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Welfare and labour market reform

- 4.1 The second term of reference for this inquiry into participation in the paid workforce focuses on increasing participation for recipients of income support. There has been substantial consultation and efforts in recent years on improving and simplifying the welfare system. The three key objectives for welfare reform identified by the Reference Group on Welfare Reform chaired by Mr Patrick McClure were:
- a significant reduction in the incidence of jobless families and households;
 - a significant reduction in the proportion of the working-age population needing to rely heavily on income support; and
 - stronger communities that generate opportunities for economic and social participation.¹
- 4.2 In 2001 the Australians Working Together package was the initial response to the McClure report and focussed on providing more flexible and integrated services that struck a balance between incentives, obligations and assistance. In July 2003 the Active Participation Model further developed the Australians Working Together initiatives by proposing additional measures designed to provide job seekers with more active and individualised assistance.²
- 4.3 The *Building a simpler system to help jobless families and individuals* consultation process commenced in 2003 and there have been a number of

1 McClure, P (Chair), (2004) *Participation Support for a more Equitable Society*, Final Report of the Reference Group on Welfare Reform, p. 4.

2 Department of Employment and Workplace Relations, *Submission No. 72*, p. 2.

recent changes with the Active Participation Model. Therefore, this chapter provides an interim view of labour market reform, and assistance, incentives and obligations.

- 4.4 The Treasurer, the Hon Peter Costello MP in 2004 saw one of Australia's challenges as designing an income support system which has an appropriate balance between incentives, assistance and obligations that will encourage workforce participation and assist each person to achieve their potential.³

Labour markets

- 4.5 Labour market programs may have a role in increasing the employability of disadvantaged jobseekers. However, unless there is overall job creation, this will merely displace someone else who is in a similar position.⁴ CIS claimed that labour market programs do not work:

... or that they create work for a small number of people at a very large cost. The Productivity Commission concludes that "they have variable, but usually small, effects on the employment and earnings of participants."⁵

- 4.6 Australia spends less on labour market programs than other OECD countries.⁶ It was argued, however, that while some labour market programs may not show short-term gains, labour market programs may need to be part of a medium to longer term approach. Young people need to learn how to operate and to participate collaboratively and cooperatively in the workplace. ACOSS suggested that while labour market programs may not result in someone being employed, if young people do not acquire work skills they will never be employed.⁷ Further, the view that labour market programs may be valued because they re-

3 Address by the Hon Peter Costello MP Treasurer, *Australia's Demographic Challenges*, 25 February 2004, p. 5.

4 Dr Elizabeth Webster, Senior Research Fellow, Melbourne Institute of Applied Economic and Social Research, University of Melbourne, *Transcript of Evidence*, 24 March 2004, p. 14.

5 Centre for Independent Studies, *Submission No. 75*, p. 4 citing *Independent Review of the Job Network*, 2002, Productivity Commission, p. 1.3.

6 Brotherhood of St Laurence, *Submission No. 81*, p. 7 citing Organisation of Economic Co-operation and Development, 2002, *Society at a glance*, OECD.

7 Mr David Thompson, Principal Policy Adviser, Office of Employment, Education and Training, Australian Council of Social Service, *Transcript of Evidence*, 28 January 2004, p. 9.

allocate work from the work-rich to the work-poor and therefore improve labour market equity is gaining ground of late.⁸

Community development job guarantee

- 4.7 CoffEE advised that the Community Development Job Guarantee could produce 334 000 jobs at a cost of \$3.2 billion.⁹ Community development activities require some low skilled workers and are very labour intensive. The job guarantee positions are permanent minimum wage jobs which are not linked to the welfare paradigm.¹⁰ It was suggested that the Community Development Job Guarantee would be Commonwealth funded but local partnerships would organise the projects.¹¹
- 4.8 However, the Commonwealth's funding of these positions could result in cost shifting from local governments and could be used as cheap labour to replace other positions. ILM programs are transitional positions.¹² CoffEE argued that adequate accountability structures could be put in place to address this and that the private sector could compete for these jobs.¹³
- 4.9 DEWR commented that this is, however, an expensive option as these would be full-time positions and the participants tend to stop looking for other jobs, and that is funded by the taxpayer.¹⁴ This approach can create silos that DEWR does not see as beneficial and that there needs to be a flexible approach with the more disadvantaged groups with special needs. DEWR stressed the importance of linkages to other programs and

8 Dockery A M and Webster E (2002) 'Long-term Unemployment and Work Deprived Individuals: Issues and Policies, *Australian Journal of Labour Economics* 5(2): 175-193, p.

9 Professor William Mitchell, Professor of Economics and Director, Centre of Full Employment and Equity, University of Newcastle, *Transcript of Evidence*, 12 March 2004, p. 5.

10 Ms Sally Cowling, Research Fellow and Professor William Mitchell, Professor of Economics and Director, Centre of Full Employment and Equity, University of Newcastle, *Transcript of Evidence*, 12 March 2004, pp. 9-10.

11 Centre of Full Employment and Equity, *Submission No. 60*, p. 10; Ms Sally Cowling, Research Fellow, Centre of Full Employment and Equity, University of Newcastle, *Transcript of Evidence*, 12 March 2004, p. 12; see also Hunter Councils, *Submission No. 66*, p. 6.

12 Professor Alaric Maude, *Transcript of Evidence*, 18 March 2004, p. 9.

13 Ms Sally Cowling, Research Fellow, and Professor William Mitchell, Professor of Economics and Director, Centre of Full Employment and Equity, University of Newcastle, *Transcript of Evidence*, 12 March 2004, p. 17; Centre of Full Employment and Equity, *Supplementary Submission No. 60(a)*, pp. 2 -4.

14 Mr Graham Carters, Group Manager, Employment Policy Group, Department of Employment and Workplace Relations, *Transcript of Evidence*, 26 May 2004, p. 24.

applying more of a solution broker model.¹⁵ They added that the Work for the Dole program has similar outcomes, similar sort of logic, but is far cheaper.¹⁶

- 4.10 CIS also questioned the use of specially created public sector jobs as stepping stones to employment:

The OECD finds that public sector job creation “has been of little success in helping unemployed people get permanent jobs in the open labour market,” and it recommends that any use of this strategy “should be short in duration and not become a disguised form of heavily subsidised permanent employment”.¹⁷ Provided as part of a ‘Workfare’ strategy, government jobs can play a role in unemployment programs, but they rarely lead to more permanent employment.¹⁸

Work for the Dole

- 4.11 Concern was expressed by some witnesses that Work for the Dole programs have a poor link to formal training, and the work experience does not have a clear connection to employment opportunities.¹⁹ The Green Corps program combines accredited training, work experience, a training wage and the development of job skills.²⁰ It was suggested that welfare organisations use Work for the Dole schemes to displace paid workers and should be more accountable to government.²¹
- 4.12 CIS added that people should be given support in the form of a job until they can find a proper job as an extension of the current Work for the Dole process. It was suggested time limits could be introduced to make people more realistic about the type of job they will accept and increase their job

15 Ms Carolyn McNally, Assistant Secretary, Priority Groups Policy Branch, Employment Policy Group, Department of Employment and Workplace Relations, *Transcript of Evidence*, 26 May 2004, pp.24-25.

16 Mr Graham Carters, Group Manager, Employment Policy Group, Department of Employment and Workplace Relations, *Transcript of Evidence*, 26 May 2004, p. 24.

17 Centre for Independent Studies, *Submission No. 75*, p. 3 citing John Martin, ‘What works among active labour market policies’ *OECD Economic Studies* No.30, 2000/01, p. 98.

18 Centre for Independent Studies, *Submission No. 75*, p. 3 citing J Martin ‘Labour market programs’, in *New Directions: Rebuilding the Safety Net*, Business Council of Australia, p.95.; see also P Saunders, ‘Do people on welfare really want to work?’ *Policy*, Winter 2003.

