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Employment participation policies

**An international snapshot of policies and practices
in the UK, Netherlands, New Zealand and USA**

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Summary

Australia has an opportunity to reduce social exclusion and strengthen economic growth and productivity by supporting more income support recipients into employment. In 2006, 1.5 million people of working age relied on income support because they lacked a job, including around 650,000 people on Disability Support Pension, 400,000 on Parenting Payment and 450,000 on Newstart and Youth Allowances.

As the overall unemployment level falls, this task becomes harder because those who remain out of work are drawn from more disadvantaged groups in the community. This is evidenced by the fact that over 150,000 unemployed people have received Newstart Allowance for more than two years. Over 60% of long term unemployed people, and of those jobless people on Parenting Payments or Disability Support Pension, have 10 years of formal education or less. Around 60% of Indigenous Australians of working age are not in regular employment.¹

The new Government has commissioned a review of Employment Services and is developing a National Disability and Mental Health Employment Strategy and investing in vocational training for low skilled job seekers through the Productivity Places program. Another welcome initiative is the recent decision by the Minister for Employment Participation to give employment service providers more discretion to decide whether to register a breach of activity requirements (Participation Report) with Centrelink.

To contribute to the discussion about 'what works' in improving the job prospects and incomes of people on income support, this report examines the experience of policies in four countries - the UK, Netherlands, New Zealand and the US – which, like Australia, have achieved sustained reductions in unemployment.²

In order to improve Australia's economic performance and reduce social exclusion simultaneously, the goal of the participation agenda needs to be broadened from simply moving more people from 'welfare' to 'work'. Many income support recipients are not ready for work, others have caring responsibilities, while others cycle between income support and a succession of unstable jobs. We therefore examine the role of systems of income and employment support in the four countries in meeting three goals:

- improving jobless people's access to secure employment
- reducing their need to rely on income support
- improving their incomes and living standards.

A key conclusion of the report is that while there are tensions between these three goals, they can be alleviated with the right mix of policies, resulting in better living standards and opportunities for jobless people, a better functioning labour market, and lower costs for Government over time. As the OECD's revised 'Jobs Strategy' concludes, minimum income guarantees (in the social security and wages systems) do not have to be sacrificed to achieve full employment.³

¹ ACOSS 2007, *The role of further education and training in welfare to work policies*; Steering Committee for Review of Government Service Provision 2007, *Overcoming Indigenous disadvantage* (includes CDEP positions).

² ACOSS 2008, *Submission to Minister for Employment Participation on the review of employment services*.

³ OECD 2006, *Employment Outlook*.

Policy lessons and recommendations

Our survey of the four countries, together with evidence from the OECD and other expert bodies, indicates that the policy 'chain' required to achieve full employment while shielding jobless households and low paid employees from poverty has five key links:

- intensive training, work experience, and job search support for disadvantaged jobseekers
- skills development and career advancement for low skilled workers
- better financial incentives to work (including lowering of effective tax rates)
- flexible activity requirements for those able to work
- adequate and accessible income support.

There is no single magic bullet solution to unemployment and enforced joblessness, and each country has its own strengths and weaknesses in these five areas. Some of the key lessons and innovations from the four countries are outlined below.

Employment assistance

Across the four countries, employment assistance programs typically boost the job prospects of long term jobless people by up to 20%. This is enough to make a difference. The Freud Report commissioned by the British Government estimates that a 5% increase in transitions to employment sustained over 2 years would halve the number of people on the Jobseeker's Allowance (unemployment benefit). That report argues for more investment in employment and training programs in the UK on the grounds that this is cost effective.

Countries like the Netherlands that invest strongly in employment and training programs for jobless people have made deep inroads into unemployment. For example independent academic research suggests that one quarter of the reduction in unemployment in the Netherlands from 13% in the 1985 to 4% in the late 90s was due to increases in labour market assistance such as subsidised employment and training programs.

Australia, the US, UK and New Zealand, are among the lowest spending nations in the OECD though the UK Government is increasing its commitment to employment programs. Australian expenditure on employment assistance is the fifth lowest among the wealthiest 21 OECD nations.

The challenge for employment programs is that as unemployment falls those out of work are more disadvantaged, so that more supports are needed for each job seeker. Even if they get a job in the short term, many

Policy Innovations

In its new commissioning strategy for employment services the UK plans to reward employment service providers that achieve longer term outcomes (including job outcomes lasting up to 18 months) and upgrade the skills of job seekers. This is to encourage providers to invest in skills and work with employers to help former job seekers to keep their jobs.

The Netherlands has introduced 'Individual Reintegration Agreements' which are negotiated between long term unemployed people and employment service providers at the time the unemployed person selects a provider. This is designed to increase the range of choices available to job seekers so that they are more actively engaged in job programs.

The 'City Strategy' in the UK provides a pool of funds to integrate employment assistance, health and social support services for disadvantaged jobseekers who have social barriers to work (such as mental health problems and addictions) in deeply disadvantaged areas. Similarly, Social Development Managers in New Zealand's Work and Income agency work with local employment and community services to coordinate their support for disadvantaged job seekers.

return to income support. For example, 54% of new claims for Jobseekers Allowance in the UK in 2003-04 came from past recipients, while in the US one in four sole parents who left income support were on payments two years later.

Evaluations of US employment participation programs by the Manpower Development Research Corporation show that a one-size-fits-all approach that concentrates on getting people into the first available job (referred to as the 'work first' approach) is less effective over the medium term than a 'mixed approach' that combines work preparation and training with job search assistance, based on individual needs.

In recent years, employment assistance in Australia has been characterised by the 'work first' approach, with very limited investment in training, wage subsidies or other help to overcome barriers to work. The average amount spent by Job Network providers on training for long term unemployed people is \$350 for 3 days training and only 10% receive an offer of subsidised employment. The reasons for this include the targeting of short term (3 or 6 month) employment outcomes in Job Network contracts and a 'one size fits all' approach to the sequence of support provided to job seekers (for example, Job Search Training followed by Work for the Dole).

By contrast, in its new commissioning strategy for employment services the UK plans to reward employment service providers that achieve longer term outcomes (including job outcomes lasting up to 18 months) and upgrade the skills of job seekers. Also, the 'Flexible New Deal' allows employment service providers to match a range of training, wage subsidy and voluntary work programs to individual needs. The Netherlands has introduced 'Individual Reintegration Agreements' which are negotiated between long term unemployed people and employment service providers at the time the unemployed person selects a provider. This is designed to increase the choices available to job seekers so that they are more actively engaged in job programs. Also, the Dutch Government has deliberately stepped back from intensive monitoring of employment service 'inputs' and instead given Municipalities the flexibility to respond to individual needs provided employment outcomes are achieved.

The effectiveness of employment assistance for disadvantaged jobseekers could be improved by:

- **shifting outcomes-based funding towards longer term outcomes (for example, 6 to 12 months rather than 3 to 6 months), or combinations of employment outcomes and other milestones on the path to secure employment such as skills attainment (as in the UK)**
- **reforming the Job Seeker Accounts available to Job Network providers to give them more flexibility and resources for capacity building, or introduce a new menu of programs from which providers could draw for this purpose (as with the Flexible New Deal in the UK)**
- **integrating employment assistance and health and social support services for disadvantaged jobseekers who have social barriers to work (such as mental health problems and addictions), especially those in deeply disadvantaged regions (as with the British 'City Strategy' and New Zealand's Social Development Managers)**
- **implementing a consistent strategy to actively engage job seekers with the services they receive, including effective choice of provider and the genuine negotiation of employment assistance plans with disadvantaged jobseekers (as**

with the Individual Reintegration Agreements in the Netherlands)

- **shifting the focus of work experience programs from unpaid work experience designed to enforce compliance with benefit rules towards subsidised employment in a regular job designed to improve future job prospects, by sharing the savings in income support payments while a person undertakes a subsidised job with employment assistance providers (as in the Netherlands)**
- **introducing systems of governance that give more leeway for providers to achieve outcomes in cooperation with jobseekers, without detailed prescription of the methods used (as in the Netherlands and earlier versions of the Job Network).**

Skills

Along with the UK, Australia's workforce has one of highest levels of low skilled workers in the OECD, with 36% of Australians of working age lacking 12 years of schooling compared with the OECD average of 33%. This reduces their job prospects. Obtaining at least Year 12 qualifications reduces the risk of unemployment by 60 per cent.

Policy Innovations

Personal advisers in Job centres in the UK conduct regular skills checks and provide career counselling for job seekers.

There is no evidence to suggest that modest reductions in minimum wages, as sometimes advocated in Australia, would make much difference to unemployment among low skilled workers. Although hourly minimum wages in the US are just three fifths of those in Australia, unemployment among low skilled workers is higher in the US (at 9%) than in Australia (6.3%).

There has been strong growth in low paid jobs in Australia since the early 1990s, but unlike the four countries in this study most of this growth was in part time jobs. So a major policy challenge here is to help former job seekers to progress from unstable or part time jobs to more secure or fulltime jobs. Evidence from the UK, US and Australia indicates that those with higher skill levels are less likely to cycle between income support and unstable jobs.

Well designed training programs substantially improve employment prospects over the medium to long term (beyond 6 months). The most effective programs tailor training to individual needs and available jobs, and provide substantial training to improve skills. For example the British Longer Occupational Training program which offered around 6 months' vocational training improved average job prospects by 7% compared with the equivalent Short Term Training program which had no significant effect.

With 35% of its workforce low skilled, the UK is at the forefront of policy action among the four countries to boost the skills of jobless and low paid workers, including by regular skills checks and career counselling for job seekers, integrating the purchase of mainstream VET training and employment assistance, and funding 'retention and advancement' programs for former job seekers who obtain employment.

The skills and career prospects of low skilled income support recipients and workers could be improved by:

- **a sustained investment in vocational and further education opportunities for low skilled workers, both jobless and employed, aimed at raising their workforce skills to at least an AQTF Level 3 qualification. This is a key goal of the new Productivity Places program, and ACOSS recommends that providers of these training places be funded to provide pre vocational training, mentoring, and assistance with the costs such as transport and books⁴**
- **providing a brokerage service to link income support recipients to training under the Productivity Places program, using existing employment assistance providers. For disadvantaged jobseekers, training could be integrated within the employment assistance outlined above, including combinations of paid work experience and training**
- **free skills checks and career counselling for low skilled workers and income support recipients (as in the UK)**
- **removing barriers and disincentives for participation in education and training from the income support system (so that parents and people with disabilities can meet their requirements by training part time) and the reward structure for Job Network providers (so that providers are rewarded when one of their job seekers successfully completes a Productivity Places course or program)⁵**
- **either extending outcomes based funding for employment assistance providers to reward retention in employment or establishing a separate ‘retention and advancement’ scheme for disadvantaged jobseekers who obtain a job (as in the UK and US).**

Work incentives

Australian job seekers have relatively strong incentives to move from joblessness to a low paid fulltime job since our minimum wages are higher and income support is lower than in the other four countries. Also, Australia’s Family Tax Benefit provides higher levels of income support for low paid working families than in the other countries, including those with separate tax credits for working families such as the US.

