changed over the years.

- ‘Demand side’ (job creation) and traditional education and training programs have fallen from favour since the early to mid 1980s, because of evaluation evidence that they consistently failed to show positive results and were rarely cost effective (OECD 1999; US Dept. of Labor 1993; Martin 2000; Martin and Grubb 2001). This led many governments to favour a ‘work-first’ approach that focuses on moving unemployed clients into work as quickly as possible through the use of structured and supported (rather than independent) job search, accompanied by the close monitoring of a client’s job search activities.³⁰

This is not to say, however, that there is no role for assistance in education and training. Indeed, evaluations have found that over time, the gains made by work-first programs weaken while gains in programs that emphasise education and training either grow, or at least remained static (Hotz, Imbens and Klerman 2000; Hamilton 2002). The evidence suggests the best approach is one that attempts to match policies with customer needs – for some people intensive job search is appropriate, others may need some skill-building through short, intensive programs that are closely linked to employer needs and local labour markets, and still others may benefit from a combination of approaches.

At this stage the evidence does not provide clear guidance regarding ‘what works for whom’ in terms of training and education programs. Accordingly, any design and implementation of these types of initiatives will require close monitoring, flexibility of program design and rigorous evaluation. It will also be important to avoid problems that have previously been associated with these types of programs. For example, it will be important to avoid or, at least minimise, dead-weight costs – that is, ensuring that education and training programs are only offered to those who will most benefit from them. This suggests the need for efficient and accurate techniques for assessing educational and training needs, as well as an assessment of skills demand in local labour markets. It will also be important to ensure that funding structures and contracts operate to avoid the creation of perverse incentives for over-servicing or duplication of services.

- The focus of assistance measures has also shifted towards the needs of particular groups such as the long-term unemployed and those with multiple barriers to employment, rather than on the general stock of unemployed at a given time. In part, this is an effort to avoid potential deadweight costs that may accompany offering services and programs to people who would probably find work without the assistance of these services. The shift is also a function of the fact that as those who are easier to assist move off income support and into paid employment, systems are left with higher proportion of harder-to-help clients. This focus has tended to shift assistance away from direct employment-related measures to

³⁰ Evaluations from several countries show positive outcomes from ‘work-first’ approaches for a variety of clients and that they are usually less costly to implement (Meyer 1995; Bloom et al 1997; Anderson 2000, Martin 2000b; Hamilton 2002).

address non-vocational barriers to work like drug or alcohol abuse or mental health problems.

Ensuring proper targeting of assistance measures requires the use of early intervention and screening measures to identify the extent of labour market disadvantage. Traditionally, decisions about what, if any programs would be suitable for a given individual have been determined by testing eligibility for categorical payments. That is, the criteria for eligibility to particular categories of payments acts as a proxy for an individual's capacity for engagement in paid employment. However, categorical approaches are increasingly considered to be a poor proxy for what a given individual can do. The focus of welfare reform on targeted and individualised assistance gives rise to a model that can accurately assess individual capacity for participation before assigning them to non-activity tested payments or providing exemptions from activity tests.

- These more targeted assessment tools are often supported by various forms of individualised service delivery such as case management and intensive or regular interviews with specialised personnel. Several countries have increased their case management or personal adviser services to the unemployed to help target assistance to individual needs and provide a greater one-on-one service including activities such as counselling and mentoring of clients, assisting job search, conducting in-depth interviews, assessing eligibility, referring clients to other assistance providers and completing individual action plans with clients.

What's Australia doing about assistance?

A range of approaches to labour market assistance have been tried in Australia over the last few decades. The *Working Nation* program offered under the previous Labor Government focused heavily on skills development through education, training and wage subsidies. In 1996, in line with developments around the world that favoured moving people into work quickly, the Government replaced labour market programs with approaches that sought to work with individuals and connect them to employment as quickly as possible. The Work for the Dole program was introduced for young jobseekers and a range of programs were offered under the Mutual Obligation initiative, the Job Seeker Diary was introduced and, in July 2000, all jobseekers were required to develop a Preparing For Work Agreement (PFWA) with the assistance of their Centrelink Customer Service Officer. At the same time certain targeted skills improvement opportunities were continued (such as the Jobs, Education and Training (JET) scheme) or introduced (the Return to Work program for parents and mature age people). The submission from DEWR presents current information in the Job Network and recently introduced Active Participation model, this submission will focus on those elements of assistance for which FaCS is largely responsible.