19 Brotherhood of St Laurence, *Supplementary Submission 81(a)*, p. 9.

20 Brotherhood of St Laurence, *Supplementary Submission 81(a)*, p. 9.

21 Mr L Fitzpatrick, *Submission No. 41*, pp. 1-2.

seeking efforts to leave unemployment benefits.²² Time limits also prevent de-motivation, deter malingering and introduce the notion that benefits do not go on indefinitely.²³

Deregulation

- 4.13 Treasury commented that greater flexibility in the labour market maximises participation by increasing the opportunity for people to find a job.²⁴ The move to more flexible employment arrangements and conditions have been proposed as more able to promote productivity at the workplace level and to better match employer and employee preferences.
- 4.14 The Commonwealth *Workplace Relations Act 1996* sets primary responsibility for determining matters affecting the relationship between employers and employees at the workplace level. The Act also provided a framework of rights and responsibilities for employers and employees, and their organisations, to support fair and effective agreement-making, and freedom of association.²⁵
- 4.15 DEWR argued that agreement making under the *Workplace Relations Act 1996* has assisted workplaces to operate more efficiently and competitively.²⁶ However, Treasury commented that workplace culture has been slow to take up the new options and the greater flexibility.²⁷
- 4.16 Wages are a key influence on the level of employment. Adult minimum wages in Australia are the second highest in the OECD at around 58 per cent of median earnings. Australia's award system also provides minimum wages for a range of individual jobs and levels, rather than the single statutory minimum wages that are present in the United Kingdom and United States jurisdictions. In the United Kingdom and United States

22 Professor Peter Saunders, Social Research Director, Centre for Independent Studies, *Transcript of Evidence*, 27 January 2004, pp. 42, 48-49.

23 Centre for Independent Studies, *Submission No. 75*, p. 9; Professor Peter Saunders, Social Research Director, Centre for Independent Studies, *Transcript of Evidence*, 27 January 2004, p. 48.

24 Mr David Tune, General Manager, Social Policy Division, Treasury, *Transcript of Evidence*, 8 October 2003, p. 3.

25 Australian Government, Budget 2004-05, *Budget Paper No. 1, Statement 4: Maintaining Low Unemployment in Australia, The contribution of policy reforms to improved labour market performance*, p. 4.

26 Department of Employment and Workplace Relations, *Submission No. 72*, p. 6.

27 Treasury, *Submission No. 73*, p. 10.

of America minimum wages are around 45 and 34 per cent of median earnings respectively.²⁸

- 4.17 The Productivity Commission commented that Australia's improved productivity performance in the 1990s is in part attributable to better management practices and work arrangements.²⁹ However, workplace relations law remains complex and the Australian Government is working to:

... increase flexibility, reduce employment transaction costs and achieve a closer link between wages and productivity. More specifically, the proposed amendments to the Workplace Relations Act aim to reduce the degree of regulation around the termination of employment; address pattern bargaining; streamline agreement-making processes; and further simplify awards to promote workplace agreements.³⁰

- 4.18 In summary, key business groups suggested that greater employment growth can be achieved through reduced regulation of employer and employee arrangements associated with award requirements. Additionally the Committee received a range of evidence, both for and against freezing minimum wages and the effects of unfair dismissal laws. However, the Committee notes the contrary arguments around these approaches and the dissenting views on this issue.

Recommendation 1

The Committee recommends that the Australian Government pursue strategies for further award simplification by reducing the number of allowable matters and encouraging greater workplace customisation to suit industry and regional conditions.

28 Australian Government, Budget 2004-05, *Budget Paper No. 1, Statement 4: Maintaining Low Unemployment in Australia, The contribution of policy reforms to improved labour market performance*, p. 5.

29 Australian Government, Budget 2004-05, *Budget Paper No. 1, Statement 4: Maintaining Low Unemployment in Australia, The contribution of policy reforms to improved labour market performance*, p. 4.

30 Australian Government, Budget 2004-05, *Budget Paper No. 1, Statement 4: Maintaining Low Unemployment in Australia, The contribution of policy reforms to improved labour market performance*, p. 5.

Skills shortages

- 4.19 Another important trend in Australian employment has been the emergence of a number of skills shortages which place a substantial burden on the economy through lost productivity. Manpower Services (Australia) believes that Australia risks economic irrelevance in the global economy and a lower quality of life.³¹
- 4.20 Increasing educational participation is an important factor in increasing labour force participation.³² There has been an increase in the proportion of higher skilled jobs as a share of employment growth in recent years.
- The overall employment growth between 1997 and 2002 was 11%. Growth in associate professional jobs, was twelve percentage points greater at 23% and growth in professional jobs was 20%, while growth in jobs in labouring, production and transport, clerical, sales, services and trades was well below the average.³³
- 4.21 Service industries have increased in importance to the Australian economy while the goods-related industries have decreased in importance (although the Committee notes the more recent improvement in the commodity market). In rural and regional areas, the importance of agriculture, forestry and fishing industries in particular has decreased,³⁴ which means that people often need to learn new skills to remain competitive in the labour market.³⁵ Higher level skills are now required by individuals to compete in the job market. Further, the overall improvements in skills can lead to higher overall performance for firms, industries and the national economy.³⁶
- 4.22 High skills levels and adequate education systems to ensure that skills can be developed after school are important to the economy.³⁷ There is a

31 Manpower Services (Australia) Pty Ltd, *Submission No. 78*, p. 10.

32 Department of Education, Science and Training, *Submission No. 93*, p. 1.

33 Department of Education, Science and Training, *Submission No. 93*, p. 1.

34 Australian Bureau of Statistics, *National Income, Expenditure and Product* (Cat No 5206.0) 1975-2003.

35 Department of Education, Science and Training, *Submission No. 93*, p. 2.

36 Department of Education, Science and Training, *Submission No. 93*, pp. 3,5.

37 Mr David Tune, General Manager, Social Policy Division, Treasury, *Transcript of Evidence*, 8 October 2003, p. 2. Estimates of skills include educational attainment and potential workforce participation.

positive correlation between continuing skills upgrading and the standard achieved in prior education and training.³⁸

The rapidly changing workplace, the pace of globalisation and technological advancements mean that workers will need to be provided with opportunities to enhance their skills throughout their working lives.³⁹

- 4.23 The Institute of Management Development ranked Australia first in terms of the extent to which the education system met the needs of industry for skilled labour in their *World Competitiveness Yearbook 2003*, and the second most competitive country among those with populations of 20 million or more, behind the United States.⁴⁰
- 4.24 Australia's public policies are aimed at a high skills level that are competitive in a global market. There has been a loss of low-skilled and medium-skilled jobs. This means that there is a need for an investment in human capital with longer term goals.⁴¹ The Queensland Government also referred to the polarising effect of the decline in the number of jobs requiring intermediate skills as this reduces the opportunities available for people to move from low to high skilled work.⁴²
- 4.25 In addition the indirect effects of higher education and training include:
- the contribution to personal and family well-being and the long-term effects in health and social adjustment and the intergenerational effects on the educational and economic opportunities for future generations;
 - a more capable and adaptable workforce and the economic and social opportunities that this provides; and
 - a clear progression in average earnings as educational attainment increases, although the returns for those with VET qualifications have fallen over time.⁴³

38 Department of Education, Science and Training, *Submission No. 93*, p. 2.

39 Queensland Government, *Submission No. 87*, p. 5.

40 Cited in Department of Education, Science and Training, *Submission No. 93*, p. 5.

41 Mr Philip O'Donoghue, Acting Director, Australian Council of Social Service, *Transcript of Evidence*, 28 January 2004, p. 9.

42 Queensland Government, *Submission No. 87*, p. 6.

43 Department of Education, Science and Training, *Submission No. 93*, pp. 3-4, 9, 20. See also Australian Council of Social Service, *Submission No. 74*, p. 14.

- 4.26 DEWR monitors skills shortages and this enables Job Network to assist jobseekers acquire the relevant skills. The National Skills Shortages Strategy is a cross agency and industry initiative to target particular areas of skill shortage.⁴⁴
- 4.27 Concern was expressed that educational institutions need to provide better advice on job prospects in relation to trades rather than university where in many cases the job prospects are poorer.⁴⁵ The Department of Education, Science and Training (DEST) believes that Australia can improve its skills shortages predictions and a lot of work is being done in the area of careers advice for young people on skills gaps.⁴⁶
- 4.28 There also needs to be better coordination where state governments deliver programs and the federal government sets framework policies; schools operate curriculum with degrees of independence; employers and parents have differing expectations. Further, it is essential that the regulatory arrangements are important to allow better coordination.⁴⁷
- 4.29 ACCI commented that the vocational education system needs to be flexible enough to respond quickly to areas of skills shortages.⁴⁸ Each State and Territory has worked with industry to develop a VET plan for training needs.⁴⁹ ANTA acknowledged the need for a more responsive system to address changing industry skill needs. DEST also outlined a range of initiatives as part of the National Skills Shortages Strategy, including specific industry projects and regional programs. These included efforts to

44 Mr Finn Pratt, Group Manager, Intensive Support Group, Department of Employment and Workplace Relations, *Transcript of Evidence*, 26 May 2004, p. 16; Mr Benjamin Johnson, Branch Manager, New Apprenticeship Branch, Vocational Education and Training Group, Department of Education, Science and Training, *Transcript of Evidence*, 26 May 2004, p. 17.