Policy Innovations

Personal advisers in Job centres in the UK administer a ‘better off in work’ calculation that shows job seekers how much of their earnings they would keep if they get a part time job.

However, a distinguishing feature of Australian labour market is that 28% of jobs, and more than half of low skilled jobs, are part time (the second highest rate of part time employment in the OECD after the Netherlands). Yet incentives to move to part time work are relatively weak for Newstart Allowance recipients, including many sole parents affected by the recent ‘Welfare to Work’ policy changes, who typically lose 60 cents in income support for every extra dollar earned if they work part time.

⁴ ACOSS 2008, *Submission to Department of Education, Employment and Workplace Relations on the Productivity Places program.*

⁵ See ACOSS 2007, *op cit.*

Many income support recipients in the four countries do not understand how income tests and taxes work and overestimate their effects on take home pay. To address this problem, Job Centres in the UK conduct a personalised 'better off in work calculation' with income support recipients.

Financial work incentives could be improved by:

- **easing income tests for Newstart and other 'allowance' payments, especially for sole parents and people with disabilities who are required to seek part time jobs**
- **introducing a 'better off in work' calculation to be administered by Centrelink staff or employment assistance providers (as in the UK)**
- **improving Child Care Benefit and extending JET Child Care Assistance to reduce gap fees for low income families**
- **easing income tests for social housing rent rebates.**

Activity requirements

Australia has among the toughest activity requirements for unemployed people in the OECD – typically including a requirement to apply for 10 jobs a fortnight regardless of their skill level or pay. Overseas experience suggests that once a robust system of activity requirements is in place, imposing more stringent requirements and penalties will not significantly improve transitions to employment.

In the UK in the 1980s, a requirement for long term unemployed people to attend a 'Restart interview' where activity requirements were explained and compliance was checked increased exits from benefits to jobs by 6%. However, at that time job search requirements in the UK were not effectively enforced. A similar requirement in Australia introduced in the 1990s for unemployed people to attend an interview after 9 months' unemployment had no significant impact because work requirements were already strict. Similarly, those US States that pursued the most aggressive approach to sanctioning of sole parents for breaching activity requirements did not achieve higher employment outcomes than the 'average' States.

The key to better employment outcomes in countries with well established activity requirements and compliance systems, like Australia and the four countries studied here, is to move beyond a standardised set of requirements and link activity requirements to individual help with barriers to work. For example, the British New Deal for Young People combines a period of supervised job search with wage subsidies, training and other assistance for those unable to get a job during this time. Employment officers in New Zealand have scope to negotiate individual activity plans with job seekers within broad national guidelines. By engaging people actively in the search for employment, these strategies ensure compliance without the need for widespread use of financial penalties.

On the other hand, the US experience shows that activity requirements that fail to take account of individual circumstances like caring responsibilities or disabilities exclude vulnerable people from income support. Most US States require sole parents to seek employment by the time their youngest child is one year old, and factors such as domestic violence are often not taken into account. As a result of these requirements, and the five

year lifetime time limits on income support, only half of those sole parents whose incomes are low enough to qualify for income support actually receive it (down from 80% before the US 'welfare to work' policy was introduced in the mid 1990s). Around 20% of those sole parents who leave income support in the US have no income from formal employment or income support payments. These 'disconnected' families live on an unstable combination of food stamps, subsidised or shared housing, and family support.

The risk of exclusion from income support could be reduced, and effective job search and work preparation reinforced by:

- **introducing more flexibility into activity requirements within a consistent national policy framework, especially to take greater account of barriers to work and 'care loads' among people with disabilities and caring responsibilities (as in New Zealand and the Netherlands)**
- **closer engagement between employment service providers and disadvantaged income support recipients, backed by flexible employment assistance (for example, the 'gateway and options' sequence in the British New Deals and New Zealand's individual employment plans)**
- **giving jobseekers greater choice of service providers and the forms of employment assistance they receive (as in the Netherlands)**
- **removing financial penalties that create hardship without necessarily improving compliance, especially the 8 week suspension of income support.**

Income support

Assisting more people into employment helps reduce poverty but it is not sufficient in itself. An adequate safety net for jobless people is also critical. The British Government pursues a dual strategy of 'work for those who can, support for those who cannot'. The importance of a robust safety net is best illustrated by the US experience. The US has one of the highest levels of child poverty in the OECD (22% compared to 12% in Australia in 2000) despite high employment levels among parents - almost 78% of sole parents were in jobs compared to 53% in Australia. This is because US income support payments and minimum wages are very low. A typical income support payment in the US for a jobless sole parent with two children is around \$A175 per week and the minimum wage is three fifths of that paid in Australia.

In the other countries that have more comprehensive safety nets, the complexity of social security systems has become a barrier to workforce participation. The UK and New Zealand, along with Australia, traditionally divided income support recipients of working age into categories according to their ability to work: for example disability, parenting, unemployment and student payments. This makes sense in order to give people certainty about the activity requirements, if any, that will apply to them. However the levels of payment for

Policy Innovation

The UK and New Zealand are reviewing their income support payments for people of working age. The intention is to introduce a single 'core' level of payment to replace separate rates of payment for different groups. As well as making the system fairer, this is designed to remove barriers to work such as the fall in payments when people move from disability pensions onto unemployment payments. The reviews are also examining supplements to meet special needs such as the costs of disability.

unemployment and student payments are usually lower. As well as being inequitable, these anomalies in payment levels discourage people from moving towards employment or study because they could end up on a lower payment. Both the UK and New Zealand are examining reforms that would replace multiple payment levels with a single base rate of payment and supplements for special needs such as the costs of disability.

The Australian income support system could be made simpler, fairer, and more effective in reducing poverty and encouraging participation among jobless people if:

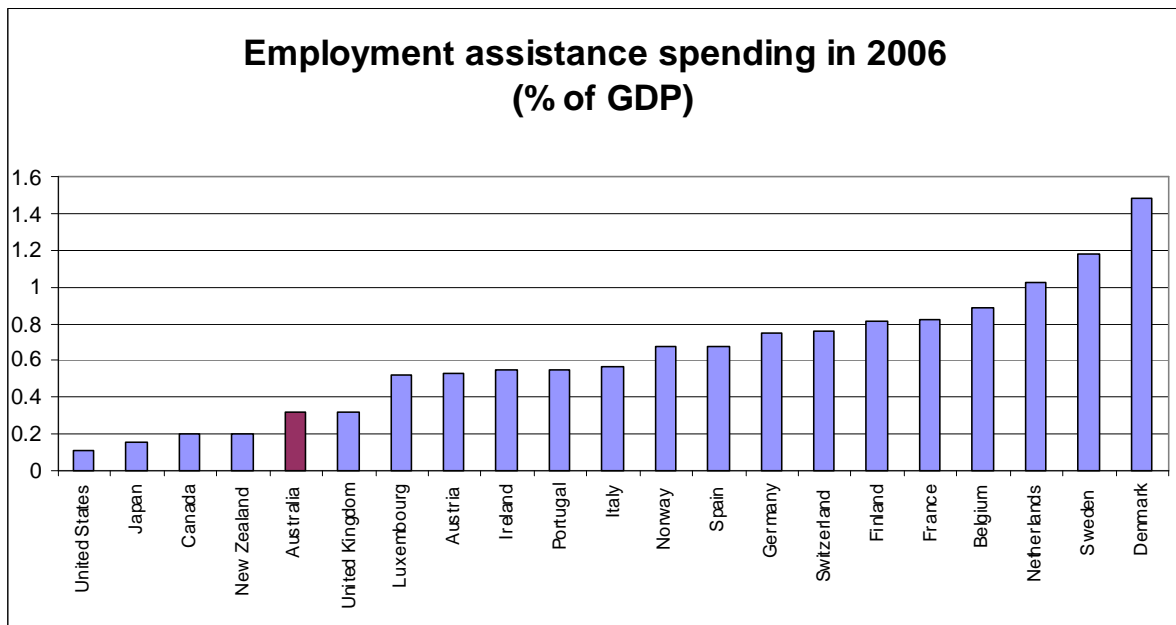
- **the payment system for people of workforce age is reviewed so that levels of payment are based on need rather than a judgement about whether recipients are 'able to work' and the system is streamlined and simplified (as in the UK and New Zealand)**
- **family payments are based on the needs of families and the costs of raising children rather than the labour force status of their parents. To ensure fairness and maintain work incentives, a low income family should receive the same level of family payments whether jobless or in low paid employment**
- **the level of take-up of income support among groups vulnerable to exclusion is closely monitored and strategies put in place to ensure that people are aware of their entitlements and able to take them up when needed (as in the Netherlands).**

1. Intensive training, work experience, and job search support for disadvantaged jobseekers

Although most people get a job within the first three months of unemployment, a growing proportion of jobless people in the four countries have barriers to work which, if not addressed, will leave them out of work for much longer. This is especially true of the people with disabilities and sole parents who are increasingly required to look for a job as a condition of receipt of income support. Assistance with job search, training, work experience and support in employment can help overcome these barriers to work and improve their prospects of keeping any job they obtain.

The graph below compares employment assistance expenditure as a proportion of GDP in 21 wealthy OECD countries.

Graph 1



Source: OECD 2007, Employment Outlook.

