



# IMPACT

magazine

Australian  
Council of  
Social Service

## Building a Fair Australia in Tough Economic Times

National Conference 2009 Edition



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## ACOSS News

Clare Martin | CEO, ACOSS



### Building a Fair Australia in Tough Economic Times

How do you build a fair and equitable Australia as the economy slows, unemployment rises and government and household budgets are tightened?

Does the Australian idea of a fair go only operate in secure economic times and will fairness become a casualty of the global economic crisis?

These were some of the questions addressed at the ACOSS National Conference 2009 held in April in Sydney. Over 450 conference delegates attended the two-day conference and heard from speakers from the community and government sectors.

#### Conference highlights included:

- Presentations from The Hon Jenny Macklin MP, Minister for Families, Housing, Community Services and Indigenous Affairs and The Hon Tony Abbott MP, Shadow Minister for Families, Housing, Community Services and Indigenous Affairs.
- Ian McAuley, University of Canberra and Geraldine Doogue, ABC on Fairness in Australia.
- Dr Ken Henry, Treasury Secretary and Jeff Lawrence, Secretary, ACTU and Professor Julian Disney, UNSW on Building a fairer tax system.



Susan Ryan & Professor Greg Craven

- Father Frank Brennan AO, National Human Rights Consultation Committee, Professor Greg Craven, Australian Catholic University and Susan Ryan, Human Rights Act for Australia Campaign on A national human rights act – will it make a difference for low income Australians?

The major speeches from the conference can be found in this edition of Impact.

The global financial crisis is creating significant challenges across the Australian community, particularly for the most disadvantaged in our society.

In this edition, Peter Davidson, ACOSS looks at data comparing living standards and financial hardship among different groups of low income Australians,



Ted Egan performing at the ACOSS Conference Dinner

especially those receiving income support payments. It is a contribution to the public debate over the adequacy of these payments, and the design of a better social security system.

**Other highlights in Impact:**

- The Government’s White Paper on homelessness is a holistic national response to the challenge of homelessness, but questions remain over its implementation, says Pamela Foster, Chairperson, Homelessness Australia.
- Australia’s labour market frameworks like the newly announced Job Services Australia will need to adapt to cope with the biggest increase in unemployment in nearly 20 years argues Lisa Fowkes, Chief Executive, Job Futures.
- The Government’s Henry Review could lead to substantial changes to the tax and transfer system. Professor Julian Disney, Chair of

the Community Tax Forum looks at the role the community sector can play in reform.

**Social Inclusion and Economic Security: ACOSS Recommendations for the Federal Budget**

ACOSS’ Budget employment proposals identify priorities of key social expenditure including investment in essential economic and social infrastructure and the skills and capabilities of people presently excluded from the labour market and society.

Recommendations also look at ways to reduce wasteful Government expenditure so it can afford to stimulate economic growth and improve income support and services for those affected by the recession.

ACOSS’ proposals include assisting job seekers overcome barriers to work while also avoiding financial hardship. We have been urging the Government to increase the single Newstart rate by

\$30 a week and introduce a paid work experience scheme for long term jobless people.

ACOSS’ proposal would provide jobs in mainstream employment for long term unemployed people. Employment would be in the community or public sector and paid at a training wage and offered for six months.

You can read more about our reaction and recommendations by visiting the ‘Publications’ section on the ACOSS website – [www.acoss.org.au](http://www.acoss.org.au)



## Building a Fair Australia in Tough Economic Times

The Hon Jenny Macklin MP | Minister for Families, Community Services and Indigenous Affairs

### The Hon Jenny Macklin MP

Jenny has been the Member for Jagajaga since March 1996 and immediately joined the Shadow Ministry. In her first term she held a succession of portfolios covering Aged Care, Social Security, Family Services and the Status of Women.

After the 1998 election, Jenny was appointed Shadow Minister for Health and the Status of Women. She was elected Senior Vice-President of the ALP from 2000-2004.

Jenny was elected Deputy Leader of the Opposition from 2001 - 2006. She was the Shadow Minister for Employment, Education & Training from 2001 - 2004.

After the 2004 election, Jenny became the Shadow Minister for Education, Training, Science and Research. In 2006 Jenny held the Shadow portfolio of Families and Community Services and Shadow Minister for Indigenous Affairs and Reconciliation.

### Key note address

#### Australian Council of Social Service National Conference 2009 Sydney

I would like to acknowledge the Gadigal people of the Eora nation, on whose land we meet.

Sixteen months ago Australians changed their government and the nation changed course.

Sixteen months ago values like community and compassion were returned as the driving force in Australia's social policy.

We have begun the hard work of rebuilding our social infrastructure.

It will take ongoing effort to re-write the laws and regenerate the institutions which are the bedrock of our society.

But we are making a start.

We have embarked on the biggest investment in social housing in Australia's history.