Australians Working Together

The AWT package extended this approach, introducing a range of assistance measures designed to address the needs of those groups of people with low rates of participation in paid employment identified in Section 1. It extends access to a number of programs to jobseekers who were previously not eligible for assistance, and adds a range of new initiatives to assist people on payments other than unemployment payments. The package is principally focused on offering more targeted, more effective assistance to people who need it with measures that are consistent with what the evidence tells us is important to successful welfare reform – it includes job search assistance (Job Search Training) and targeted training opportunities (Training Credits/Training Accounts). Certain categories of job seekers³¹ are eligible for up to \$800 to meet the costs of identified and approved training needs. These initiatives are designed to build on the work experience and motivation gained through other forms of employment assistance.

A major initiative of AWT is the introduction of Personal Adviser services for groups with particular labour market disadvantages. Personal Advisers help provide extra individualised assessment and support to people on Parenting Payments, Indigenous people, mature age jobseekers and allowees, people recently released from prison, jobseekers with temporary incapacity and those who, for other reasons are currently exempt from the Activity Test. By mid 2004 there will be more than 800 Personal Advisers in Centrelink. To date, the Personal Advisers have been well received, with three in four participants reporting that they are more positive, better prepared and that their work related goals were clearer and more achievable.

More intensive personal assistance is provided for people with severe and multiple barriers to employment under the Personal Support Programme (PSP). The PSP is designed to act as a bridge between short-term crisis assistance and employment-related assistance for people who face problems such as homelessness, drug and alcohol problems, psychological disorders, domestic violence or other significant barriers to participation. The goal is to help participants work towards economic outcomes (such as transferring to work programmes, study and vocational training) or social outcomes (such as stabilised circumstances, increased community engagement, stable accommodation or improved life skills).

The AWT package also introduces a range of improvements for assessing people's needs, with a particular focus on people with disabilities. The focus of the 'Better Assessment' measures is on people's ability to participate, rather than on their inability by providing individualised and intensive assessment of their needs and requirements. *Better Assessment* tools have been put in place for people with disabilities, who are temporarily sick or injured and for new claimants to NSA/YA who have been recently released from prison, are Indigenous or Activity test exempt.

³¹ Work for the Dole participants can access Training Credits and some mature age and Indigenous jobseekers who undertake Job Search Training and Intensive Assistance are eligible for Training Accounts.

Disability Employment Assistance reforms

FaCS funds disability employment assistance services for people with disabilities who often face many barriers when they try to participate in the labour force and the community. People experience a wide range of disabilities, which may or may not limit their capacity for participation. As the data in Section 1 shows, many people with disabilities can actively participate in the labour market, but some experience considerable labour market disadvantage. For some, the disability may be neither the cause, nor the main source, of disadvantage, but may also include poor education and training, poor access to employment opportunities, (due to mobility issues or employer attitudes) broken or unstable relationships, low levels of savings and few other assets to call upon in emergencies. These effects can be exacerbated by the structure of income support payments which often do not actively encourage participation for people with disabilities.

Because of this, FaCS is currently reforming the way it delivers employment assistance for people with disabilities. In the 2003-04 Federal Budget, the Government announced an additional \$161 million to improve and extend the employment services available to people with disabilities. It includes two major packages: \$135 million to implement case based funding and a \$25 million front-end investment in business services. The objective is to improve the quality and outcomes for individuals and to ensure that people with disabilities can fulfil their potential as active and contributing members of society.

Case based funding An extensive trial and evaluation of case based funding has shown that it enhances job seeker access and choice of services and delivers durable employment outcomes. Case based funding replaces current block funding arrangements with a fee-for-service arrangement for providers to assist job seekers with disabilities to find and keep employment. Fees are based on the job seekers' support needs and their employment outcomes. The funding model has been designed to closely reflect the true costs of service provision, provide the right mix of incentives to help the most disadvantaged, achieve better employment outcomes and attract new providers. Case based funding includes incentives for continuing support for hard to place job seekers, service delivery in rural and remote areas, for New Apprenticeships and work based personal assistance. Funding levels for current high cost workers will be maintained.