The Netherlands spends much more on employment assistance than most OECD countries, with roughly half its expenditure being on disability employment programs (mainly on sheltered employment). Subsidised employment is the traditional mainstay of Dutch employment programs, and this is frequently offered to long term jobless people by Dutch Municipalities. New Zealand, the UK and Australia have among the lowest expenditures in the OECD, and the US spends the least. Australian expenditure on employment assistance is fifth lowest among the wealthiest 21 OECD nations (excluding Eastern Europe and Mexico).⁶ The US and Australia have particularly low expenditures on training for unemployed people. The average amount spent by Job Network providers on training for long term unemployed people is \$350 for 3 days' training. Only 25% receive training and only 10% receive subsidised employment.⁷

Evidence from the four countries and across the OECD suggests that investment in

⁶ OECD 2007, *Employment Outlook*

⁷ DEWR 2006, *Job Network Job Seeker Account evaluation*.

employment assistance improves the employment prospects of disadvantaged jobseekers by up to 20% in the short to medium term. Although these are modest outcomes, they can make a big difference when intensive forms of assistance are targeted towards the most disadvantaged jobseekers – those otherwise likely to remain on income support for a year or more. For example, an official British report estimates that much lower outcomes than this - a sustained 5% increase in exits from income support by disadvantaged jobseekers – would halve the number of people on unemployment benefits if maintained over three years. The challenge is to ensure that investment is substantial, well targeted, and relevant to individual needs.⁸

Recent international studies of the effects of employment assistance programs on national employment and unemployment levels support this view. An International Monetary Fund study found that a 1% increase in expenditure on these programs is typically associated with a 1.9% increase in a country's overall employment, mainly due to the effects of wage subsidy programs. That is, by increasing the overall level of 'effective' labour supply, these programs raise overall employment levels rather than merely displacing other workers from jobs.⁹ International research conducted by the OECD and others concludes that expenditure on training programs typically reduces national unemployment levels.¹⁰

Guaranteed access to a program of assistance for long-term or disadvantaged jobseekers, as applied in the Netherlands and UK, has had a substantial impact on unemployment in these countries. For example, the New Deal for Young People is estimated to have halved long term unemployment among young people in the UK. Independent academic research suggests that high investment in employment assistance programs in the Netherlands was responsible for one quarter of the reduction in unemployment in the Netherlands from 13% in 1985 to 4% by 1998.¹¹

The effectiveness of different interventions – job search assistance, paid or unpaid work experience, training, or combinations of them - vary according to individual circumstances. Broadly speaking, subsidised work experience in a 'regular job' is generally more effective than unpaid work experience, typically improving job prospects by 10% to 20% in the short term compared with up to 5% for unpaid work experience.¹² A wage subsidy for a period of employment in a regular job gives long term unemployed job seekers access to on-the-job skills and contacts, and they are often retained by the same employer. A weakness of wage subsidy schemes is that the most disadvantaged are less likely to be selected by employers at the outset, so these schemes must be carefully targeted to avoid 'deadweight costs' (paying a subsidy for someone who would have been employed without one).

Unpaid work experience on community projects appears to be less effective than experience in a regular job because the work experience is more distant from the open labour market. For example, the former Community Work program (the equivalent of Australia's Work for the Dole) was abolished by the incoming Government in New Zealand

⁸ Freud 2007, *Reducing dependency, increasing opportunity*, Department for Work and Pensions.

⁹ Estevao 2003, *Do active labour market policies increase employment?* IMF.

¹⁰ Boone & Van Ours 2004, *Effective active labour market policies*, Department of Economics, Tilburg University; OECD 2006, *Employment Outlook*.

¹¹ Van Reenen 2001, *No more skivvy schemes? The British New Deal for Young People in context*, Institute for Fiscal Studies; Nickell & Van Ours 1999, *The Netherlands and the United Kingdom, a European unemployment miracle?* Centre for Economic Performance, London School of Economics.

¹² Department of Employment Education Training and Youth Affairs 2007, *Working National Evaluation – employment and training elements*; Dorset 2004 *The New Deal for Young People, relative effectiveness of the options in reducing male unemployment*, Policy Studies Institute Research Discussion Paper No7; Johri et al 2004, *Evidence on the working and effectiveness of active labour market programs*, New Zealand Department of Labour.

the late 1990s when an evaluation found that it reduced the probability of employment. That is, the program reduced participants' engagement with the open labour market, including job search, without substantially improving their work readiness.¹³ Evaluations of the impact of Work for the Dole in Australia have yielded varying results. Official evaluations found that the program increased participants' job prospects by 4% to 7% (in 2002 and 2005 respectively), while an academic study of the Work for the Dole pilot scheme in 1998 found that it reduced their prospects of leaving income support by 11% (after 6 months) for similar reasons to those identified in the New Zealand study.¹⁴

Some of the most disadvantaged long term jobless people benefit from a period of fully subsidised employment (usually in the public or community sectors) in which their skills and work habits are gradually developed under careful supervision. Programs which offer this form of assistance, such as StepUp in the UK and transitional jobs schemes in the US and UK typically improve their job prospects by up to 15%.¹⁵

There is a wide variation in the reported effects on future job prospects of participation in vocational training. Substantial vocational training programs that are well targeted and closely connected with employment can boost employment prospects by up to 20% though results are typically lower than this. However, short training courses or training that is offered to job seekers regardless of their individual needs and aspirations is usually ineffective. For example, the Longer Occupational Training (LOT) program in the UK, which offered vocational training courses of around six months' duration was found to boost employment prospects by 7% after 12 months, but a program called Short Job-Focussed Training which offered courses of up to six weeks to prepare for low skilled jobs had no long term impact. As with school education, the impact of vocational training on employability is more often felt over the long term rather than the short term, improving the sustainability of employment as much the likelihood that participants will get a job in the first place.¹⁶

The main problem with traditional 'program based' funding of employment assistance – such as the New Deal Options in the UK – is that pre-packaged 'programs' such as training or wage subsidies are often too inflexible to respond to individual needs. After showing considerable promise in the early years, employment outcomes from New Deal programs have plateaued or declined in the last few years. Many now argue that it is inefficient for Governments to second guess in advance the needs of disadvantaged job seekers, as they do when contracting providers to deliver specified programs.¹⁷

To deal with this problem, the UK, Netherlands and New Zealand have experimented with outcomes based funding along the lines of Australia's Job Network, where service providers are paid according to the job outcomes they achieve, not to deliver specific programs. Outcomes based funding has also been used for many years in vocational rehabilitation programs in the US, where it was pioneered by the State of Oklahoma. In theory, outcomes based funding offers the providers more opportunity to tailor support to individual needs.

¹³ Johri et al 2004, *Evaluation of Community Work*, New Zealand Ministry for Social Development; Brock et al 1993, *Unpaid work experience and welfare recipients*, MDRC.

¹⁴ Department of Employment and Workplace Relations 2006, *Customised Assistance, Job Search Training, Work for the Dole and Mutual Obligation – a net impact study*; Borland & Tseng 2004, *Does Work for the Dole work?*, Melbourne Institute Working Paper 14/04.

¹⁵ Bivand et al 2004, *Evaluation of StepUp*, Finn & Simmonds 2003, *Intermediate labour markets in Britain*. Report for Department of Work and Pensions; Brotherhood of St Laurence 2006, *Transitional jobs*.

¹⁶ Anderson et al 2004, *Work based learning for adults, an evaluation of labour market effects*. UK Dept of Work and Pensions; De Koning 2001, *Training for the unemployed, what do we know after more than 50 evaluation studies?* in Schomann & O'Connell 2001, *Education, training and employment dynamics*; Hotz et al 2004, *The long term gains from GAIN*, NBER Working Paper No 807; Johri et al 2004, op cit; Johnson & Corcoran 2003, *The road to economic self sufficiency – job quality and job transition patterns after welfare reform*, University of Michigan.

¹⁷ Freud 2007, op cit; Centre for Economic and Social Inclusion 2006, *Working Brief*, Issue 180.

These outcomes based employment schemes, including Employment Zones in the UK, the Dutch Reintegration Market, and Australia's Job Network typically improve the short term job prospects of disadvantaged job seekers by around 5% to 10%, which is similar to the results of intensive job search support programs. The reason is that this is largely what the service providers offer. Because they are funded to achieve short term job outcomes, providers tend to concentrate on the least costly interventions that improve the efficiency of job search. These schemes are cost effective in assisting less disadvantaged job seekers to get into jobs quickly, but contrary to early expectations they do not appear to have encouraged much service innovation, or substantial investment in training, wage subsidies or other forms of assistance required by those with greater barriers to work. Part of the problem is the emphasis on short term job outcomes. Evaluations of US employment participation programs by the Manpower Development Research Corporation show that this 'work first' approach is less effective over the medium term than a 'mixed approach' that combines work preparation and training with job search assistance, based on individual needs.¹⁸

A further problem with the emphasis on short term outcomes is that many low skilled workers cycle between income support and unstable jobs. For example, 54% of new claims for Jobseekers Allowance in the UK in 2003-04 were made by previous recipients of the payment. Within three months of getting a job, 21% of former recipients return to benefits. This is more likely to occur where the person has limited qualifications. Similarly, in the US one quarter of sole parents who left income support in 2000 had returned by 2002. Returns to income support were associated with low education levels and poor health.¹⁹

In response to the above concerns, the British are experimenting with more flexible program based financing, contracting for longer term outcomes (including job outcomes lasting up to 18 months) and for mixed outcomes (including skills development as well as employment).²⁰

The Dutch have taken a different path, combining outcomes based funding with devolution of control from central government to the employment service purchasers (the national social insurance agency and Municipalities), and an increased emphasis on choice and active engagement with jobseekers. This is based on the view that a fixed sequence of employment assistance for all jobseekers is less effective than a flexible 'package' of support that is genuinely negotiated with each jobseeker. Individual Reintegration Agreements (IROs) have been introduced to give job seekers more scope to choose a provider and negotiate the kind of intensive assistance they will receive. The agreements must then be approved by the purchaser (the social insurance agency), but usually are. The evidence so far suggests that these are more effective than the standard reintegration contracts negotiated between the social insurance agency and providers.

¹⁸ Novack, Mank & O'Brien 1999, *Paying for results*, Vocational Rehabilitation; Department for Work and Pensions 2005, *Evaluation of Multiple Provider Employment Zones*; SEO 2006, *De Weg Naar Werk*, SEO, University of Amsterdam; Department for Work and Pensions 2007, *Flexible New Deal evidence paper*; Department of Employment and Workplace Relations 2006, op cit; Sol & Westerveld 2005, *Contractualism in employment services*, Kluwer Law International, The Hague; Ministry for Social Development 2004, *Outcomes based funding pilots*; Berlin 2002, *What works in welfare reform*, MDRC.

¹⁹ Ashworth & Liu 2001, *Job seekers allowance transitions to early and early returns to allowances*. DWP research report; Urban Institute 2005, *Assessing the new federalism*.

²⁰ Department for Work and Pensions 2008, *DWP commissioning strategy*.

The Dutch Government also established a statutory body, the National Client Council, to act as the peak body for a range of long-standing Client Councils representing different welfare consumers.²¹ In New Zealand, Work and Income case managers have considerable autonomy to devise activity plans relevant to individual circumstances. A major barrier to 'citizen centred welfare' along these lines in other countries such as the US and UK is their emphasis on a fixed sequence of employment assistance to provide an enforcement mechanism for benefit requirements. Nevertheless, the British are also experimenting with systems that would improve client choice.²²

As the number of jobless income support recipients falls across the four countries, a growing proportion of recipients have social barriers to work such as mental health problems, addictions, or living in communities where only a minority of people have jobs. Traditional 'activation' and employment programs alone will not overcome these deep seated barriers to work. Although none of the four countries has had much success in this area, efforts in the UK and New Zealand to encourage local employment assistance, health and social support services to work together in a more systematic way show promise. Examples include the bundling of funds for employment assistance, social support and community strengthening in the UK's City Strategy, and the role of Social Development Managers in stimulating local service partnerships in New Zealand. In the Netherlands, the focus for this client group is on 'social activation' through subsidised employment in community services and projects.