45 Central Western Regional Development Board, *Submission No. 46*, p. 2; Mr Mark Hochen, Chairman, Industrial Relations Committee, Australian Sugar Milling Council Pty Ltd, *Transcript of Evidence*, 10 March 2004, p. 9.

46 Ms Mary Johnston, Branch Manager, Industry Training Branch, Department of Education, Science and Training, *Transcript of Evidence*, 26 May 2004, pp. 15, 17, 21.

47 Mr Peter Anderson, Director, Workplace Policy, Australian Chamber of Commerce and Industry, *Transcript of Evidence*, 5 November 2003, p. 12.

48 Mr Peter Anderson, Director, Workplace Policy, Australian Chamber of Commerce and Industry, *Transcript of Evidence*, 5 November 2003, p. 10.

49 Ms Mary Johnston, Branch Manager, Industry Training Branch, Department of Education, Science and Training, *Transcript of Evidence*, 11 February 2004, p. 16.

support the uptake of New Apprenticeships by mature age workers and people with disabilities.⁵⁰

- 4.30 The Committee notes the demand for staff in professions such as in childcare and many health areas. Additionally, skilled tradespeople are sought in engineering, automotive, electrical, construction, hairdressing and catering trades.⁵¹
- 4.31 A wide array of programs are being implemented to address vocational education and training requirements, and particularly New Apprenticeships. The National Skills Shortage Strategy is one measure to address labour shortages in a cohesive way with community and industry involvement. However, given the time required for training to complete qualifications, the Committee suggests that increased resources should be allocated in the coming budget to encourage and support the uptake of apprenticeships.

Recommendation 2

The Committee recommends that the Australian Government in cooperation with the State and Territory Governments, industry, unions and educational bodies expand programs to maximise the uptake of apprenticeships in areas of skills shortages and ensure that the training is relevant to the apprentices, the businesses and the industry.

- 4.32 To address the critical issues of skill shortages, the Committee recommends the Australian Government establish, as a priority, a dedicated cross-portfolio approach to develop a coordinated long-term strategy, including a series of programs and defined outcomes. The Committee adds that sufficient funds must be provided to ensure the success of this initiative in addition to cooperation with the State, Territory and Australian governments. Suggested portfolio departments to be included in this cross-portfolio approach will include: DEWR, DEST,

50 Australian National Training Authority, *Submission No. 107*, p. 6; Mr Benjamin Johnson, Manager, New Apprenticeships Branch, DEST- correspondence received 25 February 2005, Overview of National Skills Shortages Strategy (NSSS) projects, and The New Apprenticeships Action Plan update.

51 Department of Employment and Workplace Relations, Australian Workplace Website, *National Skill Shortage List – Australia 2004*, <www.workplace.gov.au>.

DIMIA, Department of Transport and Regional Services, and Department of Industry, Tourism and Resources.

Recommendation 3

The Committee recommends the Australian Government establish, as a priority, a dedicated cross-portfolio approach to develop a coordinated long-term strategy, including a series of newly funded programs and defined outcomes, to address national skills shortages.

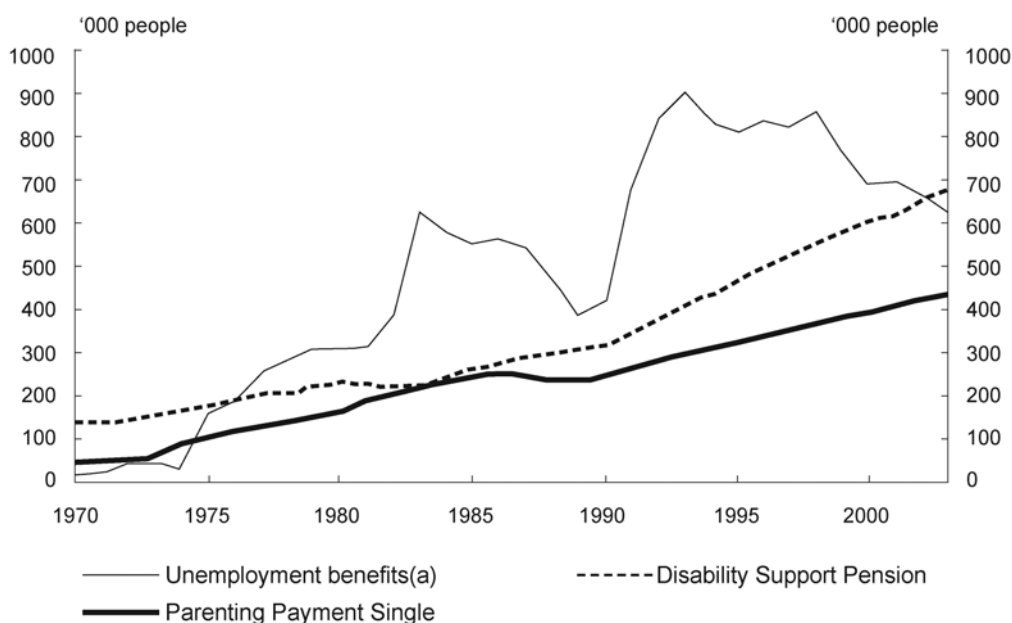
Growth in income support

- 4.33 Almost one third of people are in families that receive income support during the year, compared with one quarter two decades ago. Further, the proportion of income derived from welfare payments as opposed to other income sources has remained the same over two decades. Evidence to the Committee indicates that there has been little increase in participation in paid work among welfare recipients.⁵²
- 4.34 Around 2.7 million working Australians are on income support – over one in five of all adults of working age. Forty years ago just less than 1 per cent of the population was on an invalid pension. In 2002 we had over 3 per cent of the population on the Disability Support Pension. Many remain on income support for long periods of time, and we have one of the lowest rates of employment for disability pensioners and lone parents in the developed world. We now have more than 225 000 men aged between 50 and 64 receiving DSP. That is, approximately one in every eight men in this age group is receiving DSP.⁵³
- 4.35 Figure 4.1 shows income support recipients from 1970 to 2003.

52 Dr Roger Wilkins, *Submission No. 27*, p. 1.

53 Address by the Hon Peter Costello MP Treasurer, *Australia's Demographic Challenges*, 25 February 2004, p. 5.

Figure 4.1 Number of selected income support recipients.



Source Department of Family and Community Services. Australian Government, Budget 2004-05, Budget Paper No. 1, Statement 4: Maintaining Low Unemployment in Australia, The contribution of policy reforms to improved labour market performance, p. 11. (a) Unemployment benefits reflect Newstart and Youth Allowance (non-students).

4.36 Over the course of a year, around 33 per cent of the Australian population aged 15-64 years is at some stage reliant on income support payments.⁵⁴ Income support recipients fall into two main groups:

- a large number of individuals who are reliant for relatively short periods of time; and
- a significant number of individuals who become reliant in the long-term, perhaps even on a permanent basis: one sixth of all recipients aged 15-64 years are continuously on income support for over five and a half years.⁵⁵

4.37 The average length of time people spend on income support has been growing in recent years. The average duration of unemployment benefits

54 Tseng Y and Wilkins R, 2002, *Reliance on Income Support in Australia: Prevalence and Persistence*, Melbourne Institute of Applied Economic and Social Research, The University of Melbourne, Exhibit No. 9. p. 2.