Business service viability The front-end investment in business services will include immediate and practical assistance tailored for each service. The commitment of extra funds to disability employment assistance will ensure practical help is available for the people with disabilities looking for work as well as the businesses that employ them. The government will continue to help people with disabilities that want to find work and will ensure they get a fair deal for their efforts.

Building a Simpler System

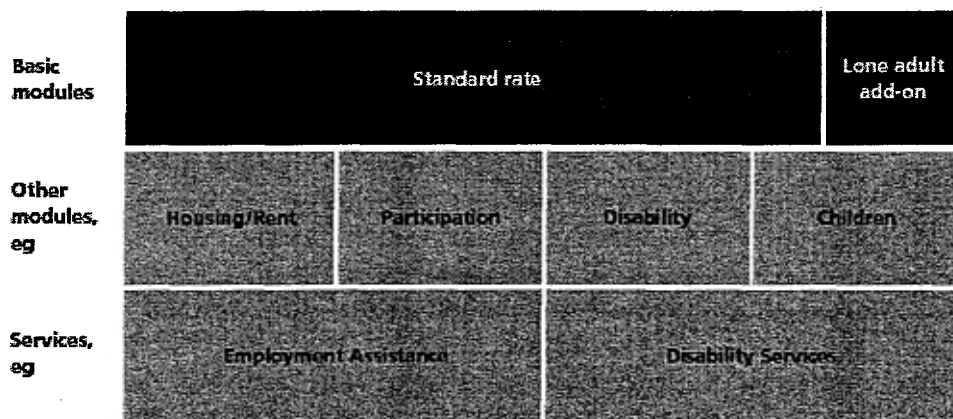
The recognition that providing cost-effective, appropriate assistance measures is an ongoing process of continuous evaluation and improvement has meant that this issue

is a key focus of the current consultation process on *Building a Simpler System*. Questions for consideration focus on whether the current system of basing assistance on the perceived needs of categories of recipients should be replaced by one that takes greater account of individual circumstances. This question then raises further issues regarding how feasible such an individualised system might be, and how it might work.

The consultation paper notes that assistance generally comes in two main forms – extra financial allowances to account for the extra costs associated with certain personal or living circumstances (eg., costs of disability or children); and services or in-kind assistance to support people with various types of employment barriers. It proposes a system that targets assistance of either form to individual circumstances in the form of:

- extra payment modules on top of a base-rate payment module and
- a range of employment assistance and disability services.

Figure 16: components of possible assistance package



Source: *Building a simpler system to help jobless families and individuals* consultation paper, p. 15

The Consultation Paper asks the following questions about assistance to address special needs and support participation:

- what needs or costs should be met through additional assistance?
- should additional assistance also be partly available to low-income employed people?
- under what circumstances are cash supplements preferable to in-kind assistance or service provision and vice versa?
- how can we best target assistance for people who face particularly high costs at the same time as not encouraging people who do not have high costs to take advantage of assistance?
- how should additional assistance for participation be structured to help people become more self-reliant?

4.5 Summary

The apparent paradox that reliance on income support continues to remain high despite eight years of economic growth suggests that policies need to focus explicitly on increasing individuals' participation in paid work and reducing their reliance on income support. The evidence presented in this section makes it clear that minimising supply-side barriers such as financial disincentives, skills deficits and motivational problems is critically important to increasing participation in paid work, especially among groups of people who traditionally have had low levels of participation. To this end, a policy approach that balances assistance, requirements and incentives will help individuals to become (or remain) employment-oriented, learn and retain skills that will maximise their chances of employment, and overcome or remove barriers to paid employment. This approach will also contribute to the creation of a culture of self-reliance that will underpin the income support system into the future.

Conclusion

This submission has covered a number of approaches to increasing the level of participation in paid work amongst people of working age. Through the discussion, it is evident that success in this objective, either for now or for the future, requires a multi-faceted approach to policy.

Policy needs to maximise opportunities and minimise disincentives to employment at all stages of the lifecycle, and at both the individual and community level. Long-term and sustainable success in the objective of increasing participation in paid work will depend on the success of policies that maximise economic participation over the lifecycle, that build individual and community capacity and that minimise the need for people to rely on income support in the first place. Doing so will deliver benefits to the individuals, their families and the broader community. FaCS' commitment to this goal is reflected in the number of programs and policies directed at building and supporting capacity at the individual, family and community level.