Policy lessons and recommendations

The effectiveness of employment assistance for disadvantaged jobseekers could be improved by:

- shifting outcomes-based funding towards longer term outcomes (for example, 6 to 12 months rather than 3 to 6 months), or combinations of employment outcomes and other milestones on the path to secure employment such as skills attainment (as in the UK)
- reforming the Job Seeker Accounts available to Job Network providers to give them more flexibility and resources for capacity building, or introduce a new menu of programs from which providers could draw for this purpose (as with the Flexible New Deal in the UK)
- integrating employment assistance and health and social support services for disadvantaged jobseekers who have social barriers to work (such as mental health problems and addictions), especially those in deeply disadvantaged regions (as with the British 'City Strategy' and New Zealand's Social Development Managers)
- shifting the focus of work experience programs from unpaid work experience designed to enforce compliance with benefit rules towards subsidised employment in a regular job designed to improve future job prospects, by sharing the savings in income support payments while a person undertakes a subsidised job with employment assistance providers (as in the Netherlands)

²¹ Ministry for Employment and Social Affairs 2005 and 2006, *MISEP Basic Information report*, LCR 2006, *The National Client Council*, Landelijke Clientenraad, The Hague; BOREA 2005, *Strategic Plan*, at www.boaborea.org.nl [peak body of Dutch employment service providers].

²² Harker et al 2007, *A new New Deal*, in Bennett & Cooke 2007, *Citizen centred welfare*, Institute for Public Policy Research; Lam 2008, *Citizen centred employment services*, presentation to ACOSS Social Inclusion Conference.

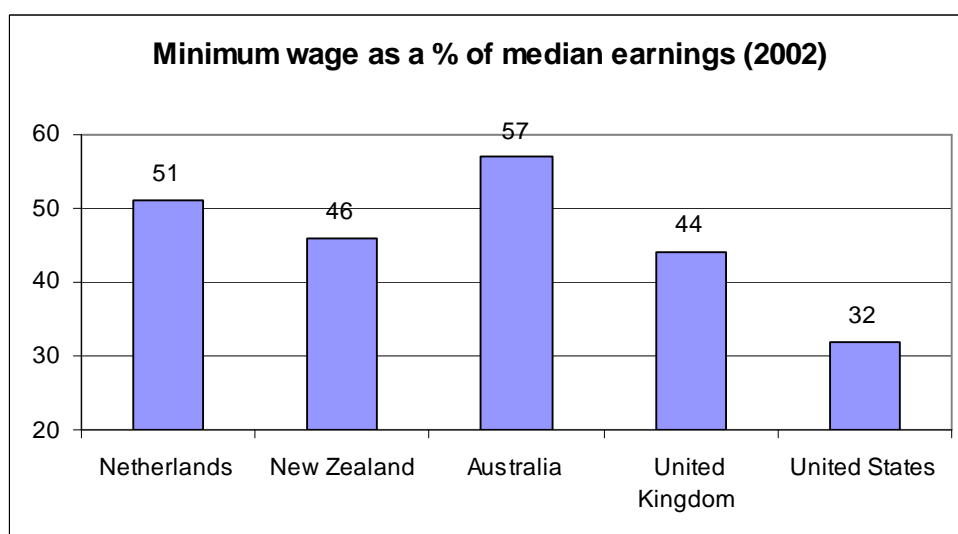
- implementing a consistent strategy to actively engage job seekers with the services they receive, including effective choice of provider and the genuine negotiation of employment assistance plans with disadvantaged jobseekers (as with the Individual Reintegration Agreements in the Netherlands)
- introducing systems of governance that give more leeway for providers to achieve outcomes in cooperation with jobseekers, without detailed prescription of the methods used (as in the Netherlands and earlier versions of the Job Network).

2. Skills, career advancement and wages for low skilled workers

Across the OECD countries in the late 1970s and early 1980s, demand for labour was too weak to sustain 'full employment'. Unemployment rose and labour force participation (at least among men) fell dramatically. At the same time, demand for labour shifted in favour of higher skilled workers. The effects of these trends on the job prospects and pay of low skilled workers varied between countries, depending on the degree of mismatch between the demand for low skilled labour and the profile of their low skilled workforce.

In the US and UK demand for low skilled workers collapsed in the early 1980s. Their unemployment rate stabilised at a much higher level until at least the late 1990s and their wages fell substantially in real terms. Minimum wages in these countries remain well below the average for wealthy nations, and those in the Netherlands and Australia (see graph below), although their employment prospects have improved. The current minimum wage in the US is \$US5.85 per hour.²³ This gave rise to an international policy debate that continues today over whether lower wages for unskilled workers are needed to keep unemployment low against the backdrop of declining demand for their labour.²⁴

Graph 2



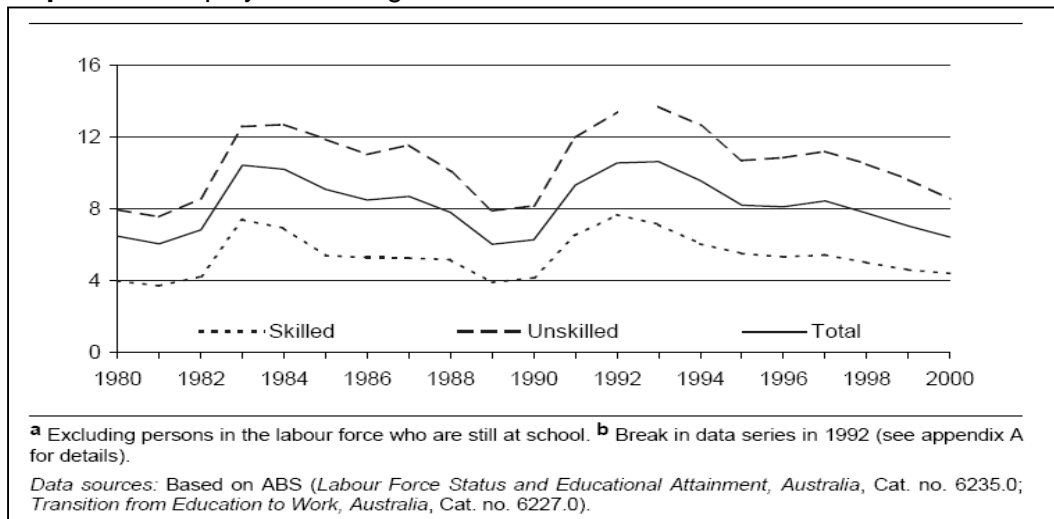
Source: OECD Minimum wages database (2004).

²³ See <www.dol.gov>

²⁴ Autor et al 2006, *The polarisation of the US labour market*, NBER Working Paper 11986; Card & DiNardo 2002, *Skill biased technological change and rising wage inequality*, NBER Working Paper 8769. Nickell 2003, *Poverty and worklessness in Britain*, Centre for Economic Performance, London School of Economics.

However, the experience in New Zealand and the Netherlands, as well as Australia, was different. Unemployment rose then fell more or less equally across skill levels, though the rate was higher to begin with among the low skilled (see graph below). The recovery from double-digit unemployment in the Netherlands in the 1980s paralleled that in Australia. Unemployment was halved, with only a moderate rise in wage inequality, due in large part to general wage restraint coordinated between governments, unions and employers.²⁵

Graph 3: Unemployment has grown at the same rate across skill levels in Australia



Source: Productivity Commission 2002, *Skill and Australia's productivity surge*, Staff research paper.
 Note: "Skilled" refers to having a post school qualification.

During the 1990s, overall growth in real wages resumed in all of these countries except the Netherlands. Minimum wages also rose, including in the US and UK, without any apparent adverse effect on the employment of low skilled workers. However, employment growth became polarised in the US, UK and Australia with jobs growth concentrated at both the high and low skilled end of the spectrum while middle-level jobs declined.²⁶

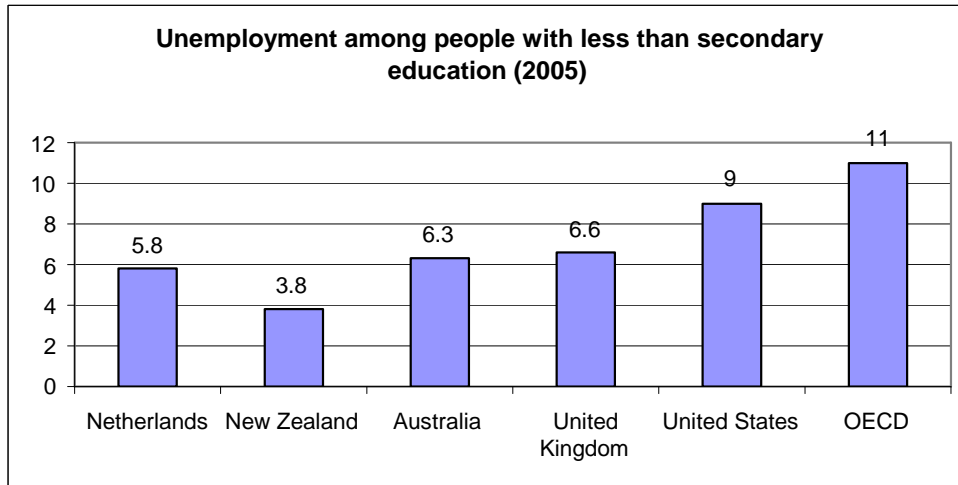
The diversity of experience across different countries serves as a warning against importing overseas solutions to problems of 'skills mismatch'. In particular, there is no evidence to suggest that modest reductions in minimum wages would have much impact on joblessness among low skilled workers in Australia. The unemployment rate among low skilled American workers is higher than in Australia, despite their minimum wages being 40% lower (see graph 4).²⁷

²⁵ Gregory 1999, *Labour market outcomes in the UK, NZ Australia and US*, Centre for Economic Policy Research Discussion Paper 401; Vickery 1999, *Unemployment and skills in Australia*, RBA Research Discussion Paper 1999:12; Nickell & Van Ours 1999, *The Netherlands and the United Kingdom, a European unemployment miracle?* Centre for Economic Performance, London School of Economics.