55 Tseng Y and Wilkins R, 2002, *Reliance on Income Support in Australia: Prevalence and Persistence*, Melbourne Institute of Applied Economic and Social Research, The University of Melbourne, p. 2. See also Dr Roger Wilkins, Research Fellow, Melbourne Institute of Applied Economic and Social Research, University of Melbourne, *Transcript of Evidence*, 19 March 2004, p. 54.

has been declining; however, the duration of the Parenting Support Payment and the DSP has been increasing.⁵⁶

- 4.38 The overall numbers of the long-term unemployed has decreased for people who are usually for 52 weeks and more. The number of people long-term unemployed for two years and over has declined from 124 000 in January 1998 to 66 200 in January 2005. The average duration of long-term unemployment has increased from four years in January 2001 to almost five and a half years in January 2005.⁵⁷

Approaches to address high levels of income support

- 4.39 Reducing the prevalence of reliance on income support has been suggested as one approach to increase the level of participation in paid work. Much of the debate has focussed on the DSP and the unemployment allowance (Newstart). Significantly different approaches have been advocated to encourage a reduction in the reliance on income support.
- 4.40 Research reported in 2003 indicates that participating in part-time work significantly increases the likelihood of coming off income support, particularly for the unemployed and sole parent recipients. Additionally, a stepping stone process operates where part-time work can lead to longer work hours for those who prefer longer hours employment.⁵⁸
- 4.41 As one way of increasing participation in paid work, IPE believes there should be a tightening of eligibility for social welfare benefits, particularly in regard to work tests.⁵⁹

Between the end of the economic expansion in the 1980s and the end of the 1990s, the proportion of the working age population receiving income support of one kind or another increased from 15 per cent to 22 per cent, covering 3.2 million people. This

56 Dr Roger Wilkins, Research Fellow, Melbourne Institute of Applied Economic and Social Research, University of Melbourne, *Transcript of Evidence*, 19 March 2004, pp. 52-54; Dr Roger Wilkins, *Submission No. 28*, p. 1.

57 Australian Bureau of Statistics, *Labour Force, Australia, Detailed – Electronic Delivery*, (Cat. No. 6291.0.55.001) Table 15b: Unemployed persons by duration of unemployment since last full-time job.

58 Department of Family and Community Services, 2003, *Patterns of economic and social participation among FaCS customers*, prepared by Saunders, P Brown, J & Eardley, T, Policy Research Paper No. 19, p. vii. See also Department of Family and Community Services (2000) *How do income support recipients engage with the labour market?*, prepared by Flatau P & Dockery M, Policy Research Paper No. 19, p. xii.

59 Institute for Private Enterprise, *Submission No. 44*, p. 2

extension by both political parties of eligibility to receive such support in combination with the maintenance of relatively high marginal income tax rates has undoubtedly operated and continues to operate as a disincentive to work.⁶⁰

- 4.42 CIS similarly argued for a tightening of the eligibility criteria to address the 'massive slippage' from unemployment to the more generous DSP pension.⁶¹
- 4.43 Other research and social service agencies recommend a greater focus on the supply of jobs and the role of government in improving participation. ACOSS argued that approaches to reducing reliance on income support and increasing participation in employment must acknowledge:
- the need for a sufficient supply of full-time and part-time jobs;
 - that some people receiving income support, such as carers and parents, are performing a desirable social activity from which the community as a whole benefits; and
 - that mutual obligation includes governments assisting with providing support to enable people to get a job, as well as individuals pursuing and retaining employment.⁶²
- 4.44 ACOSS believes that measures to assist people enter employment, provided that they are sequenced and effectively sold, would be effective and popular.⁶³ The assumption underpinning much discussion of unemployment, income support and employment disincentives in the social security system, is that joblessness is a behavioural problem which can be addressed by improving incentives and tightening compliance. ACOSS acknowledges that although incentives are very important, other factors such as growth in secure full-time employment, improved education and skills, support for people with disabilities and chronic illness, and addressing social barriers to employment, are of greater

60 Mr Des Moore, Director, Institute for Private Enterprise, *Transcript of Evidence*, 20 February 2004, p. 38.

61 Professor Peter Saunders, Social Research Director, Centre for Independent Studies, *Transcript of Evidence*, 27 January 2004, p. 44.

62 Australian Council of Social Services, *Submission No. 74*, p. 20.

63 Mr David Thompson, Principal Policy Adviser, Office of Employment, Education and Training, Australian Council of Social Service, *Transcript of Evidence*, 28 January 2004, p. 10.

importance. A holistic government approach to these problems is needed.⁶⁴

- 4.45 CoffEE commented that there still needs to be greater focus on job creation at a macro-economic level rather than on incentives and requirements with sanctions focussing on the individual.

The general problem with focusing on effective marginal tax rates or tax credits as the key to increasing employment is that it constructs unemployment as an individual problem rather than a problem of deficient aggregate demand and that these strategies, while worthy in themselves because of the rewards they offer for those able to make a transition from welfare to work, are unlikely to create employment opportunities for the long-term unemployed.⁶⁵

- 4.46 When discussing assistance, incentives and obligations, the Committee has taken a broad view of the system as a whole. Employer incentives and job creation are discussed elsewhere and therefore this chapter focuses substantially on individual support. With that in mind, the balance of assistance, incentives, and obligations has three roles:

- helping people move from welfare to work by enhancing their long-term employment and self sufficiency prospects;
- as a safety net, but one that does not become a permanent destination for those who are capable of greater self-reliance, but does provide adequate support and assistance for the most disadvantaged who do need the social safety net on an ongoing or longer term basis; and
- maintaining social engagement and retention of employability skills and attitudes for those in the safety net.⁶⁶

Incentives

- 4.47 Ensuring that the income support system provides an adequate safety net for those in need while minimising disincentives to work is a difficult

64 Australian Council of Social Services, *Submission No. 74*, p. 19.

65 Ms Sally Cowling, Research Fellow, Centre of Full Employment and Equity, University of Newcastle; *Transcript of Evidence*, 12 March 2004, pp. 2-3.

66 Department of Employment and Workplace Relations, *Submission No. 72*, p. 15.

balancing act. Participating in paid work is influenced by four key elements of the income support system: the maximum rates of payments, income test structures (including their interaction with the income tax system), eligibility criteria for payments, and obligations (such as requirements to look for work) attached to payments.⁶⁷

- 4.48 Incentives in the context of this inquiry refer mainly to financial rewards for paid employment, to encourage greater participation and less reliance on income support. Financial incentives 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. However, there can also be non-financial costs and benefits associated with paid work. When the income gap between paid work and income support payments is small, disincentives to leave income support can arise as paid work is assumed to carry costs in both leisure and in household management (such as child caring, usually described as unpaid work) for which money must compensate.
- 4.49 A range of strategies can be used to change financial incentives, which include:
- social security means tests;
 - income support payment rates;
 - parameters of the tax system, including tax thresholds and rates;
 - wage settings; and
 - specific in-work benefits and earnings subsidies.
- 4.50 Treasury believes that Australia needs to look at Effective Marginal Tax Rates (EMTR – the net return for every extra dollar earned after taking account of tax and social security means tests) and the structure of the income support system to ensure there are sufficient incentives.⁶⁸

Maximum rates of payments

- 4.51 Greater participation in paid work should be financially beneficial and reduce reliance on government allowances to support the individual and the family. In some instances there are not clear financial benefits, such as

67 Treasury, *Submission No. 73*, p. 9.

68 Mr David Tune, General Manager, Social Policy Division, Treasury, *Transcript of Evidence*, 8 October 2003, p. 2.

when income support recipients are offered casual part-time and, or low hourly rate positions.

- 4.52 FaCS suggested that the difference between allowance and pension payment rates may create incentives to transfer from lower allowances such as Newstart, which have more stringent income tests and activity requirements, to higher pension rates such as the DSP.⁶⁹ Pensions are adjusted in line with movements in the Consumer Price Index and are 'topped up' to maintain the maximum rate of pension at a level of at least 25 per cent of Male Total Average Weekly Earnings. Increasing the allowance to pension level would act as a further disincentive to participate in paid work.

Greater focus on the differential between allowances and associated concessions, and employment earnings is considered to be a more productive avenue of investigation. Gulf Savannah Development Inc saw the need for the pay packet to be significantly higher than the dole to be an incentive to people to take up employment.⁷⁰

- 4.53 To ensure greater participation in paid employment, there must be positive benefits for the employee such as increased income, job satisfaction and improved prospects for a future position and income. Corston Pty Ltd, a small business, made the point that businesses are competing with the welfare system for a person's time and some employees prefer to work part-time so that their wages do not impact on their welfare payments.⁷¹

- 4.54 In some situations there is almost a culture of poverty that keeps people out of the workforce. There is a problem where there is second generation unemployment, and a lack of role models which can lead to a lack of motivation and interest.⁷²

... work needs to be seen as being worthwhile, dignified, valuable and achievable.⁷³

- 4.55 Dr Roger Wilkins from the Melbourne Institute of Applied Economic and Social Research suggested that one approach would be a greater reduction

69 Department of Family and Community Services, *Submission No. 99*, p. 33.

70 Gulf Savannah Development Inc, *Submission No. 37*, p. 4.

71 Corston Pty Ltd, *Submission No. 14*, p. 2.

72 Dr Alaric Maude, *Transcript of Evidence*, 18 March 2004, p. 7.

73 Central Western Regional Development Board, *Submission No. 46*, p. 4.

in the dependence on income support rather than attempting to reduce the duration of payment receipt. The facilitation of combining work and welfare support could be an option; for example, part-time work for people on a disability pension, that is relevant to their individual capacities.⁷⁴

- 4.56 Similarly, St Vincent De Paul acknowledged the challenges for the building and property industry which employs mature age workers, usually in part-time positions, when they will lose all the significant benefits of being on welfare.⁷⁵ The introduction of the Working Credit supports this approach, which is described in the next section.