Three main policy levers affect levels of participation in paid work – incentives, requirements and assistance. Evidence from both Australia and overseas shows that effective policy maintains an appropriate balance between these three levers, and that no one policy lever on its own is as effective as in combination. The Australian Government has been pursuing a range of measures to balance these levers. In particular, the *Australians Working Together* initiative provides a balanced package of incentives, requirements and assistance, and further development of this approach is currently under way through consultations on the *Building a Simpler System* discussion paper.

Ensuring that policy is guided as much as possible by evidence requires regularly reviewing and analysing new evidence as it becomes available and integrating it into the policy development process. However, it is important to understand that policy approaches from elsewhere need to be reviewed in the context of Australian institutional settings, the particular issues that arise in the Australian labour market and their 'fit' with Australian social values.

Attachment A

Timetable of AWT Events

2002

APRIL		Indigenous Employment Centres commence – support for Community Development Employment Project participants to get a job.
JULY	1	<p>Transition to Work services commence for parents, carers and mature aged people out of the workforce for two or more years.</p> <p>Second round of Indigenous Employment Centres commence</p> <p>Additional Job Search Training places released</p> <p>Intensive Assistance limited to 12 months for most</p> <p>Intensive Assistance special assessment with referrals to other programmes</p> <p>Additional literacy and numeracy training places</p> <p>Community Work Coordinators commence receiving registrations from job seekers who choose to do community work as their Mutual Obligation activity.</p> <p>Disability Coordination Officer Programme funding available</p> <p>Training Credits up to \$800 available for eligible job seekers assisted by Community Work Coordinators.</p> <p>Access to personal training places and Passport to Employment (resume and job search skills update) available for job seekers on completion of Work for the Dole or community work placement.</p> <p>Recruitment of over 400 Personal Advisers complete. Personal Advisers training commences.</p> <p>Personal Support Programme commences</p> <p>Quality Assurance system for disability employment services commences</p> <p>Mutual Obligation Initiative extended to 35-49 year olds.</p>
SEPTEMBER		<p>Early intervention & better assessment for Disability Support Pension customers commences</p> <p>Personal Advisers commence interviewing target client groups including: people who receive Parenting Payment and whose youngest child is aged 12-15; people on Mature Age Allowance, Partner Allowance and Widow Allowance – voluntary interviews; people seeking exemption from the Newstart Allowance activity test because of medical condition, illness or injury; and all people newly claiming Newstart Allowance who are either Indigenous Australians, or have recently been released from prison or have certain exemptions from the Activity Test.</p>

DECEMBER	20	Improved Newstart Incapacity assessment process commences
		Improved assessment process for Indigenous, prison release and activity tested exempted New Start Allowance/Youth Allowance customers commences
		Information pack 'Parents & Employment' on participation requirements and the benefits of work given at Parenting Payment new claim interviews.
		Annual participation planning interviews for Parenting Payment customers, where youngest child 12-15 commence
		Voluntary participation planning for Parents whose youngest child is less than 12.
		Voluntary participation planning for Mature Age, Widow and Partner Allowees commences
		Streamlined and simplified access to assistance for JET Child Care
		Additional places in disability employment services and other programmes to assist mature age people and parents
		17 submissions approved for the Working Together for Indigenous Youth initiative – assisting 645 students.

2003

APRIL		Rollout of initial Remote Area Service Centre at Laverton, WA Community Participation Agreement (CPA) for Tjurabalan announced
JUNE		Round two for submissions for the Working Together for Indigenous Youth initiative commence Rollout of Remote Area Service Centres in Far North Queensland and Halls Creek, WA
JULY		Rollout of additional Indigenous Employment Centres – targetted in Regional Centres with viable employment markets.