Putting social housing back on the national agenda after years of neglect and funding cuts.

Investing more than \$6 billion in 20,000 new dwellings and upgrades to make 10,000 homes liveable again and putting more affordable rental properties on to the market.

We have made it clear that we want more not-for-profit housing organisations brought into the provider mix.

Because the Government is convinced that within the community housing sector, providers can offer flexibility and innovation.

The Prime Minister has put homelessness back on the national agenda, backing it up with \$800 million in new, specialist services designed to break the cycle of homelessness.

We are overhauling the way we deliver social services - adopting a new approach in partnership with the community sector that will be the hallmark of ongoing reform.

One of the first steps we took was to lift the previous government's gag on community organisations - recognising your right to speak out even if at times we don't agree.

And signalling this new era of cooperation, we are working in partnership with state and territory governments.

Reversing that entrenched culture of blame-shifting that has so frustrated all of you.

So that the Commonwealth, states and territories accept joint responsibility to improve health, education, housing and the lives of Indigenous Australians through national reforms.

Investing in our great public hospitals.

And in schools because we know education has the power to transform people's lives; it's a circuit breaker in the cycle of poverty.

So to upgrade Australian schools, we are embarking on an unprecedented school



L-R: Lin Hatfield Dodds, The Hon Jenny Macklin MP and Michael West

building program - new classrooms, libraries, science and language labs in schools across the country.

And to close the gap between Indigenous and non-Indigenous Australians we have set ambitious targets in health, education, housing and economic participation.

There is specific additional funding of \$4.6 billion to address the huge backlog in remote Indigenous housing and for health and employment.

And to meet our targets, we are determined to re-set our relationship with Indigenous Australians, establishing new partnerships grounded in trust and respect.

Through the new National Disability Agreement we're injecting significant funds indexed at around 6 per cent over the five-year agreement.

Yes new money but also important reforms to provide single gateways for services so that support is easier to access and tailored to meet each person's individual needs.

And just two weeks ago we voted to get rid of WorkChoices, once and for all. Because especially in times of uncertainty, working Australians need to know that there's a safety net there to protect them.

And close to my heart, and at the centre of my desk, is the reform of the financial support we provide through our nation's most enduring plank of social infrastructure - our pension system.

This year marks the centenary of the age pension. Through 100 years of profound economic and social change it retains its vital role in providing support, on the basis of need, to older Australians.

But reform is overdue to provide long-term security and certainty.

Reform to adapt to changing circumstances, while maintaining the system's enduring strength - to guarantee a decent, adequate standard of living for the aged, carers, veterans and people with disability who rely on the pension to survive.

On Budget night the Government will announce a comprehensive package of pension reform.

Over the last 16 months we have laid out and begun to implement significant agenda.

Much more remains to be done. And I want to assure you all today that our commitment to reform will not falter. Because as a Government, building a fair

Australia is at the heart of everything we do.

Social policy is not relegated to a lower order issue.

We recognise that to achieve our goals to build an inclusive, fair society, economic and social policy must work hand in hand - especially in difficult times.

Using social and economic levers in tandem to stimulate the economy and keep unemployment as low as possible - at the same time strengthening the safety net for those most vulnerable to the impact of the global recession.

The Government responded swiftly to soften the blow - first in October and then again in February with timely, targeted, and temporary measures aimed at mobilising our resources to support demand in our economy.

We are providing direct assistance to households and an unprecedented building and investment program.

For every \$1 spent providing immediate stimulus to the economy the Government has invested more than \$2 on long term investments that will generate future economic growth and rebuild our social infrastructure.

Boosting consumption means that sales assistants, distributors, truck drivers keep their jobs and keep supporting their families.

Helping the housing construction sector, and those reliant on it for their jobs - the thousands of builders, carpenters, plumbers and electricians employed in the industry.

Our social security safety net has also been there to help.

There was a 50 per cent increase in age pension applications in the weeks through October, November and December last year.

And for those who have lost their jobs, the Government has doubled the liquid assets threshold so they can more quickly access Newstart payments.

We are also providing immediate assistance for retrenched workers through targeted, individual assistance to help them get back into the workforce.

I don't have to tell any of you here about the human cost and the great need our country faces.



You see it every day.

Because although Australia is better placed than most other developed nations, the scale and the intensity of the economic downturn means we won't escape unscathed.

We know this means increased demands are being placed on organisations like yours as more Australian families become victims of the worldwide downturn.

I know it's putting a big strain on your capacity to provide emergency relief and financial and relationship counselling, to name just a few pressure points.

And increasingly stretching the resources of refuges and homeless shelters.

Wesley Mission reported a 17 per cent increase in demand for financial assistance, food hampers and financial counselling in Sydney in the three months leading up to Christmas last year.

The profile of people asking for help is changing.