Working credit

- 4.57 Previously, in moving from welfare to paid employment there is an issue of job insecurity which can result in a financial penalty through the delay in going back on benefits if the person becomes unemployed again.⁷⁶ In an effort to facilitate working part-time or taking temporary jobs the Australian Government introduced the Working Credit scheme in September 2003. The Working Credit aims to encourage people to take up work by allowing them to retain more of their payment from Centrelink when they commence a job.⁷⁷ In February 2004, there were 60 000 people per fortnight accessing the Working Credit.⁷⁸
- 4.58 Further, customers are able to retain some of their benefits, such as their pensioner concession card, their family tax benefit or their childcare benefit for up to 12 weeks after entering the workforce and no longer being eligible for payment as a consequence of their earnings. So far, around

74 Dr Roger Wilkins, Research Fellow, Melbourne Institute of Applied Economic and Social Research, University of Melbourne, *Transcript of Evidence*, 19 March 2004, pp. 54, 57.

75 Mr John Wicks, Vice President, National Social Justice Committee, St Vincent de Paul Society, *Transcript of Evidence*, 19 March 2004, p. 60.

76 Mr Mark Berry, Vice-President, Building Service Contractors Association of Australia – WA Division, *Transcript of Evidence*, 6 April 2004, p. 25.

77 Australian Government, November 2003, *Parents and employment: A guide to support your workforce participation*, Centrelink, p. 13.

78 Ms Serena Wilson, Executive Director, Department of Family and Community Services, *Transcript of Evidence*, 26 May 2004, p. 2.

35,000 people each fortnight have been able to take advantage of those mechanisms since September 2003.⁷⁹

- 4.59 The Committee sees this initiative as providing significant benefit and will be interested to see the longer term effects of the introduction of the Working Credit.

Tax reform

- 4.60 Recent reforms to the tax and income support system have been designed to make 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.⁸⁰
- 4.61 Subsequent budgets have built on these changes, attempting to reduce EMTR, and raising the income thresholds.⁸¹ However, there has been some debate about the effectiveness of these changes in encouraging greater participation.⁸²

Effective marginal tax rates

- 4.62 Treasury commented that EMTR are often cited as a disincentive to work for those on income support payments.⁸³ For example, ACTU submitted that:

Effective marginal tax rates are an important issue. It is perverse that the highest marginal tax rates are faced by low paid workers in transition between no-work or little-work and full-time work or near full-time work. The withdrawal tapers of 50 per cent and 70 per cent on Newstart allowances are excessive and should be reduced to "make work pay".⁸⁴

79 Ms Serena Wilson, Executive Director, Department of Family and Community Services, *Transcript of Evidence*, 26 May 2004, p. 3; see also Department of Family and Community Services, *Submission No. 99*, pp. 32-33.

80 Department of Family and Community Services, *Submission No. 99*, pp. 31-32.

81 Australian Government, *Budget 2004-05, Budget Paper No. 1 – Maintaining Low Unemployment in Australia*, pp. 10-11.

82 Australian Council Trade Unions, *Submission No. 69*, pp. 17-18; Tasmanian Government, *Submission No. 102*, p. 22; Australian Industry Group, *Submission No. 64*, p. 3.

83 Treasury, *Submission No. 73*, p. 10.

84 Australian Council of Trade Unions, *Submission No. 69*, p. 17.

- 4.63 However, Treasury submits that the policy prescriptions are not obvious, due to the balancing required between advantages for one income group compared to another income group. This results in changing work incentives rather than increasing incentives for all.⁸⁵ Part of the debate rests on what type of work and participation is desired, and how it is rewarded through the tax-benefit system. Rewarding part-time work may maximise participation in the labour market. However, this may weaken incentives for full-time work.⁸⁶
- 4.64 ACOSS also considered that the current high EMTR act as a disincentive to people entering paid work. However, the area is described as very complex.⁸⁷ Addressing EMTR needs to be targeted to people in different circumstances.⁸⁸
- 4.65 Similarly, AIG is cautious about blanket changes to EMTR. It supports the need to remove the most extreme instances of high EMTR affecting jobless individuals and families. AIG also supports the general principle that income support payments should be targeted to those most in need.⁸⁹

Earned income tax credits

- 4.66 Some countries, for example the United States and the United Kingdom, have adopted a system of providing in-work benefits through the provision of tax credits on earned income. EITC raises the disposable incomes of low income families and can vary according to the number of dependent children.⁹⁰ Such a strategy has been suggested for use in Australia.⁹¹
- 4.67 ACCI believes that this approach will merely move the EMTR further up the income scale and this would have a detrimental effect on aggregate labour supply.⁹² Additionally, this would effectively provide a government

85 Treasury, *Submission No. 73*, p. 10.

86 Australian Council of Social Service, *Submission No. 74*, p. 43.

87 Mr David Thompson, Principal Policy Adviser, Office of Employment, Education and Training, Australian Council of Social Service, *Transcript of Evidence*, 28 January 2004, p. 3.

88 Mr Philip O'Donoghue, Acting Director, Australian Council of Social Service, *Transcript of Evidence*, 28 January 2004, p. 3.

89 Australian Industry Group, *Submission No. 64*, p. 3.

90 Australian Chamber of Commerce and Industry, *Submission No. 63*, p. 7.

91 Australian Council of Social Service, *Submission No. 74*, pp. 40-42 citing Dawkins, 2002, The five economists plan. *Labour Economics*, Vol 15, No. 2.

92 Australian Chamber of Commerce and Industry, *Submission No. 63*, p. 15.

subsidy to wages, with questionable affordability.⁹³ The cost of EITC is estimated to be substantial but unlikely to have a high impact.⁹⁴

- 4.68 The establishment of EITC was developed in the United States of America where there is no family payment system equivalent to that operating in Australia which has existing benefits such as Family Tax Benefit payments.⁹⁵

Personal tax-free threshold

- 4.69 Other strategies of further tax reform include raising the personal tax-free threshold to reduce the system of paying in tax then receiving benefits to meet specific needs.⁹⁶ This is suggested to address the problem of high EMTRs rather than introducing another means-tested income transfer.
- 4.70 Currently the personal tax threshold is \$6 000. A strategy of reducing taxes by raising the personal threshold means workers take home an improved wage. Additionally, jobs are not threatened by raising minimum wages, nor are work incentives undermined by topping up incomes with tax credits.⁹⁷
- 4.71 Critics of the scheme argue that too much revenue would be lost by increasing the threshold, and that there are more cost-effective ways than raising the tax-free threshold, which is expensive and affects everyone.⁹⁸ However, in defence of the proposal, an increased tax-free threshold would partly be paid for by savings in the current level of income support spending going to working people. Proponents argue that at the very least the threshold should be raised to welfare levels to establish the principle that nobody should pay tax until they have earned their own subsistence.⁹⁹

93 Brotherhood of St Laurence, *Submission No. 81*, p. 11.

94 Mr David Thompson, Principal Policy Adviser, Office of Employment, Education and Training, Australian Council of Social Service, *Transcript of Evidence*, 28 January 2004, p. 3.

95 Brotherhood of St Laurence, *Submission No. 81*, p. 11.

96 Saunders, P, 2003, *A Self-Reliant Australia. Welfare Policy for the 21st Century*, Centre for Independent Studies, *Exhibit No. 35*, p. 31.

97 Centre for Independent Studies, *Submission No. 75*, p. 6.

98 Mr Philip O'Donoghue, Acting Director, Australian Council of Social Service, *Transcript of Evidence*, 28 January 2004, p. 3.