²⁶ Borland & Gregory 2002, *Jobs Rich Jobs Poor*. Victoria University; OECD 2006, *Employment Outlook*.

²⁷ Kennedy 2007, *Full employment in Australia and the implications for policy*. Department of the Treasury.

Graph 4



Source: OECD 2007, *Employment Outlook*.

Currently there is a shortage of workers across all skill levels in most parts of Australia (with the important exception of many rural and regional areas and former manufacturing centres). Under these conditions, if the activation, employment assistance and work incentives strategies described in this report increase the supply of workers able to perform at least low skilled work, they should boost overall employment levels and reduce joblessness. However, job turnover is much higher, working hours are less, and job security is weaker for low skilled workers. Possession of at least Year 12 qualifications typically reduces the risk of unemployment by 60 per cent.²⁸

Most low skilled Australian jobs are now part time and many are casual. As a result, many low skilled workers cycle between low paid work and income support. For example, recent research on transitions from casual employment by the Productivity Commission found that while 27% of previously unemployed people who obtained a casual job moved up to permanent employment in the following 12 months, almost half remained casual employees, and another 27% fell back into joblessness. The risks of returning to joblessness were raised by low skills and the presence of disabilities. Program evaluation data from the former Department of Employment and Workplace Relations indicates that job seekers receiving Customised Assistance from the Job Network (who are mainly long-term unemployed) are 50% more likely to secure a full time job if they have post school qualifications.²⁹

Low skilled workers in the UK and US also have greater difficulty progressing from unstable jobs to more secure employment. In a survey of people who ‘cycled’ on and off payments in the UK in 2006, 23% gave ‘no qualifications’ as the main reason for a lack of stable employment. In the US, one quarter of former income support recipients who left benefits and obtained work in 2000 were back on benefits and out of work two years later. These former recipients had lower education levels than those recipients who kept their jobs.³⁰

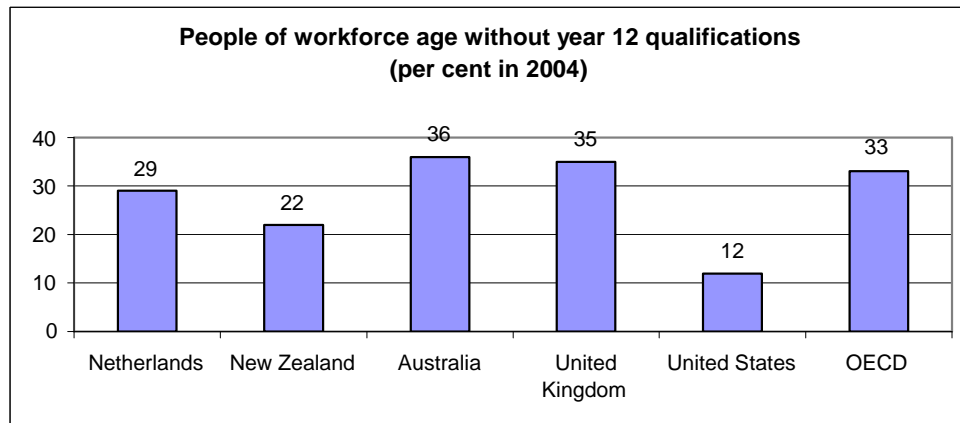
²⁸ Marks & Ainley 1999, School achievement and labour market outcomes. ANU Centre for Economic Policy Research Discussion paper 408.

²⁹ Productivity Commission 2006, *The role of non traditional work in the Australian labour market*; DEWR 2006, *Labour Market Assistance Outcomes*.

³⁰ Carpenter 2006, *Repeat Jobseeker’s Allowance spells*, Research report 394, Dept. for Work and Pensions; Golden 2005, *Assessing the new federalism – eight years later*. Urban Institute.

As in the UK, Australia is vulnerable to a large rise in unemployment if future jobs growth is biased against low skilled workers. The reason for this is that, unlike the US, New Zealand and the Netherlands, a very high proportion of people of working age in Australia and the UK – 35% to 36% - did not complete 12 years of schooling (see graph below).

Graph 5



Source: OECD 2006, Education at a glance.

This especially applies to mature age workers, and may partly explain the recruitment bias against these workers in Australia. Although unemployment did not rise more rapidly during the 1980s and 1990s among low skilled Australian workers than those with more skills, their risk of joblessness was much greater from the outset.

Because it faces one of the most severe 'under-skilling' problems, Britain is the policy pace setter in this area. Following the Leitch Review of skills, the UK Government has committed to policies to raise the minimum skill level of low skilled workers and jobless people generally through skills checks, career counselling, vocational training, basic education, and by seeking a training 'pledge' from employers. Further, the UK Government's new 'commissioning strategy' for employment services and training requires the Departments for Work and Pensions and Innovation, Universities and Skills to coordinate the purchase of employment services and training for jobless people both nationally and at regional level.³¹

Britain has also successfully experimented with Employment Retention and Advancement (ERA) programs. An ERA demonstration project was conducted in six regions from 2003 to 2007. Unlike traditional employment programs, this was designed to assist people previously on benefits to retain employment after they found a job. They targeted unemployed lone parents, lone parents with part time jobs, and very long term unemployed adults. They were assisted by an Advancement Support Advisor for up to three years to secure a job, to retain it, and to improve their earnings. They were also offered bonus payments if they retained full time employment, and financial assistance with training. Despite difficulties in maintaining contact and interest from jobseekers once they obtained a job, the project significantly improved the earnings of those unemployed lone parents who secured a job, by an average of 29% in the first year of the project.³²

³¹ Leitch 2006, *Prosperity for all in the global economy – world class skills*, UK Government; Department for Work and Pensions 2008, op cit.

³² Scutella & Ellis, *Employment retention and advancement of disadvantaged jobseekers*, Paper presented at Australian Social Policy Conference, July 2007; Dorsett et al 2007, *Implementation of the UK Employment Retention and Advancement demonstration*, Dept for Work and Pensions.

Rather than cutting minimum wages in an attempt to promote the growth of more low skilled jobs, Australia can take steps now to insure against high levels of joblessness among low skilled workers in the future through policies that raise their skill levels. Over time, a realistic objective would be to reduce our proportion of low skilled workers to those prevailing in countries like the Netherlands and New Zealand, where between 20% to 30% of the workforce lacks a full secondary education or equivalent. The policy objective here is to improve workforce skills rather than to raise jobless people's short term job prospects. However, as British policy makers argue, it is best to integrate long term skill development and employment assistance programs on the ground as far as possible.

Policy lessons and recommendations

The skills and career prospects of low skilled income support recipients and workers could be improved by:

- a sustained investment in vocational and further education opportunities for low skilled workers, both jobless and employed, aimed at raising the level of workforce skills to at least a Level 3 qualification. This is a key goal of the new Productivity Places program, and ACOSS recommends that providers of these training places be funded to provide pre vocational training, mentoring, and assistance with the costs such as transport and books³³
- providing a brokerage service to link income support recipients to training under the Productivity Places scheme, using existing employment assistance providers. For disadvantaged jobseekers, training could be integrated within the employment assistance outlined above, including combinations of paid work experience and training
- free skills checks and career counselling for low skilled workers and income support recipients (as in the UK)
- removing barriers and disincentives for participation in education and training from the income support system (so that parents and people with disabilities can meet their requirements by training part time) and the reward structure for Job Network providers (so that providers are rewarded when one of their job seekers successfully completes a Productivity Places course or program)³⁴
- either extending outcomes based funding for employment assistance providers to reward retention in employment or establishing a separate 'retention and advancement' scheme for disadvantaged jobseekers who obtain a job (as in the UK and US).

³³ ACOSS 2008, *Submission to Department of Education, Employment and Workplace Relations on the Productivity Places program*.

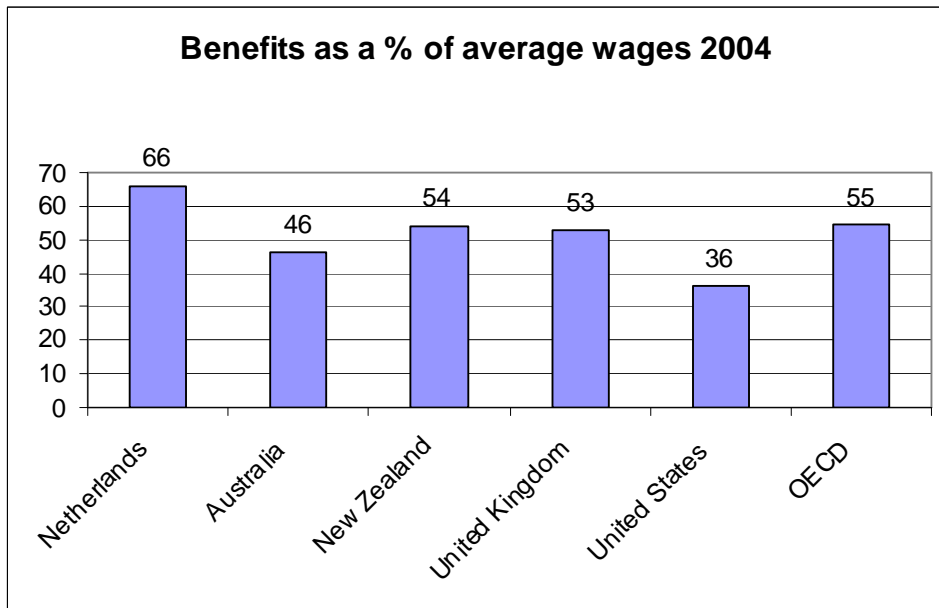
³⁴ See ACOSS 2007, *op cit*.

3. Better financial incentives to work

If jobless people are financially worse off or little better off in paid employment, then even strict activity requirements cannot ensure that they actively search for jobs and take up job offers. In any event, a requirement to seek employment under these conditions would be unreasonable. Low wages for unskilled work (as in the US and UK) and high benefits (as in the Netherlands) potentially weaken work incentives. To overcome this problem, the US and UK invest substantially in 'in-work support' through tax credits or the extension of income support to full or part time employees.

Australia has less of a problem with incentives for full time work because income support is relatively low and minimum wages are relatively high. Thus the 'replacement rate' (the ratio of benefits for jobless people to low fulltime wages, after tax) in Australia is relatively low as shown in the graph below.