As job losses bite, more and more families are asking for help.

One UnitingCare branch in Sydney reports that in recent months around 15 per cent of people seeking emergency relief have mortgages - a group that hadn't sought crisis assistance before.

And older people whose retirement savings have been significantly depleted are also seeking help.

As I said, this is not news to you.

You have the grassroots connections and experience that no Government can match.

Close to the ground you are best placed to make a difference to peoples' lives - especially in these very difficult times.

You know better than anyone that our connection to each other is our most valuable asset. Our sense of responsibility, our willingness to pull together in times of need - this is what makes Australia a place that is both fair and productive.

This Government is committed to working in partnership with you, harnessing and using your knowledge.

Not just to weather the current economic crisis, but to build a stronger, fairer Australia where community prospers and grows.

A place we are happy to pass on to our children, confident they can get ahead in life, but knowing that someone will catch them if they fall.

Responding to increasing demands on community organisations, in February we doubled funding for emergency relief providing an additional \$80 million over the next two years.

In addition, we are providing \$50 million over two years for innovative financial management projects to help build longer-term financial capacity for low income earners.

That's \$130 million extra in the next couple of years to support some of most vulnerable get through a crisis and move to build the financial skills needed to see them through.

But additional investment alone is not enough.

We need a new and better approach to providing financial support services.

We need a service continuum that stretches from basic emergency relief, to financial counselling and money management advice, to innovative approaches that help individuals build a nest egg of their own through structured or matched savings plans.

When someone walks through your door seeking emergency relief, a quick targeted response is essential.

Crisis assistance will always be an integral part of our support but we need the flexibility to make the most of the enormous front door capacity of emergency relief.

Because to break the cycle of emergency relief, the reach of this front door capacity must be extended to build longer term financial capability and resilience.

With the agility to act early to identify those at risk of financial insecurity and work with them to prevent the spiral into crisis. I know many of you here today have been engaged in detailed discussions with my department on these very issues.

This is an important conversation which will continue.

To enable this policy development, my Department is restructuring to form a Financial Management Program.

This will incorporate emergency relief and financial counselling as well as support for long term financial recovery.

It builds on the reform I announced to our families program in February.

It demonstrates our commitment to working with you more effectively to improve services on the ground.

We need a system that puts the individual at its centre: working with people to get them through their most pressing problems while connecting them to appropriate supports for their financial and social recovery.

We need ways to better connect clients in financial hardship with the other supports they need whether it's employment services, housing, mental health or family support.

I know that there are already many service delivery models in place that seek to do this and we want to build on these. One idea I want to pursue as we roll out these new and innovative programs is for the community organisations that provide these financial support services to use financial case management.

Innovative programs like those showcased by the Brotherhood of St Lorraine and the ANZ bank's SaverPlus program, or the Good Shepherd and the National Australia Bank's No Interest Loans Scheme.

The new \$130 million for emergency relief and financial management to be rolled out in coming months gives us an opportunity to try a new approach to the crisis that confronts us.

Let's put these new ideas into action.

Last year I announced the doubling of the Commonwealth Financial Counselling program, creating more positions in areas of high need across the country.

Today I am announcing a further \$1.75 million to rapidly train 50 new financial counsellors. They'll be on the ground in three months.

We're also going to fund training for emergency relief workers so they can provide basic financial literacy and budgeting advice.

This funding will also be used to train the many new volunteers needed to deliver our enhanced emergency relief investment.

The Government recognises the critical role of the community sector in getting Australians through these tough times.

The Community Response Taskforce, which was established to enable us to work together in the face of the global financial crisis, is an example of the new partnership in action.

The Taskforce provides both a voice for the major social service providers and gives the Government first hand insight into what is happening to our communities.

And to invest in the evidence base essential for effective policy development, the Government is providing \$93,000 to the Australian Bureau of Statistics.

For research which will provide critical information about the non profit sector - measuring its contribution to the Australian economy.

It will complement the Productivity Commission's study into the contribution of the not for profit sector to Australian society.

I want to end by recalling the words of two former and opposing Australian Prime Ministers.

Two very different leaders. Both warning that when you change the government you change the country.

They were right - both times. The country did change in 1996. I won't go into detail. You lived through it too. The cuts to basic services, undermining our social institutions including the laws that protected people at work.

Shutting doors, marginalising groups, tearing down the safety net for the most vulnerable.

In 2007 the government changed again.

This has given the new Government the opportunity and the very great responsibility to help re-shape Australia.

To shape a nation which shares its wealth to create opportunity for all; which tackles disadvantage and brings the vulnerable in from the margins; which works for the betterment of all our people.

Even when times are tough. Especially when times are tough.



## How Much Inequity Should We Allow?

Speech by Dr Ken Henry AC | Chair – Australia's Future Tax System Review Panel and Secretary to the Treasury

Dr Henry was appointed Secretary to the Treasury in 2001 – the most senior economic policy adviser to the Australian Government and reappointed for a further 5 years from 2006.