99 Centre for Independent Studies, *Submission No. 75*, pp. 5-7; Brennan, K, *Submission No. 56*, p. 16.

Taper rates and income test stacking

- 4.72 Amendments to taper rates and income test 'stacking' have occurred since the mid 1990s through social security reforms intended to improve work incentives for working age people. Income test stacking occurs when people lose benefits from more than one program simultaneously. In July 2000, family assistance income test taper rates were generally standardised, and reduced from 50 cents to 30 cents. Additionally allowance income tests and family assistance tests were 'unstacked'.¹⁰⁰
- 4.73 However, evidence to the Committee suggests that further work is required. ACOSS believes that taper rates should be tailored to full-time employment as this lifts people and families out of poverty.¹⁰¹ It may be more effective to have a different taper rate for part-time work and the particular circumstances need to be considered.¹⁰² ACCI also supports a review of taper rates. For example, Newstart Allowance and Partner Allowance are reduced by 70 cents for each dollar earned in excess of \$142 a fortnight. These high rates of withdrawal are necessary in order to ensure that benefits are only paid to those needing support. However, further investigation is warranted. ACCI suggests that sequential tapering of benefits would remove some of the largest work disincentives facing families and would allow a smoother welfare to work transition.¹⁰³
- 4.74 ACCI believes that the elimination of income test stacking of welfare benefits will reduce the major disincentives from high EMTR.¹⁰⁴ Restructuring income test thresholds in this way is apparently a feasible and relatively inexpensive means of addressing low income traps for

100 Department of Family and Community Services, *Submission No. 99*, Attachment B, p. 53. Taper rates: Income above the free area (which is income that is ignored) reduces the pension or benefit at a defined rate known as the 'taper rate'. Income test stacking: for example, as a person earns an extra dollar in wages they lose 30c of Family Tax Benefit and 40c of family allowances.

101 Mr Philip O'Donoghue, Acting Director, Australian Council of Social Service, *Transcript of Evidence*, 28 January 2004, p. 4.

102 Mr Philip O'Donoghue, Acting Director, Australian Council of Social Service, *Transcript of Evidence*, 28 January 2004, p. 4; Australian Council of Social Service, *Submission No. 74*, p. 7.

103 Australian Chamber of Commerce and Industry, *Submission No. 63*, p. 4.

104 Australian Chamber of Commerce and Industry, *Submission No. 63*, p. 15.

- working families.¹⁰⁵ Families without employment are the most disadvantaged and would not be assisted by EITC.¹⁰⁶
- 4.75 The income test for payments, particularly Newstart Allowance, is described by some as severe. It was suggested by COTA NSP that this is a disincentive to taking part-time work, with full-time work considered a preferable option.¹⁰⁷
- 4.76 ACOSS provided to the inquiry some general comparisons on the costs possibly involved of different incentive strategies, but other agencies did not provide such detail.¹⁰⁸ In summary, it has been suggested that the most productive areas of incentive reform would be to:
- reduce the ‘stacking’ of income tests and address the different income tests for pensions compared to allowances;
 - review taper rates;
 - address very high EMTR; and
 - increase the tax-free threshold.
- 4.77 The National Centre for Social and Economic Modelling (NATSEM) indicated that an EMTR of over 60 per cent is regarded as a disincentive for increased work. NATSEM found that the interaction of the tax and social security systems means that for some families, particularly those on low incomes, the financial incentives to work can be quite small. The additional burden of childcare costs also reduces the incentives. While high income couples keep around half of the mother’s earnings when she returns to working 35 hours per week, low income couples get to keep less than a third.¹⁰⁹
- 4.78 NATSEM commented that some of the results are worrying:
- If you subscribe to the stepping stone argument – that a low paid casual or part-time job now may lead on to a higher paid job with

105 Australian Chamber of Commerce and Industry, *Submission No. 63*, p. 4 citing D Inglis *Rationalising the Interaction of Tax and Social Security: Part 1*, November 2000. See also The Shop Distributive and Allied Employees Association, *Submission No. 79*, p. 31.

106 Australian Chamber of Commerce and Industry, *Submission No. 63*, p. 9.

107 Council on the Ageing National Seniors Partnership, *Submission No. 86*, p. 12.

108 ACOSS, *Submission No. 74*, pp. 40-50.

109 Toohey, M & Beer, G, 2003, *Is it worth working now? Financial incentives for working mothers under Australia’s new tax system*, National Centre for Social and Economic Modelling, Paper for the 2003 Australian Social Policy Research Conference, pp. 21-22.

more hours in the future ... The very people who stand to benefit from greater participation in the workforce are the ones who face the highest financial disincentives to do so. Furthermore, while in the long run it may be worth working even when the family is financially worse off now, those on low incomes are the least likely to have the financial capacity to do this.¹¹⁰

4.79 This highlights the importance of estimating the effects of changing systems. FaCS identified issues that need to be considered including:

- 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;
- how to isolate and measure the effect of changed work incentives from the effect of changes in the labour market and the broader society.¹¹¹

Recommendation 4

The Committee recommends that the Australian Government review the tax free threshold, taper rates, effective marginal tax rates and income test stacking to maximise incentives to move from income support payments to increased participation in paid work.

110 Toohey, M & Beer, G, 2003, *Is it worth working now? Financial incentives for working mothers under Australia's new tax system*, National Centre for Social and Economic Modelling, Paper for the 2003 Australian Social Policy Research Conference, pp. 21-22.

111 Department of Family and Community Services, *Submission No. 99*, p. 34. 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 reduced.

Assistance

- 4.80 For this inquiry assistance refers to measures to increase participation including:
- improving job search by enhancing job search skills and activities;
 - providing timely and accessible information;
 - improving skills and employability through education and training programs, and the costs of training or education;
 - providing individualised assistance such as case managers and personal advisers to develop individual action plans to address different needs and barriers; and
 - assisting with costs of work such as transport or childcare costs.¹¹²
- 4.81 Labour market assistance approaches have varied in Australia over the last few decades. The current Australian Government introduced work first approaches to replace labour market programs focusing on skills development in the late 1990s. Jobseekers are encouraged to Work for the Dole and a range of programs are offered under the Mutual Obligation initiative. Targeted skills improvement opportunities were continued, such as the Jobs, Education and Training scheme, or introduced, such as the Return to Work program for parents and mature age people.¹¹³
- 4.82 The introduction of Job Network as a national network of private and community organisations dedicated to finding jobs for unemployed people significantly changed the provision of employment services. Job seekers typically register with Centrelink for income support and are then referred to Job Network members for assistance.
- 4.83 FaCS indicated that the focus of assistance measures has shifted towards the needs of particular groups, such as long-term unemployed and those with multiple barriers, to maximise the return on efforts. This is a shift from programs to all unemployed people, a significant number of whom could gain employment through less intensive efforts.¹¹⁴

112 Department of Family and Community Services, *Submission No. 99*, p. 38.

113 Department of Family and Community Services, *Submission No. 99*, p. 40 and Attachment A provides an overview of assistance measures that have been introduced since the introduction of Australians Working Together.

114 Department of Family and Community Services, *Submission No. 99*, p. 39.

- 4.84 The Queensland Government acknowledged the beneficial impact of recent changes to *Australians Working Together* and employment services. However, a criticism of the Job Network system in 2003 was that the primary focus is on job matching of job-ready individuals. Disadvantaged job seekers are considered unlikely to secure a job quickly unless remedial assistance is provided to individuals, and strategies are tailored to marginalised communities.¹¹⁵ The Tasmanian Government raised similar issues, with a need to provide greater intensive assistance to job seekers, improved resourcing and government coordination.¹¹⁶
- 4.85 Changes to systems and services are continuing. In July 2003 the Active Participation Model was introduced and is intended to simplify access to services for job seekers and streamline services provided by Centrelink, Job Placement Organisations, Job Network members and complementary employment and training programs. Key features of this model include a single Job Network member providing continuous assistance and working with job seekers until they find employment.¹¹⁷ A range of assistance is available such as Job Search Support service and, for longer term unemployed people, Intensive Support services.
- 4.86 Centrelink has Personal Advisers to assist mature age income support recipients, Parenting Payment recipients, Indigenous people and those with exemptions from activity tests or who have recently been released from prison.¹¹⁸ Jobs, Education and Training Advisers are also available to assist. Job Network data indicate that there has been a 52 per cent increase in job placements for Job Seekers for job seekers aged over 45 in the 12 months to January 2005. Long-term unemployment has fallen to its lowest level in 18 years, to be 1 per cent of the entire labour force. The proportion of the total unemployment pool that have been out of work for 12 months or longer also declined to 19 per cent.¹¹⁹
- 4.87 DEWR indicated that in 2002-03, 228 607 long-term unemployed and other disadvantaged job seekers entered Intensive Assistance, with a positive outcomes level of 54 per cent. By May 2004, 328,000 job seekers entered

115 Queensland Government, *Submission No. 87*, p. 8.

116 Tasmanian Government, *Submission No. 102*, p. 25.

117 Department of Employment and Workplace Relations, *Submission No. 72*, p. 10.

118 Department of Employment and Workplace Relations, *Submission No. 72*, p. 16.

119 Mr Chris Foster, Acting Group Manager, Research, Evaluation and Legislation Group, Department of Employment and Workplace Relations, *Transcript of Evidence*, 17 February 2005, p. 16; Australian Bureau of Statistics, *Labour Force, Australia, Detailed – Electronic Delivery* (Cat. No. 6291.0.55.001).