Graph 6

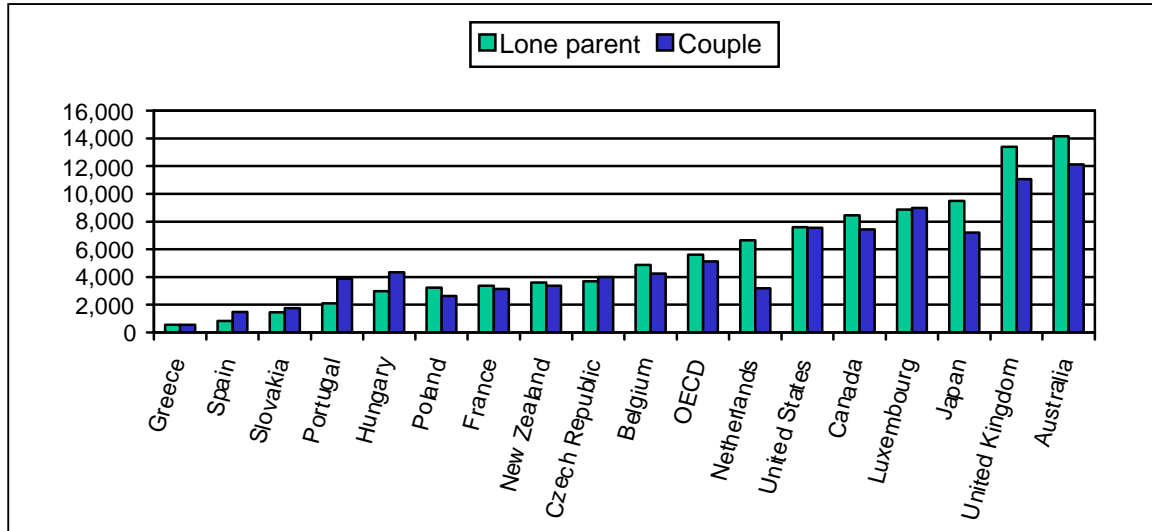


Source: OECD 2006, *Benefits and wages*. Note that these are 'average' estimates derived by the OECD for a range of different family types and wage levels.

Further, Australia's Family Tax Benefits provide a higher 'in-work payment' for typical low paid working families than in any other OECD country, including the US and UK which have separate tax credits for working families (see graph below). A single income family earning up to \$40,000 receives the same level of support as a jobless family. This boosts incentives for parents to move from joblessness to a low paid full time job.

Graph 7

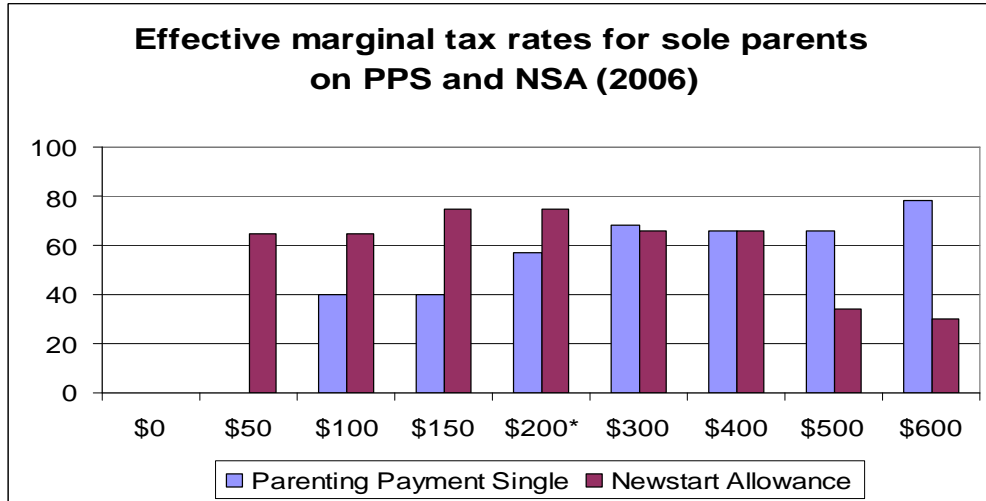
Typical 'in-work payment' for a family on minimum wage (\$US per year)



Source: Whiteford & Adema 2007, What works best in reducing child poverty? OECD.

However, incentives to move from joblessness to part time employment are weaker in Australia. This is important because, apart from the Netherlands, Australia has the highest incidence of part time employment in the OECD (28% of all jobs) and most low skilled Australian jobs are now part time jobs. The income test for Newstart Allowance, which withdraws 60 cents of every dollar earned above a low threshold, discourages part time work. As the graph below shows, Newstart Allowance (NSA) recipients face much higher effective tax rates if they secure a part time job than Parenting Payment Single (PPS) recipients with the same weekly earnings (pensions such as PPS are reduced by 40 cents per dollar earned). The Newstart income test is particularly inappropriate for recipients who are required to seek part time work, such as parents and people with disabilities.

Graph 8



Source: NATSEM 2005, The effects of the Welfare to Work policy on sole parents and people with disabilities.³⁵

* 15 hours per week at the minimum hourly wage.

Some of the worst financial disincentives are faced by income support recipients with high costs of working. They include parents with child care expenses and social housing tenants whose rents increase as they earn more (typically at a rate of 25 cents per dollar earned).

Many income support recipients find income tests confusing and over-estimate the effect of earnings on their benefits. In the UK, a 'better off in work calculation' is administered by Job Centre Personal Advisers to assist recipients to estimate the effect of future earnings on their disposable incomes.

Policy lessons and recommendations

Financial work incentives could be improved by:

- easing income tests for Newstart and other 'allowance' payments, especially for sole parents and people with disabilities who are required to seek part time jobs
- introducing a 'better off in work' calculation to be administered by Centrelink staff or employment assistance providers (as in the UK)
- improving Child Care Benefit and extending JET Child Care Assistance to reduce gap fees for low income families
- easing income tests for social housing rent rebates.

³⁵ Note: Effective marginal tax rates are the combined reduction in disposable income arising from income tests and income tax. 'PPS' is Parenting Payment Single (which has a more liberal income test) and 'NSA' is Newstart Allowance, which has a tighter income test. Subsequent policy changes to income tax will have changed these figures slightly.

4. Flexible activity requirements for those able to work

By encouraging active job search and preparation for employment, and linking jobless people with employment assistance, activity requirements can speed the transition to employment. For example the OECD estimates that in the Netherlands activity requirements and investment in employment assistance fully offset the disincentives to work arising from high income support payments.³⁶ These effects of activity requirements are strongest where few or no requirements previously applied, as evidenced by the British experience with 'Restart interviews'. These interviews commenced with people unemployed for nine months in the late 1980s, at a time when requirements for unemployed people to regularly apply for jobs were rarely enforced. The interviews, which reinforced the need to comply with activity requirements and offered help with job search, were found to increase transitions to work by 6%.³⁷

However, once a robust system of activity requirements is in place, further tightening of the requirements or toughening of penalties appears to have little impact on transitions to employment. For example, a nine month review interview introduced for unemployed Australians in the mid 1990s (similar to the British 'Restart interviews') had no discernable impact on employment. Similarly, those US States that adopted the 'toughest' approach to participation requirements for sole parents in the late 1990s did not achieve better employment result than States with 'average' requirements and enforcement policies.³⁸

Australian activity requirements for unemployed people are relatively strict. For example, unlike in the UK and Netherlands, unemployment payment recipients cannot initially limit their job search to jobs at their own skill level. Further, the 10 jobs that unemployed people are typically required to apply for each fortnight is higher than the five to six jobs per fortnight typically required in the US and UK, and interviews to check compliance with requirements are more frequent.³⁹ Further tightening of these requirements is unlikely to substantially improve employment outcomes but could exclude more vulnerable people – such as people with an illness or disability or low literacy levels - from income support.

Inflexible requirements and an overemphasis on compliance with activity requirements can also undermine the effectiveness of employment assistance, as illustrated by the rigidity of the British system of 'activation' with its fixed sequence of interviews, requirements and support and 17 different categories of sanctions. This system leaves too little room for personal advisers and jobseekers to devise transition to work plans that meet individual needs. In an official evaluation, less than half the jobseekers surveyed found the Jobseeker's Agreements they had to negotiate with Personal Advisors useful in their search for work, and only one third of the Advisors believed that the penalties were effective in changing job search behaviour.⁴⁰

The US experience shows that the most vulnerable people are often excluded from income support altogether when activity requirements are imposed without sufficient regard to their ability to comply (such as a disability, caring responsibilities or a history of domestic violence), or are used to divert people from income support rather than help them find jobs.

³⁶ OECD 2006, *Employment Outlook*.

³⁷ Wells 2001, *From restart to the new deal in the UK*, in OECD 2001, *Labour market policies and the public employment service*; Dolton & O'Neill 1996, *Unemployment duration and the restart effect*, *Economic Journal* 106, 1996.

³⁸ Borland & Wilkins 2003, *Effects of activity tests on exit from payments – the 9 months intensive interview*, Melbourne Institute Working Paper 25/03; Bloom & Michalopoulos 2001, *How welfare and work policies affect employment and income*, MDRC.

³⁹ OECD 2007, *Employment Outlook*.

⁴⁰ Rayner et al 2000, *Evaluating Jobseeker's Allowance*, Department of Social Security; Finn & Schulte 2007, *Activation policies in Great Britain*, University of Portsmouth.

For example, most US States require sole parents to seek employment by the time their youngest child is one year old, and 15 States take no account of illnesses or disabilities. Those who are sanctioned (penalised) for failure to meet activity requirements are more likely to come from the most vulnerable communities including African Americans and people with the lowest education and skill levels. Only about half of sanctioned clients had their income support restored through subsequent compliance with requirements. Many left income support altogether. Overall, the new activity test and sanctions regime introduced in the mid 1990s has been responsible for at least as many reductions or losses of income support for sole parents in the US as the five year time limits that now apply to income support payments.⁴¹

The risk of payment exclusion depends on the strictness and complexity of the requirements and how rigidly they are applied, whether those with major barriers to work such as domestic violence are exempted, and any negative messages the system conveys to applicants about reliance on income support. For example, the 'diversion programs' run by many US States to discourage people from applying for income support often deter those in need of support. Nationally, an estimated 17% of people visiting welfare offices indicated that they were dissuaded from applying because they did not want to be treated poorly by caseworkers⁴².