He is a member of the Board of the Reserve Bank of Australia, the Board of Taxation, the Council of Financial Regulators, the Defence Procurement Advisory Board, the Board of Infrastructure Australia, the National Broadband Network Panel of Experts, the Council of Financial Regulators, and the COAG Working Groups on the Productivity Agenda and Indigenous Reform.

He is Chairman of the ANZSOG Research Committee, the Standard Business Reporting Board and the Advisory Board of the Australian Office of Financial Management. And he is Joint Chair of the Trans-Tasman Council on Banking Supervision. He is also Alternate Governor (for Australia) of the International Monetary Fund.

Dr Henry was made a Companion of the Order of Australia, General Division (AC) in the Australia Day Honours 2007.

### Dr Ken Henry spoke in the *Building a Fairer Tax System* session at the ACOSS National Conference

Firstly, a big thank you to Clare Martin and everyone at ACOSS for the invitation to take part in today's discussion.

It's not just an opportunity to get some important feedback for the review of Australia's tax and transfer system (and because it now appears to bear my name, I have even more incentive to get it right!). It's also a chance to do something for the battered reputation of the profession to which I belong — economics.

Over many years economists have developed a reputation for hostility to distributional issues. Some economists appear to treat them as 'soft' and secondary in importance to 'hard' issues like efficiency and productivity. That approach is a mistake. A mistake, I must confess, that I have made myself in the past. As a brash young Clerk Class 9 working on the Hawke Government's 1985 Tax White Paper, I pushed the line that the tax system was about maximising efficiency, with equity simply a constraint — rather than an outcome with intrinsic value in its own right. Fortunately, I was soon set straight by my then Deputy Secretary, Ted Evans — my immediate predecessor as Secretary to the Treasury. As a result of this and other on-the-job learnings, I am pleased to say that today equity is central to Treasury's mission and policy advice. How we distribute prosperity is absolutely inseparable from how we create it. This is something parts of the welfare sector have been arguing strongly for some time, and it has been pleasing in recent years to see welfare representatives developing

this position further. It's something I'd like to encourage and I hope what I have to say today adds to this important debate.

I chose the title of this speech — 'how much inequity should we allow?' — for a couple of reasons. For a start, it is mildly provocative, which I thought might help pique your interest. The instinctive response of many to the question would be to answer — none; a just society would not tolerate any inequity. Of course, beyond this instinctive reaction things get complicated. I will return to this later.

Secondly, I selected this title because I consider this to be one of the most significant choices society faces. Indeed, the question assumes inequity is a social choice.

And it is.

Leaving fairness solely to the market to determine should be unacceptable to a civilised society. Societies will choose how much inequity they allow according to the institutions, norms, laws, policies and programs they adopt.

As highlighted in Clare's introduction, my comments today are set against the backdrop of the review of Australia's tax transfer system, the most extensive such review since at least Asprey in the 1970's. Indeed, since the current review also includes State taxes and both Commonwealth and State transfers, it could be considered the broadest ever.

The tax-transfer system is the principal means of expressing societal choices about equity. The tax-transfer system is a reflection of the kind of society we aspire



to be. As far as I'm aware, every major tax review conducted in modern times in any developed country has nominated equity as one of its two or three most important objectives. In our case, the Panel's terms of reference refer to raising revenue in a way that provides equity and our Consultation Paper released in December identifies equity as one of five key design principles.

So, today, I'll offer some reflections on my question of 'how much inequity should we allow'. I'll reflect on the range of perspectives about equity so far put to the Panel, relate those to traditional concepts of equity and conclude with some personal perspectives on the benchmarks for testing the equity of the tax and transfer system.

### Common sense views about equity

Let's start then by asking what we mean by equity. It's a notoriously slippery concept, which has stretched many great minds, and yet still means different things to different people. However, as I said in my speech to the National Press Club last November, wisdom can often be found in the common sense views of practical people. So, rather than starting with theory, let me share a few practical perspectives from the many submissions the review has received

and in the public meetings held across Australia over the past two weeks:

- People in the same circumstances should be treated the same.
- If you have more, you should pay more (and receive less).
- You shouldn't be able to avoid paying your fair share, or get more welfare, by cleverly arranging your finances.
- It's unfair that the system is so complicated that you need to pay someone to help you get what you're entitled to.
- We should look after the most disadvantaged in our communities, but welfare shouldn't discourage people who can work from getting a job or improving their skills.
- It's not always about money. Some people need other help to improve their health, skills and chances in life.

These views can be related to traditional frameworks for analysing equity which offer useful insights into desirable design features for the tax-transfer system. But they also suggest the need to consider more contemporary approaches to reform of the tax-transfer system.