Intensive Support customised assistance. Overall for the entire Job Network, 2004 is described as being a record year with significantly increased new vacancies lodged, and an increase of 51 per cent in job placements.¹²⁰ Job Network star ratings focus on the achievement of employment outcomes for job seekers, and are weighted towards sustainable outcomes for long-term unemployed and other disadvantaged job seekers.¹²¹

- 4.88 ACOSS concluded that investing in more effective and targeted labour market assistance may result in better outcomes than altering financial incentives for all Australians.¹²² However, the Committee considers that multiple strategies are needed to support increased participation for income support participants.
- 4.89 The Queensland Government *Breaking the Unemployment Cycle* initiative includes a range of programs, including community employment labour market programs. Other community focussed programs such as Intermediate Labour Market programs are suggested as providing some benefit to long-term unemployed persons in South Australia.¹²³
- 4.90 One of the issues raised with the Committee is that people are not accessing programs when assistance is available,¹²⁴ and there needs to be greater support in moving from welfare to work.
- 4.91 Thought needs to be given to easing the transition from social security to work such as retaining some concessions for a longer period:

In going from social security payments to work ... You lose your money from welfare payments and you lose your concession cards. If you are in public housing you get your rent put up. You lose

120 Mr Chris Foster, Acting Group Manager, Research, Evaluation and Legislation Group, Department of Employment and Workplace Relations, *Transcript of Evidence*, 17 February 2005, p. 14, reporting in February 2005; and Mr Graham Carters, Group Manager, Working Age Policy Group, Department of Employment and Workplace Relations, *Transcript of Evidence*, 17 February 2005, p. 2.

121 Department of Employment and Workplace Relations, *Submission No. 72*, p. 11.

122 Australian Council of Social Services, *Submission No. 74*, p. 41.

123 See for example: Queensland Government, *Submission No. 87*, pp. 8-10; Logan City Council, *Submission No. 34*, pp. 1-3; Flinders University, *Submission No. 43*, examples of Murray Bridge, Whyalla and Port Lincoln, p. 13.

124 Dr Alaric Maude, *Transcript of Evidence*, 18 March 2004, p. 8.

access in some circumstances to pharmaceutical benefits and you lose concessions on bills and so on ... ¹²⁵

- 4.92 Working Credit changes were introduced to allow continuation of some concessions. People build a life around a social security system and there needs to be a transition:

There are peripheral issues that you have got to address in the short term and, from our experience, when you stop the government system and move them into an employment system they generally jump back into the system they are most comfortable with. ¹²⁶

Job Seeker Accounts

- 4.93 For job seekers in Intensive Support, Job Network members have access to a new Job Seeker Account to purchase assistance to help eligible job seekers secure work and encourage on-going active participation. The assistance could include:

- skills training, such as a TAFE course;
- help with transport costs to attend job interviews;
- providing a wage subsidy to an employer; or
- purchasing appropriate clothing to attend job interviews. ¹²⁷

- 4.94 Mature age and Indigenous job seekers also access additional training funds through a Training Account with no upper limit placed on funds available to individual job seekers. This funding is in addition to the Training Credit which is earned through participation in Work for the Dole or community work.

- 4.95 Following the introduction of the Job Seeker Accounts, concern was voiced that accounts are underspent and it was suggested that there are

125 Dr Stephen Ziguras, Research and Policy Manager, Brotherhood of St Laurence, *Transcript of Evidence*, 19 March 2004, p. 40.

126 Mr George Housakas, Enterprise Development Officer, Brotherhood of St Laurence, *Transcript of Evidence*, 19 March 2004, p. 40.

127 Department of Employment and Workplace Relations, *Submission No. 72*, p. 10.

substantial bureaucratic requirements to get permission to spend the money.¹²⁸

- 4.96 DEWR acknowledged that in the early operation of the Jobseeker Account DEWR was asking for too much information from the Job Network members in terms of what the money was being spent on, and for what purpose. The administration has now been streamlined while maintaining reasonable accountability measures.¹²⁹ Assistance is provided for training, clothing and equipment, workplace modifications and employer subsidies as examples. In a recent evaluation, providers that spent the majority of their Job Seeker Account funds achieved 22 per cent more employment outcomes.¹³⁰
- 4.97 This initiative appears to be very flexible and the Committee will await with interest the outcomes of further evaluations of the effectiveness of the Job Seeker Account. The Committee notes the early concerns and considers that the issues are now being addressed.

Obligations

- 4.98 The Committee acknowledges that both governments and individuals have responsibilities to improve a person's capacity to contribute to society. Among the responsibilities of governments is to support participation. Employers and communities have a responsibility to provide employment opportunities and other supports. Individuals who are income support recipients have a responsibility to take up opportunities provided within their capacity.
- 4.99 'Mutual Obligation' was introduced in June 2002 for unemployed job seekers who have been receiving income support for six months. Recipients are required to undertake an activity in addition to job search to

128 Dr Stephen Ziguas, Research and Policy Manager, Brotherhood of St Laurence, *Transcript of Evidence*, 19 March 2004, p. 41.

129 Mr Finn Pratt, Group Manager, Intensive Support Group, Department of Employment and Workplace Relations, *Transcript of Evidence*, 26 May 2004, Canberra, p. 4.

130 Mr Graham Carters, Group Manager, Working Age Policy Group, Department of Employment and Workplace Relations, *Transcript of Evidence*, 17 February 2005, p. 13.

assist with finding employment.¹³¹ Parents with children aged 13 and over also now have participation requirements.

- 4.100 A range of agencies representing non-government social services and advocacy groups have been supportive of recent changes to welfare reform and the provision of more targeted personal assistance. BSL saw some aspects of the welfare reform process as positive,¹³² as did Mission Australia, who are cautiously optimistic.¹³³ Similarly, the COTA NSP believe that the new Working Credit will ameliorate some of the problems mature age people have encountered.¹³⁴
- 4.101 However, DEWR suggested that there remain a number of problems in the social security system for working age people including:
- the system has become too complex and difficult to understand;
 - the system does not always provide clear incentives to work;
 - people in similar circumstances can get different levels of assistance - this is unfair and creates inappropriate incentives;
 - the system does not adequately support and encourage participation; and
 - of 2.8 million working-age income support recipients, only 1 million are on activity payments, and only half of these must look for work.¹³⁵
- 4.102 Many people will enter or re-enter the paid workforce through their own efforts or with some minimal assistance. However, for some people with little experience of employment or facing other barriers the transition to employment is difficult. The Reference Group on Welfare Reform identified the need for participation requirements to encourage greater social and economic involvement.

The stark reality is that those who most need assistance are often those who have few opportunities to participate and are often the least motivated to pursue them. For this reason, the new system must engage people more actively, and to be successful that

131 Centrelink FactSheet, 2004: *Options for your Future – Mutual Obligation*, <[www.centrelink.gov.au/internet/internet.nsf/filestores/lw011_0308/\\$file/lw011_0308en.pdf](http://www.centrelink.gov.au/internet/internet.nsf/filestores/lw011_0308/$file/lw011_0308en.pdf)>

132 Dr Stephen Ziguras, Research and Policy Manager, Brotherhood of St Laurence, *Transcript of Evidence*, 19 March 2004, p. 31.