In contrast to the US, UK and Australia, New Zealand's experience with activation shows that closer engagement with jobseekers and individually tailored activity plans can achieve compliance with minimal use of financial penalties. Many municipalities in the Netherlands are also pursuing this more flexible 'case management' approach rather than applying a fixed set of rules to all cases.⁴³

Imposing activity requirements will have only limited effect on the job prospects of disadvantaged jobseekers unless they are linked to intensive forms of employment assistance. The British experience with the New Deal for Young People shows the benefits of linking activity requirements with positive help for the most disadvantaged job seekers to overcome barriers to work. After 6 months' unemployment, young people in the UK are referred to a personal advisor who assists them intensively with their job search for a period of up to three months (called the Gateway period). If they have still not obtained work by this stage, the adviser assists the young person to choose from a series of New Deal Options including further education and training, a subsidised job, community work on environmental projects, or voluntary work, to overcome their barriers to work. This combination of Gateway and Options is an effective way to ensure compliance with activity requirements while meeting the jobseeker's employment support needs at the same time.⁴⁴

Policy lessons and recommendations

A more flexible 'case management' approach appears to reduce the need for penalties but the benefits of greater flexibility must be balanced against the need for fairness and consistency in the application of requirements. The risk of exclusion from income support could be reduced, and effective job search and work preparation reinforced, by:

- introducing more flexibility into activity requirements within a consistent national policy framework, to take greater account of barriers to work and 'care loads' among people with disabilities and caring responsibilities (as in New Zealand and the Netherlands)

⁴¹ Pavetti et al 2003, *Review of sanction policies* Mathematica Policy Research; Bloom et al 2003, *Welfare time limits*, MDRC Report to Dept of Health and Human Services; Wiseman 2001, *Making work for welfare in the US*, in Lodermel & Trickey 2001, *An offer you can't refuse*, Policy Press, London.

⁴² Moffitt 2003, *The role of non financial factors in exit and entry in the TANF program*, cited in Moffitt et al 2003, op cit.

⁴³ Tergeist & Grubb 2006, *Activation strategies in Germany, the Netherlands and the UK*.

⁴⁴ Van Reenen 2001, *No more skivvy schemes? The British New Deal for Young People in context*, Institute for Fiscal Studies.

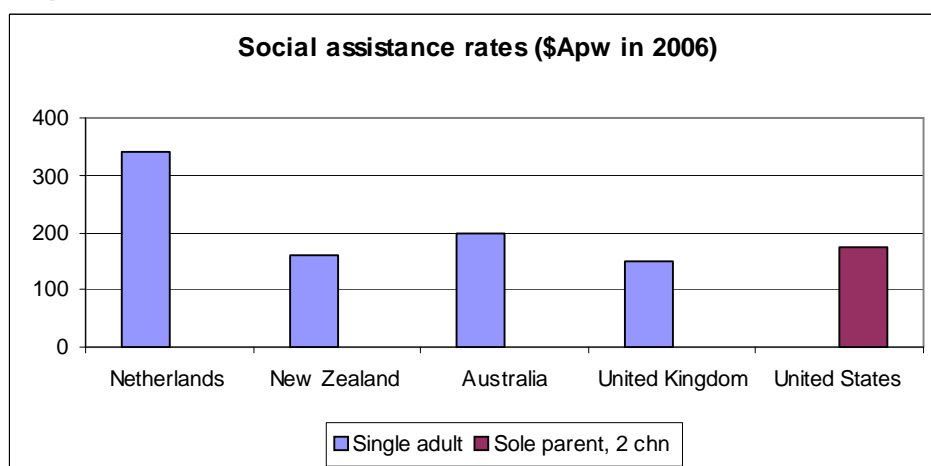
- closer engagement between employment service providers and disadvantaged income support recipients, backed by flexible employment assistance (for example, the 'gateway and options' sequence in the British New Deals and New Zealand's individual employment plans)
- giving jobseekers greater choice of service providers and the forms of employment assistance they receive (as in the Netherlands - see part 1 above)
- removing financial penalties that create hardship without necessarily improving compliance, especially the eight week suspension of income support.

5. Adequate and accessible income support

Assisting more people into employment helps reduce poverty but it is not sufficient in itself. An adequate safety net for jobless people is also critical. The British Government pursues a dual strategy of 'work for those who can, support for those who cannot'.⁴⁵

The graph below shows typical *social assistance* payments for single adults in the four countries plus Australia.⁴⁶ Typical payment levels vary considerably among the four countries. The highest payments are in the Netherlands, where social assistance for a single adult is about 50% higher than in Australia. At the other end of the spectrum sits the US, where a typical social assistance payment for a family of three is lower than Australia's Newstart Allowance for a single adult. New Zealand, the UK and Australia sit in the middle. The rankings of these countries according to generosity of social assistance payments and poverty levels for children and adults of working age (see graph 13) are very similar. This reflects the crucial role of these payments in preventing poverty among jobless people.⁴⁷

Graph 9



Source: ACOSS calculations using OECD Purchasing Power Parities.

Another reason for the relatively high poverty levels in the US is that the coverage of its social assistance safety net is much narrower than in the other three countries. The main social assistance cash payment, Temporary Assistance for Needy Families (TANF) is

⁴⁵ Hutton 2006 (Minister for Work and Pensions), *Address to SCOPE disability summit*.

⁴⁶ Social assistance refers to safety net payments like our Newstart Allowance, as distinct from social insurance payments funded jointly by employers employees and Government. Rent assistance is not included, so these figures understate the value of a typical income support 'package' in the UK where Housing Benefits are substantial.

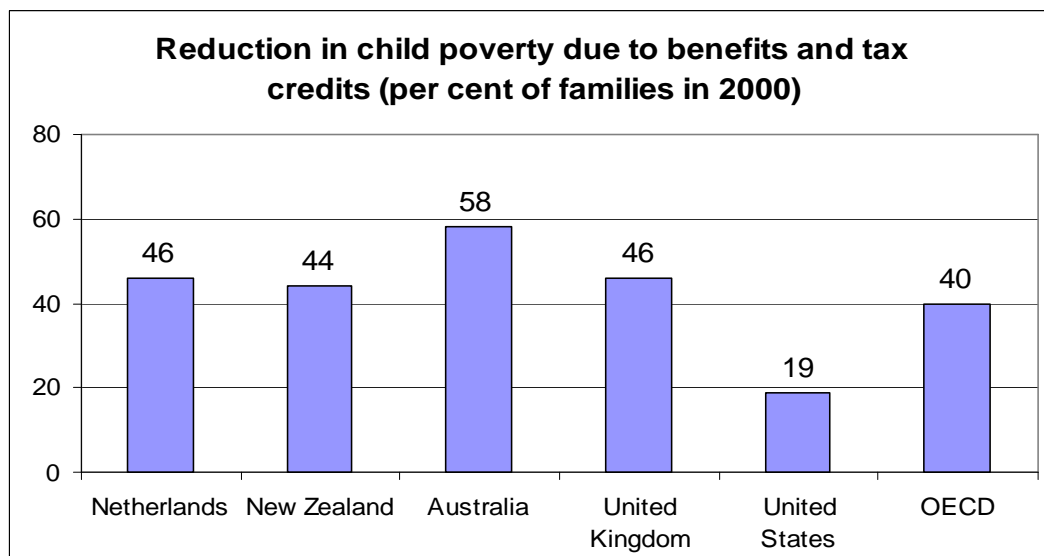
⁴⁷ Comparisons between income support and typical wage levels within each country are featured in the section dealing with work incentives, below. See also Whiteford & Adema 2007, *What works best in reducing child poverty?* OECD.

largely confined to sole parents, and only half of those families with incomes low enough the qualify actually receive this payment. Following the ‘welfare to work’ policy changes introduced in the 1996, parents cannot normally receive TANF for more than five years throughout their lifetime, though some States such as California transfer people to other payments when the time limit runs out. There is no national cash benefit for adults without children or a disability, and Unemployment Insurance runs out after 6 months. Thus, only one in three unemployed Americans living on low incomes receive Unemployment Insurance. Further, the main family assistance payment, the Earned Income Tax Credit, is restricted to low income families in employment. Since jobless families are not eligible, the EITC is much less effective than Australia’s Family Tax Benefit in reducing child poverty.⁴⁸

The other countries have more comprehensive safety nets. Yet even a comprehensive income support system like Australia’s has gaps. For example, new migrants usually cannot receive income support for the first two years in the country. Further, people in some of the most disadvantaged communities or with mental health conditions are excluded from payments because they find it difficult to deal with public bureaucracies and meet activity requirements. Policy makers need to guard against this form of exclusion when activity requirements are tightened or extended to vulnerable groups. A recent study by the Queensland Welfare Rights Centre into payment exclusion in rural Queensland found anecdotal evidence that young Indigenous people avoid applying for income support and rely instead on their families. The Netherlands regularly monitors take up of income support in order to identify vulnerable populations who are excluded from the system.⁴⁹

Australia’s system of income support is relatively effective in reducing child poverty as the graph below indicates. This reflects its targeting towards those in need of support and improvements in family payments over the past two decades. The graph below shows the overall reduction in child poverty achieved by income support systems.

Graph 10



Source: Whiteford & Adema 2007, *What works best in reducing child poverty?* OECD.

Note: Refers to the difference (in percentage points) between poverty levels before and after benefits and taxes.

⁴⁸ Vroman 2005, *Introduction to unemployment and unemployment insurance*. Parrott & Sherman 2006, *TANF at 10*, Centre for Budget and Policy Priorities; Whiteford & Adema 2007, *What works best in reducing child poverty?* OECD.

⁴⁹ Queensland Welfare Rights Centre 2007, *Falling out of welfare*; SZW 2005, *MISEP Basic Information report*, The Hague.

In the countries that have comprehensive safety nets, the complexity of social security systems has become a barrier to workforce participation. Like Australia, two of the four countries (the UK and New Zealand) have historically divided their social assistance payments into categories based on perceived ability to participate in the labour market. Unemployment payments were established for those considered ready to seek employment, disability payments for those considered 'unable to work' due to a disability, and separate income support payments were introduced for parents and others considered 'unable to work' due to caring responsibilities. It makes sense to stream income support recipients into separate payments. This gives parents, carers and people with disabilities a degree of certainty as to what activity requirements (if any) will apply to their income support.

However, the rates of these payments differ. Those on unemployment benefits have historically been considered 'less deserving' of income support due to their greater capacity to work, and less in need of support because unemployment was usually a short term condition. Students were also paid less because it was assumed that study was carried out while people were young and financially supported by their parents. These assumptions no longer hold.