### Traditional frameworks

There are two broad intellectual traditions relevant to an analysis of the equity of the tax-transfer system. The first is concerned

with procedural fairness and is mainly the province of classical liberals. Under this tradition, a tax transfer system is fair if it respects individual rights. Outcomes are not as important as ensuring processes are transparent and unbiased by the

undue discretion by authorities. Such a system aspires to eliminate discrimination on the basis of race, religion, sex or sexual preference. Away from these heady heights, such a system should treat every member of society with respect and care.

In answer to my question — how much inequity should we allow — strong advocates of procedural fairness rarely condone any inequity; a fair process based on the protection of everyone's individual rights is the ultimate test of equity.

I am generally a supporter of the freedoms that this tradition of equity promotes. But not without qualification. More importantly, in my view an equitable tax-transfer system must deliver a lot more than procedural fairness.

The second tradition is concerned with distributive fairness — who should get what of the prosperity we produce. This tradition is often presented through a utilitarian framework where the 'social good' is determined by some aggregation of individual welfares. As individual welfare is not directly measurable, income is usually the focus in this tradition, though other measures — such as wealth, consumption or health — are also used.

Many economists have noted that under simple assumptions — such as people generally having similar likes and the next dollar of income being less valuable to the last — complete equality of income is desirable. But they also argue that complete income equity would also destroy incentives to work and reduce economic growth.<sup>1</sup> No one would have an incentive to work or save if the government were to fully redistribute the bounty of individual effort. This leads to the relatively orthodox view that the degree of income inequity we should allow should be that sufficient to maintain incentives conducive to earning income.

Of course, the relationship between equity and income growth can be complex. Not all redistribution policies



L-R: Dr Ken Henry, Jeff Lawrence, and Professor Julian Disney



are inimical to national income growth. Many redistributive policies seek to address market failures that reduce national income. For instance, capital market failures mean that those with low incomes are unable to borrow to properly invest in their own human capital despite high private and social returns. The tax-transfer system is one mechanism for allowing improved education of low-income earners, promoting both fairness and income growth.

On the other hand, take company tax, which at first glance would be of most interest to wealthier Australians. Reducing it would seem to be inequitable. But there are strong arguments to the contrary. In the face of competition from countries with low company tax regimes, higher company tax rates could work to reduce overseas investment in Australia, which could reduce the number of jobs available, lower the demand for Australian workers and, in this way, lower wages. This is the reason why many economists argue that, in the long run, company tax affecting mobile capital is paid by labour — predominantly geographically immobile unskilled labour.

So the optimal level of redistribution to

maximise national income is by no means clear. But, even if it were, there could still be reasonable debate about the extent to which national income might be further traded off in the pursuit of even greater equity.

In addition, regardless of the precise level of inequity chosen, most would accept that a degree of redistribution still accords with a practical view of vertical equity. People with greater capacity to pay should be liable for more tax, and those with insufficient means to meet their basic needs should receive support in the form of transfers.

Redistribution is also consistent with the practical notion that you shouldn't be able to get out of paying your fair share through concessions or loopholes, including those mostly available to the wealthy. Many have claimed in submissions to the review and at public meetings that aspects of fringe benefits tax, and the use of trusts and negative gearing, can lead to people not paying their fair share.

People have also pointed to the regressive impact of complexity in the system, which often falls most heavily on those with the least capacity to deal with it, including because they have the least means to get help. This can lead them to make poor decisions or simply missing out on entitlements. Welfare organisations will, of course, know a lot about this, as they devote much of their resources to helping low-income earners navigate the tax and benefit system. There is a perverse irony in the fact that much of this system complexity may have its roots in the quest for fairness.

As with the procedural fairness view of equity, I'm a supporter of distributive fairness. Redistribution is a public good — left to the market, there would be serious under-provision of income transfers. Distributive fairness has value because the community desires it; government is necessary to deliver it. But, again, my aspirations for an equitable tax-transfer

system are for this and more.

### **Contemporary perspectives on equity**

For some years I have been concerned about features of the tax transfer system which cause, contribute to, or fail to redress significant inequities that chronically harm people's lifetime wellbeing.

Where I go beyond more traditional frameworks is my concern for wellbeing, not just income, and in a focus on lifetime, not just current circumstances.

Some of you would know that I have a deep respect for the writings of Amartya Sen. Sen argues that the true measure of human development is that a person has the 'capabilities' necessary to leading the kind of life they value and have reason to value.