133 Mission Australia, *Submission No. 104*, p. 4.

134 Council on the Ageing National Seniors Partnership, *Submission No. 86*, p. 12.

135 Department of Employment and Workplace Relations, *Submission No. 72*, p. 17.

engagement must be reciprocal. Consequently, the Reference Group believes that some form of requirement is necessary.¹³⁶

- 4.103 ACOSS cited an OECD report which strongly advocates that people receiving income support should be required to be active in their job search.¹³⁷ ACOSS also makes the point that:

... [active participation] strategies only work for the relatively small number of people who are demotivated but otherwise relatively skilled and capable. Applying those same strategies to people who are demotivated and who do not have the skills and the capabilities is actually the wrong prescription for them.¹³⁸

- 4.104 Obligations extend beyond the individual and government to include business and community participation. Business has an obligation to work with government, communities and individuals to generate more job opportunities. Partnerships between these groups are essential to effectively link training, counselling and work opportunities.¹³⁹

- 4.105 In efforts to encourage greater engagement by income support recipients participation agreements have been required for some parents and mature age job seekers. For example for parents, changes introduced in late 2003 have increased the onus on parents to become more active in returning to work, in a graduated manner.

Achieving compliance and breaching

- 4.106 Participation agreements are plans that set out one or more activities agreed to by the income support recipient to continue receiving payments. To achieve compliance with this approach, if participation in an agreement that suits the recipient's circumstances is refused, then payment may be reduced or stopped. A decision that reasonable steps have not been taken by a person to do the agreed activities is called a 'breach'. Financial penalties for breaching include:

136 McClure, P (Chair) (2000) *Participation Support for a more equitable society*, Reference Group on Welfare Reform, p. 5.

137 Mr David Thompson, Principal Policy Adviser, Office of Employment, Education and Training, Australian Council of Social Service, *Transcript of Evidence*, 28 January 2004, p. 9.

138 Mr David Thompson, Principal Policy Adviser, office of Employment, Education and Training, Australian Council of Social Service, *Transcript of Evidence*, 28 January 2004, p. 10.

139 McClure, P (Chair), 2000, *Participation Support for a More Equitable Society*, Reference Group on Welfare Reform, pp. 4-5.

- first breach in a two year period: payment reduced by 18 per cent of the maximum rate for up to 26 weeks;
 - second breach in a two year period: payment reduced by 24 per cent of the maximum rate for up to 26 weeks;
 - third or more breach in a two year period: payment stopped completely for up to eight weeks.¹⁴⁰
- 4.107 If the recipient completes the activities within 13 weeks of the penalty starting, any money withheld from payments will be paid back in full for certain income support recipients, such as parents.¹⁴¹ However, BSL believes that for all recipients, when someone has met the requirement following a breach then the breaching penalties should be reimbursed, as getting them to meet their requirement is the point of the breaching penalty.¹⁴²
- 4.108 ACOSS commented that the current system of mutual obligation is focused on the assumption that joblessness is mainly a behavioural problem of the income support recipient. To improve participation the emphasis has focused on enforcing compliance rather than helping move people towards employment. ACOSS argued that there is an imbalance between positive employment assistance and social security compliance.¹⁴³
- 4.109 ACOSS believes this is demonstrated by:
- the harshness of penalties;
 - the high numbers of people breached;
 - the lack of flexibility in taking into account personal circumstances in setting and adjusting compliance requirements and responding to non-compliance;¹⁴⁴
 - the high level of administrative (non-client) error associated with breaches;¹⁴⁵ and

140 Australian Government, November 2003, *Parents and employment: A guide to support your workforce participation*, Centrelink, p. 7.

141 Please Refer to Attachment C of the Department of Family and Community Services *Submission No. 99*, p. 54 for an overview of labour market payments – requirements and sanctions following the implementation of Australians Working Together.

142 Mr George Housakas, Enterprise Development Officer, Brotherhood of St Laurence, *Transcript of Evidence*, 19 March 2004, p. 39.

143 Australian Council of Social Service, *Submission No. 74*, p. 37.

144 Australian Council of Social Service, *Submission No. 74*, p. 38.

- the lack of appropriate supports and services generally available.¹⁴⁶
- 4.110 Of particular concern to the charitable and community sector are more vulnerable Australians, such as people with mental illness, low literacy levels, substance abuse issues, and homeless people. Such people are described as less able to cope with the participation system requirements. ACOSS stated that the current penalty regime should be overhauled for unemployed people, with the rate and duration of penalties reduced, and systems enhanced to ensure they are used only as a last resort. Disability Action also wishes to dissuade government from introducing compulsory participation requirements for people with disabilities and their carers.¹⁴⁷
- 4.111 BSL commented that despite some recent changes in the breach penalty system, it remains far too punitive and continues to create hardship that prevents some people from participating actively. It needs to be re-designed to enable it to function as a method to ensure compliance rather than a form of punishment.¹⁴⁸ The Tasmanian Government also commented that the recent relaxation of the breaching regime is welcomed, but that there remains a risk of the system being counterproductive in achieving the best long-term outcomes for recipients.¹⁴⁹
- 4.112 The Committee notes that a careful balance must be struck whereby appropriate non-compliance penalties are in place, and assistance measures are also available to ensure that income support recipients understand the obligations placed on them and the support available to them. This is of particular importance for disadvantaged groups to ensure that breaching penalties encourage compliance and participation rather than contribute to disadvantage.

In summary

- 4.113 The Committee notes that one of the challenges facing Australia is reforming the current welfare system. Over 20 per cent of adults of working age are on income support. Reducing the prevalence of reliance

145 Underemployed People Union WA, *Submission No. 89*, p. 8: cite a study of a significant number of breach reports from Job Network staff being overturned by Centrelink.

146 Australian Council of Social Service, *Submission No. 74*, p. 38.

147 Disability Action, *Submission No. 94*, pp. 6-7.

148 Brotherhood of St Laurence, *Submission No. 81*, pp. 10, 12; see also Mr K Brennan, *Submission No. 56*, p. 34; Mr K Graham, *Submission No. 62*, p. 4.

149 Tasmanian Government, *Submission No. 102*, p. 22.

on income support is one approach to increase the level of participation in paid work. Economic participation, as paid work, increases not only income but also self-esteem.

- 4.114 To reduce this reliance, opportunities in growing industries and occupations need to be identified to focus efforts. The challenge is to assist individuals with perhaps special needs to develop sought after skills and to ensure they remain in more permanent employment.
- 4.115 Australia spends less on labour market programs than other OECD countries. Labour market programs, while increasing the opportunity for the unemployed to find work, can be seen as a short-term solution. Community development programs, especially when linked with other programs such as Work for the Dole, are designed for low-skilled unemployed people but are criticised for not resulting in permanent employment opportunities.
- 4.116 The Committee was presented with information about the emerging trend of the number of skill shortages in the Australian workforce. Increasing participation will require increasing the education and skills of people. The biggest growth industry in Australia between 1997 and 2002 was professional occupations. Growth in labouring, production, transport, clerical, sales, service was below the average growth levels. This loss in low-skilled and medium-skilled jobs has meant that there has been an increased pressure for people to invest in education and training.
- 4.117 Participating in paid work is influenced by four key elements of the income support system: the maximum rates of payments, income test structures, eligibility criteria for payments and obligations attached to payments. The average time spent on income support has increased over the recent years. The increase of part-time work has helped many unemployed people to be able to participate in the workforce and come off income support. However, addressing possible taxation and income test disincentives could improve this 'stepping stone' strategy.
- 4.118 Recent reforms to the tax and income support system have been designed to make workforce participation more attractive to working-age people. The Committee believes that there is further scope to fully realise tax benefits and to maximise the incentives to participate in paid work.
- 4.119 Evidence to the Committee suggested that the most productive areas of financial incentive reform would be to:
- reduce the 'stacking' of income tests and address the different income tests for pensions compared to allowances;

- review taper rates;
- address very high EMTR; and
- increase the tax-free threshold.

4.120 The focus of the assistance measures have shifted towards the needs of particular disadvantaged groups, to maximise the return on efforts, rather than a suite of programs to all unemployed people. Personal Advisers, Intensive Support and other more individualised services are seen to be effective. Working Credit and Jobseeker accounts also are being viewed favourably.

4.121 Governments, employers and communities have a responsibility to provide employment opportunities and other supports. Individuals have the responsibility to take up appropriate opportunities. However some people find it difficult to make the transition to work as they may face barriers to participate in paid work. Strategies to address barriers for groups identified as having specific needs are investigated further in the next chapter.