SEPTEMBER	20	Working Credit commences
		Language, Literacy and Numeracy Supplement commences
		Personal Advisers commence interviewing target client groups including: people who receive Parenting Payment whose youngest child is aged 13-15 to develop a participation agreement and people who receive Parenting Payment whose youngest child is aged 6-15 years; all new Widow Allowees; all Mature Age customers (aged 50-Age Pension Age) on Newstart Allowance.
		Mature Age Allowance and Partner Allowance payments closed off to new customers
		Annual participation planning for Widow Allowees commences
		Flexible participation requirements and Personal Adviser interview for older Newstart Allowees commence
		Part-time participation requirements for Parenting Allowance customers, where youngest child 13-15 commences (150hrs over 26 weeks)
		Annual interviews for Parenting Allowance customers, where youngest child 6-15 commences
	Compulsory annual interviews with voluntary participation for new Widow Allowees	
mid	Second rollout of Remote Area Service Centre	
DECEMBER	end	AWT Evaluation – baseline report due (FaCS /DEWR)
2004		
JULY	mid	Rollout of Remote Area Service Centres AWT Evaluation – interim report due
2005		
JULY	mid	Final rollout of Remote Area Service Centres
2006		
JUNE	mid	AWT Evaluation – final report due

Attachment B: chronology of social security reforms to work incentives for working-age people

Social security reforms intended to improve work incentives for working-age people - 1980 to the present	
November 1980	<p><u>Allowances</u> Income test free area set at \$6 per week; introduction of 50 cents taper rate on private income between \$6 and \$50 per week, then 100 cents taper rate on private income above \$50 per week. (For 16-17 year olds, the 50 cents taper rate was applied to private income between \$6 and \$40 per week.)</p>
November 1982	<p><u>Allowances</u> Income test free area increased to \$10 per week; 50 cents taper rate on private income between \$10 and \$60 per week, then 100 cents taper rate on private income above \$60 per week. Same income test applied to allowees of all ages.</p>
May 1983	<p><u>Family assistance</u> Family Income Supplement (FIS) introduced to assist low income families not in receipt of a pension or allowance. The maximum per child rate of assistance was equal to allowance add-on for a dependent child (\$10 per week). Maximum rate of FIS received where average 'ordinary' family income in the previous four weeks did not exceed the income limit for a health care card. 50 cents taper rate on 'ordinary' family income above health care card income limit.</p>
March 1984	<p><u>Allowances</u> Income test free area increased to \$20 per week; 50 cents taper rate on private income between \$20 and \$70 per week, then 100 cents taper rate on private income above \$70 per week.</p>
May 1986	<p><u>Allowances</u> Income test free area increased to \$30 per week; 50 cents taper rate on private income between \$30 and \$70 per week, then 100 cents taper rate on private income above \$70 per week.</p>
July 1987	<p>Separate income test on Rent Assistance (RA) abolished for pensioners and allowees.</p>

Social security reforms intended to improve work incentives for working-age people - 1980 to the present	
November 1987	<p><u>Pensions</u> Earnings credit scheme introduced. Pensioners permitted to 'save up' unused portion of their pensions income test free area to a maximum value of \$1,000. An earnings credit 'balance' would offset against earned income on a dollar-for-dollar basis (thereby preventing each offset dollar of earned income from having any income test effect). A pensioner's earnings credit ceased to offset against earned income once their 'balance' reached zero.</p>
December 1987	<p><u>Allowances</u> Allowance income test applied on a fortnightly rather than a weekly basis.</p> <p><u>Family assistance</u> FIS replaced by a new payment known as Family Allowance Supplement (FAS) with more generous income limits than those applying for FIS. Two-tier payment structure created, with FAS providing additional assistance to low income families, and Family Allowance (FA) providing a 'minimum' rate of assistance to middle and upper income families (as well as low income families). Maximum rate of FAS received where, for one child, average 'ordinary' family income in the previous four weeks did not exceed an income free area of \$300. An additional \$12 of 'ordinary' family income per week was disregarded for each child after the first. 50 cents taper rate on 'ordinary' family income above the applicable income free area. FAS recipients only required to notify increases in 'ordinary' family income of more than 125 per cent of their previously notified income. Recipients of FAS were also eligible for RA of up to \$15 per week if they had children under 16.</p>
September 1990	<p><u>Allowances</u> Introduction of earnings disregard of \$30 per fortnight for each member of a couple.</p>
January 1993	<p><u>Family assistance</u> FAS, dependent child add-ons to pensions and allowances and FA were amalgamated into an integrated family assistance payment structure. Additional Family Payment (AFP) provided additional assistance to low income working or income support recipient families, with Basic Family Payment (BFP) providing a 'minimum' rate of assistance to most families (including low income working or income support recipient families). AFP was not withdrawn during waiting, suspension or deferment periods as pension or allowance dependent child add-ons had been. The maintenance income test was applied to AFP, Guardian's Allowance (GA) and RA, but not to pensions or allowances. RA and GA were paid as an add-on to AFP rather than to pensions or allowances.</p>