Capabilities allow an individual to fully function in society; they are not 'income' and, while they include basic civil rights and political freedoms, they are not limited to 'rights'; they are 'substantive freedoms', including with respect to both processes and opportunities. Thus, its not enough to be concerned with procedural fairness issues if that means ignoring deprivation of substantive opportunity. But neither is it enough to be concerned only with the adequacy of opportunity, since the capability that people have to choose a life they value depends also upon the nature of the processes that bring the opportunities about.<sup>2</sup>

Sen points to some capabilities that are close to being absolute — 'to meet nutritional requirements, to escape avoidable disease, to be sheltered, to be clothed, to be able to travel, and to be educated'<sup>3</sup>. Others, like the capability to live without shame or to participate in the activities of the community, are relative to community standards. Being computer literate was not necessary to participate in society 30 years ago, but it is now. Sen views poverty as capability deprivation. And, seen in those terms, poverty is clearly intolerable. It is a form of personal injury that should not be

abided in any just society.

Poverty is something that is of interest to all people concerned with equity. But it's not their only concern. And nor should it be.

Yet even in the broader domain of equity considerations, Sen's approach — of focussing on individual capabilities, and the proper role of society in fostering those capabilities<sup>4</sup> — is instructive.

I know there is a risk that this highly abbreviated reference to Sen's valuable perspective will confuse rather than enlighten. For where I want to get to today, it's enough that you accept that there might be a case for moving beyond a narrow focus on either rights or incomes, or even material wealth, to look at the capabilities that make a direct contribution to long-term wellbeing.

### **Implications for the tax-transfer system**

What does this mean for tax-transfer design?

There are at least three important implications I would draw.

First, and most obviously, if a system of income redistribution is to ensure that people enjoy the capability of having basic needs guaranteed then the level of redistributed income must be adequate. As you may know, part of the tax-transfer review has been an examination of the adequacy of pensions, led by one member of the Panel Jeff Harmer Secretary of the Department of Families, Housing, Community Services and Indigenous Affairs.

Second, and perhaps most importantly, the system should not encourage decisions motivated by short term benefit, but which compromise development of capabilities which could open up medium to long term opportunities of improved wellbeing. It should not discourage people from working or studying or retraining if they can.

Panel members have heard time and again of disincentives that do just this.

Many have pointed to the way in which the withdrawal of benefits combined with taxation of income lead them to deciding it's just not worth their while working. For example, a parent with a couple of young children who has to pay for child care will often find the current system of tax, benefit withdrawal and child car benefits offer minimal financial returns from moving to part-time paid work. The longer-term capability costs of the decision not to work, for both the parent and for the children of such households, should be of concern to policy makers.

Others point to differing rates of payment, work tests or rates of benefit withdrawal leading to preferences for receipt of particular benefits motivated by immediate advantages, but which lock people into the welfare system, potentially entrenching chronic deprivation of capabilities. Take the predicament of people with less severe disabilities who would be able, with help, to do at least some work. If they are single and on the Disability Support Pension they will get around \$70 a week more than single people on Newstart. On a pension, they can earn more than twice as much before their payment starts to reduce, and the payment reduces more gradually. They are also exempt from the activity test. In fact, if you are in the grey area between unemployment and disability it seems better in every way to be on DSP. But is it really? What concerns me is the extent to which the system could be discouraging some people from work that could make them happier and healthier and our society more equitable. While I recognise that many people on DSP can't do any work at all, I wonder whether we couldn't redesign the system to reduce disincentives to workforce participation.

I should stress that the Panel has reached no conclusions on the categorical distinctions between payments like Newstart, Parenting Payment, Disability

Support Pension and Carer Payment. There are good reasons for many of these distinctions. Nevertheless, the long term incentive effects of these structures warrant careful consideration.

The third implication of a focus on capabilities is tied to the last of the practical observations about equity I referred to at the beginning of my comments today. It's not always about money. Indeed, studies of entrenched generational disadvantage, suggest that provision of additional income support can sometimes be counter productive. Some people need other help to make the most of opportunities in life. Assistance that directly addresses capability deficits — in education and health, in particular — may be more effective at raising long-term well being. In other words, we ought not think that the income redistributing tax-transfer system on its own will be sufficient to eliminate capability deprivation. Indeed in the absence of appropriate health, education or community services, government transfers may simply entrench disadvantage. And if they entrench disadvantage, whatever they might do to reduce dispersion in the short term distribution of income is simply not important.

On the other hand, it may be that the tax-transfer system can be used as a tool to improve access to, and tailoring of, services and other supports. For example, Australian governments target housing assistance to people who are least likely to find adequate housing without public assistance. However, people eligible for help receive different levels of aid and face markedly different incentives depending on whether they receive rent assistance or public housing.

Public housing generally provides a greater level of housing subsidy than rent assistance, with public rents generally set at 25 per cent of income. Compared to rent assistance recipients, public renters also face lower risk, as their rent is not influenced by movements in market rents

and their tenure is generally guaranteed. However, the provision of public housing can discourage workforce participation to a far greater degree than rent assistance. As public housing tenants' rent is linked to their income, their effective marginal tax rate is 25 percentage points higher than if they receive rent assistance, which is not subject to a separate taper. Further, a public housing entitlement is linked to a specific house and may be lost if a person needs to move for work or other reasons. Rent assistance, by contrast, is fully portable, which may enable recipients to choose housing that they prefer.