Income support systems with multiple payment levels for different groups can be complex to administer and give rise to work disincentives. For example, people on disability pensions face disincentives to join the workforce because they may be transferred from these payments to lower unemployment payments. New Zealand and Britain are now considering major reforms to streamline the system of payments for people of working age to replace multiple rates of payment with a single base rate of payment, both to improve fairness and to remove financial disincentives to participation in the labour market. Supplements would be paid to meet special needs such as the costs associated with a disability. In this way, levels of payment would be based on financial need rather than the recipients' perceived distance from the labour market.⁵⁰

Policy lessons and recommendations

The Australian income support system could be made simpler, fairer, and more effective in reducing poverty and encouraging participation among jobless people if:

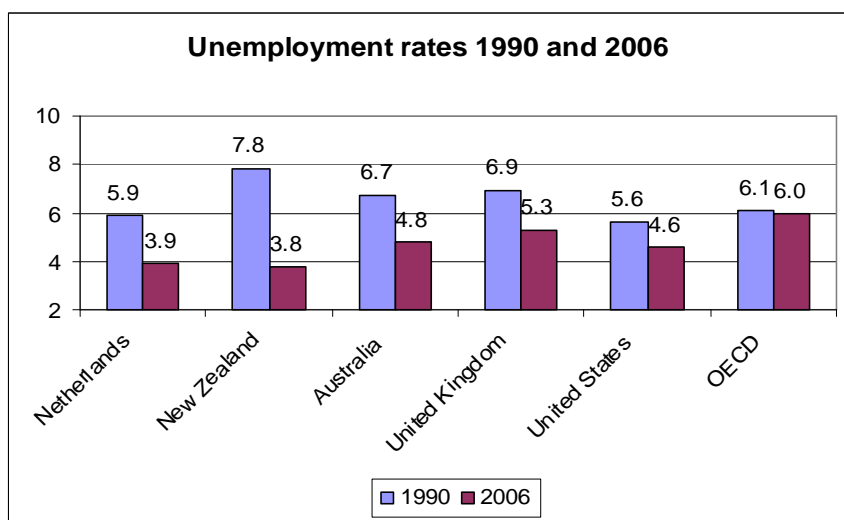
- the payment system for people of workforce age is reviewed so that levels of payment are based on need rather than a judgement about whether recipients are 'able to work' and the system is streamlined and simplified (as in the UK and New Zealand)
- family payments are based on the needs of families and the costs of raising children rather than the labour force status of their parents. To ensure fairness and maintain work incentives, a low income family should receive the same level of family payments whether jobless or in low paid employment
- the level of take-up of income support among groups vulnerable to exclusion is closely monitored and strategies put in place to ensure that people are aware of their entitlements and able to take them up when needed (as in the Netherlands).

⁵⁰ Freud 2007, *Reducing dependency, increasing opportunity*, Department for Work and Pensions; Minister for Social Development and Employment 2005, *Extending Opportunities to Work*, New Zealand Cabinet submission.

Outcomes in the four countries: employment and poverty

One thing the four countries share in common is that they have all substantially reduced unemployment and joblessness from levels that were much higher a decade and a half ago (see graph below). By comparison, unemployment in an ‘average’ OECD country is almost as high now as it was then. This suggests that the level of structural unemployment (the ‘core’ unemployment rate, abstracting from the effects of booms and recessions) fell more sharply in the four countries than it did across most of the OECD area.

Graph 11

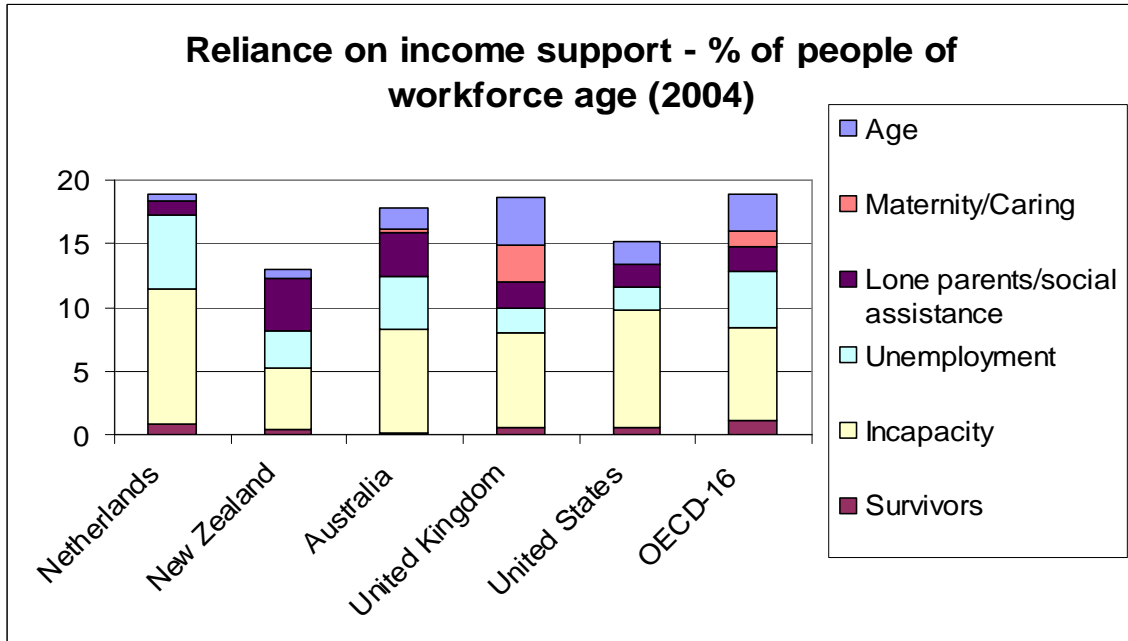


Source: OECD Employment Outlook, 1992 and 2007.

Another common feature of the four countries is that a relatively high proportion of people of working age are employed: 78% to 79% in the Netherlands UK and US and 82% in New Zealand, compared with an OECD average of 76%.

There are greater variations among the four in terms of reliance on income support. The Netherlands, UK and Australia have levels of reliance on income support at around the OECD average but the level is much lower in the US and New Zealand (see graph below). One reason for differences between a country’s ranking on unemployment and reliance on income support is that, depending on the strictness of income tests, many income support recipients have jobs. Another reason is that in most countries joblessness has become more concentrated within low income households (those likely to be entitled to income support).

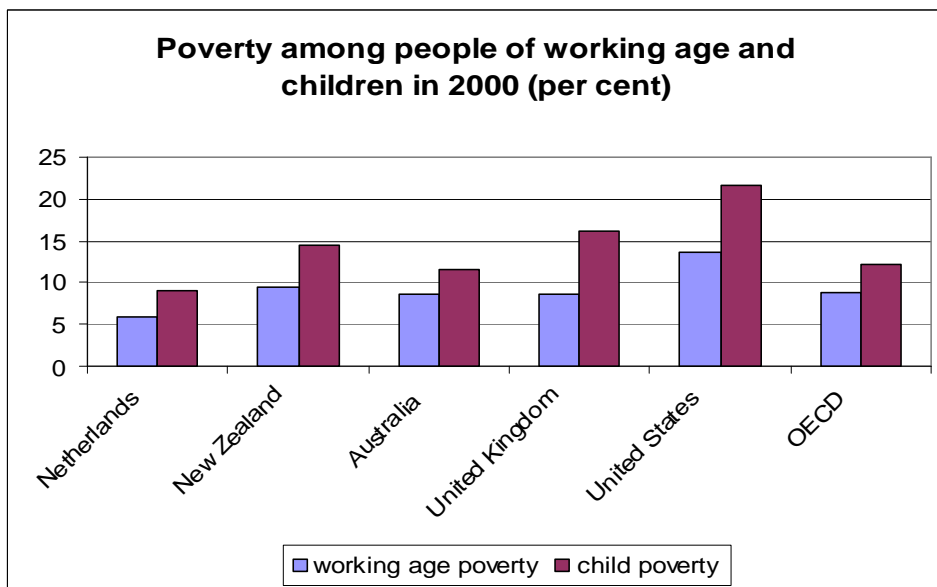
Graph 12



Source: Whiteford & Adema 2007, What works best in reducing child poverty? OECD.

The biggest differences among the four countries are in their poverty levels (see graph below). The Netherlands combines low unemployment with low poverty levels, the United States combines low unemployment with high poverty levels, while the UK, New Zealand and Australia have poverty levels just above the OECD average despite their relatively low unemployment rates.

Graph 13

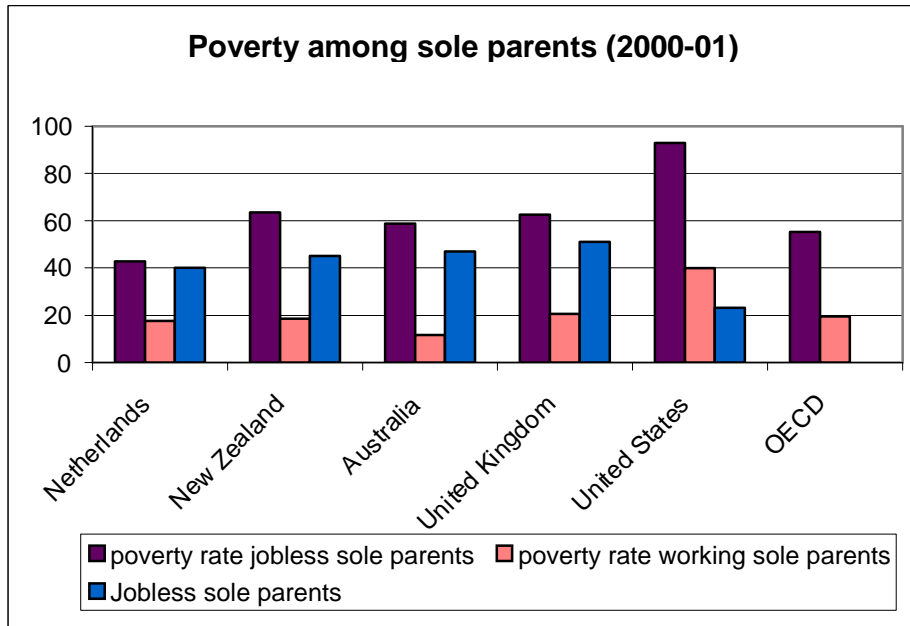


Source: Förster and Marco Mira d'Ercole 2005, *Income distribution and poverty in OECD countries in the second half of the 1990s*, OECD.

Note: Poverty line is 50% of median equivalent disposable income.

The graph below, featuring employment rates and incomes of jobless and employed sole parents, illustrates some of the key factors behind these variations in child poverty levels.

Graph 14



Source: Whiteford & Adema 2007, What works best in reducing child poverty? OECD.

The Netherlands has relatively low poverty levels among sole parent families because a higher proportion of sole parents are employed and minimum wages and income support are relatively generous for jobless and low paid parents. The US has the lowest rate of joblessness among sole parents but they still face the highest risk of poverty due to low minimum wages and public income support for jobless parents. Income support for jobless and low paid sole parents in the UK, New Zealand and Australia is set at above OECD average levels, but employment rates among sole parents are lower than in the Netherlands and US. Also, minimum wages are relatively low in the UK.

Reducing poverty therefore requires a combination of policies. Countries cannot rely exclusively on getting more people in paid employment or improvements in income support.



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