Social security reforms intended to improve work incentives for working-age people - 1980 to the present	
September 1993	<u>Allowances</u> Introduction of earnings disregard of \$30 per fortnight for single recipients. Increase in earnings disregard for each member of a couple to \$50 per fortnight.
March 1994	<u>Allowances</u> Opening up of the earnings credit scheme to allowees. Allowees permitted to build up an earnings credit 'balance' to a maximum value of \$500 at the rate of \$90 in each fortnight without precluding earnings for singles, and \$80 in each fortnight without precluding earnings for members of a couple.
September 1994	<u>Allowances</u> Introduction of Partner Allowance, with continuation of joint income testing.
July 1995	<u>Allowances</u> Earnings disregards abolished, giving rise to a standard \$60 per fortnight income test free area and earnings credit accrual method for singles and members of a couple. 50 cents taper rate on private income between \$60 and \$140 per fortnight, then 70 cents taper rate on private income above \$140 per fortnight. Each member of a couple made individually subject to the relevant income support income test. For allowee/allowee couples, joint income testing is replaced by sequential income testing (whereby a person's private income above the personal allowance income test cut-out (known as 'partner excess income') reduces their partner's allowance by 70 cents for each dollar of partner excess income).
March 1996	<u>Allowances</u> Depletion of earnings credit limited to \$100 in any given fortnight, allowees now able to access their earnings credit 'balance' where fortnightly income before application of the earnings credit would preclude payment and simultaneous accrual and depletion of an earnings credit 'balance' permitted.
March 1997	Earnings credit schemes for pensioners and allowees abolished.

Social security reforms intended to improve work incentives for working-age people - 1980 to the present

<p>July 2000</p>	<p><u>Allowances</u> Allowance income test free area increased to \$62 per fortnight.</p> <p><u>Pensions</u> Income free areas increased by 2.5 per cent, and income test taper rate reduced from 50 cents to 40 cents.</p> <p><u>Family assistance</u> Assistance to families delivered via the tax and social security systems simplified from 12 forms of assistance to just 3. Allowance income test and family assistance income tests 'unstacked'. Family assistance income test taper rates generally standardised, and reduced from 50 cents to 30 cents.</p>
<p>September 2003</p>	<p>A Working Credit is to be introduced for pensioners and allowees. This is designed to encourage pensioners and allowees to take up full-time, substantial part-time or irregular casual work by allowing them to keep more of their income support payment while working.</p>

Attachment C: Labour market payments – requirements and sanctions post-AWT

FEATURES	Mature Age, Widow & Partner Allowees	Parent with child aged under 6	Widow Allowance new claimant	Parent with child aged 6-12	Parent with child aged 13 and over	Newstart Allowee aged 50 or over	Newstart Allowee aged under 50
Entitlement review & administrative requirements	All payments have requirements to notify Centrelink of a change in circumstances or to come in for contact Centrelink when asked						
Participation planning interviews (includes entitlement review)	Participation planning interviews are voluntary for this group		Participation planning interviews are compulsory for this group				
Meet activity test or participation requirements						Benchmark of 150hrs participation each 6 mths plus job search	Up to 240hrs over 6 mth Mutual Obligation period plus job search
Type of Penalty possible	Suspension (eg. for non-attendance at review)		Suspension		Suspension breach	Breach	
Waiver or Restoration of payment	Restore on attendance		Restore payment when person complies with requirements		Failure to attend an interview = Restore payment on compliance Not complying with participation requirements = Waiver of breach penalty on compliance	Interview = Waiver of remaining penalty on commencement of WfD or engagement with PSP activity. Activity requirement = Waiver of remaining penalty on commencement of WfD, CRS, PSP & some labour market programs.	
Arrears paid (up to 13 weeks)						No	

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