It is not obvious why we should use such different mechanisms for people who are in need of housing assistance, particularly if one approach carries with it the greater risk of entrenching long-term capability deprivation. Perhaps it would be better if low-income earners received the same assistance, irrespective of whether their landlord was the state or in the private sector. Of course, it is likely that compromise would be needed to balance incentives to work with some stability of tenure for tenants. It would also need to recognise the increasing role community housing is playing in the delivery of housing assistance.

By investigating such ideas, the tax-transfer review gives us the opportunity to debate how best to create a more equitable tax and transfer system, better suited to the needs of the 21st Century.

Before I conclude, let me make a final point. All this raises wider questions about how we think of equality and about redistribution in a modern economy. The way we think about these things has changed profoundly over the course of the last hundred years. During the early years of the Twentieth Century — during the age of steam power, when this magnificent building we are

in today was a locomotive workshop and the centre of intense trade union agitation — Australians thought equity could be improved primarily through the industrial relations system. After the Second World War, in the eras of Keynes and post-war reconstruction, we thought it could be solved through the provision of universal pensions and a commitment to full employment. Still later, we thought equality required steeply progressive taxation and the further expansion of the welfare state, notably into areas like public housing. But today — when this old workshop we're in is a centre for high-tech research; and the blue collar jobs it once housed have gone; and many of the people who would have performed those jobs are now long-term unemployed or even on the DSP and perhaps living in public housing estates which offer few chances of improved wellbeing — our answer to inequity also needs to change. In my view, the answer should lie to a large extent in building up people's capabilities. Investing in people. And the tax review has a big role to play in this. We've had debates about capital versus labour, about public versus private, about the state versus the individual. Today we should be thinking about the role of public policy in giving people the capabilities to choose lives of value for themselves.

### Conclusions

So — how much inequity should we allow?

My comments today suggest the answer requires a value judgement. Different people have different views and different priorities for what it means for our tax-transfer system.

Today, I will offer just three of my own conclusions.

First, I would support a system that operates fairly; free from bias and

arbitrariness. A system that treats people in the same circumstances the same way. If you like, a system that is procedurally fair.

Second, while some level of inequity in the distribution of income and wealth may be necessary to induce national income growth, the relationship between growth and equity is important — redistributive policies can be anti-growth, but they can also be pro-growth. In addition, an equitable tax-transfer system would not allow two people with the same means and undertaking the same activities, to pay less, or receive more, simply depending on the way they organise their affairs.

And third, while we may need to tolerate some inequity in the distribution of income and wealth, we should have zero tolerance for severe capability deprivation. And more generally, an equitable society is one in which every citizen has the capabilities necessary to be able to choose lives they value. As to this, the complexity of tax transfer arrangements can be a particularly pernicious form of capability deprivation.

Perhaps a simpler way of distilling all three points is to say that rights are important and income redistribution worthy, but on their own they are not enough. What is essential to equity is to develop people's capabilities. The tax-transfer system must be designed with this goal firmly in mind.

Thank you.

<sup>1</sup> For an exposition, see Kaplow, Louis, *The theory of taxation and public economics* (2008), chapter 3.

<sup>2</sup> Sen, A 1999, *Development as Freedom*, Oxford University Press, p 17.

<sup>3</sup> Sen, A 1983, 'Poor, relatively speaking', *Oxford Economic Papers*, 35, pp 153-69.

<sup>4</sup> On this, see Sen A 1999, p 288.

For further information about tax issues, TaxWatch and the work of the Community Tax Forum see: [www.taxwatch.org.au](http://www.taxwatch.org.au)

**The economic crisis will inevitably reduce tax revenue substantially while also increasing the need for government expenditure, especially to help the hundreds of thousands of people who lose all or most of their work opportunities.**



## Community's role in tax reform

**Professor Julian Disney | Convenor of TaxWatch and Chair of the Community Tax Forum**

In the middle of last year, the Rudd Government announced a comprehensive review of the tax system by a Panel to be chaired by the head of Treasury, Ken Henry, and to report by the end of 2009. Its work is likely to have a major long-term impact on the opportunities and support which will be available for low-income and other disadvantaged Australians.

The Panel includes the head of FaHCSIA, Jeff Harmer, and its terms of reference include ways of improving the "tax and transfer payment system for individuals and working families, including retirees".

The other members are a former Treasury official, an economics professor and the head of the Australian Industry Group, Heather Ridout. The composition of the Panel for such a wide-ranging task is somewhat surprising, especially the lack of anyone with experience in the community sector and expertise in the social impacts of tax and transfer policies.

This imbalance prompted establishment late last year of a Community Tax Forum by the major national organisations from the welfare, union, environment and consumer movements (ACOSS, ACTU, ACF and the Consumers Federation). The Forum is holding national symposiums to help identify problems and options for reform. The Panel itself is holding consultations around Australia this year.

### **Impact of a slowing economy on reform**

The global economic crisis has substantially changed the environment in which the Panel will operate. Some politically difficult decisions may now

be easier to make if they are seen as likely to boost the stimulus for recovery. They may even be made before the Panel reports. Others, however, may be rejected for fear (perhaps misplaced) that they could delay restoration of business confidence.

The crisis will inevitably reduce tax revenue very substantially while also increasing the need for government expenditure, especially to help the hundreds of thousands of people who lose all or most of their work opportunities. This makes it even more important to remove major avenues for tax avoidance and wasteful tax breaks for wealthy people that have eroded public resources as well as aggravated over-borrowing and speculation.

History shows that reforms are often more effective, and more politically achievable, if they are part of balanced and integrated packages. For example, some measures which cost money can be combined with others that save it. Some groups of people that may be adversely affected by one measure can be assisted by another element or at least placated by a measure which they acknowledge as worthy even if it does not help them personally.

The Panel itself is perhaps more likely to have influence on tax issues than on social security or other transfer payments. Nevertheless, the design of its tax proposals is likely to be affected by their possible interaction with transfer initiatives. Moreover, views put to the Panel may influence government decisions which are made prior to its report, especially as its two public

service members would inevitably be closely involved in any such decisions. Accordingly, it will be worth proposing to the Panel packages which include both tax and transfer initiatives where appropriate.

### **Options for a new tax system**

Against this background, a number of areas could be considered for special attention by welfare organisations. The following suggestions are in addition to an issue which is very close to home, namely the tax treatment of charities and other non-profit organisations. The rigour and credibility of the sector's proposals in that area will inevitably affect its impact in others.

#### *Unemployed people and low-income workers*

A major increase in Newstart and other social security allowances is clearly essential. Income tests should also be adjusted to operate on a flexible quarterly rather than fortnightly basis for people with short-term and insecure work options. The same applies to requirements that claimants must run down their liquid assets before becoming eligible. The special tax offset for low-income earners could also be raised and indexed for inflation.

These measures will be expensive. Much of the necessary funding could be obtained by cutting the excessively generous tax concessions for high-earners in areas such as fringe benefits, salary sacrificing and golden handshakes and restricting corporate tax deductions for extravagant executive salaries.

#### *Older people*

There is also a very strong case for increasing the pension rate, especially for single people, and for relaxing the means test for pensioners in rental accommodation. The superannuation tax concessions for low-income people, which currently are of little or no benefit to them, should be boosted substantially.

This could involve a special tax credit and/or automatic government contributions into their accounts.

Finance for these changes could be obtained by reducing the hugely generous superannuation concessions for high-income people. There should also be tighter limits on taking large lump sum payouts at an early stage and then claiming the pension. Further savings could come from cutting the special tax offset for older people, which is far higher than for younger people who may be in much tougher circumstances.

#### *Families*

Lower-income families need more help with the costs of raising children, including more encouragement for principal carers who also work part-time and more assistance with access to affordable child care. For example, basic rates of Family Tax Benefit A could be raised and the income tests on secondary earners could be adjusted. Child Care Benefit rates could be increased and more support provided for non-profit child care services.

Finance for these improvements could be generated by cutting excessive and unfair support for wealthier families as well as simplifying the current jumble of payments and tax breaks. Family Tax Benefit B, the Child Care Rebate and Dependent Spouse Rebate could be abolished, together with the fringe benefits tax concession for workplace child care (which mainly benefits higher-income staff in large businesses).

#### *Housing*

More than half a million lower-income households are in unaffordable housing and many others only escape excessive rents by living far from jobs, services and relatives. Unlimited exemptions from capital gains tax, land tax and the pension means test have made home purchase a major tax haven for wealthy people and driven up prices for people who just want a home to live in. The

problem has been greatly aggravated by Australia's unusually generous treatment of "negative gearing".

Appropriate restriction of these tax breaks in relation to high-cost housing would directly improve housing affordability as well as help to finance improvements in Commonwealth Rent Assistance which has fallen far behind rent levels. They would also provide ongoing finance to support major housing initiatives by the Rudd Government such as the National Rental Affordability Scheme and the much-needed expansion of public and non-profit housing.

#### *Savings and security*

Low-income people tend to have a greater need for improved savings and security than those in more comfortable circumstances. This applies to savings for mid-life contingencies such as ill-health, unemployment or parenting as well as to retirement needs. Yet they get little or no tax assistance for saving through bank accounts or superannuation, by contrast with the major tax benefits for other options like home purchase or rental investment which are usually beyond their means.

One attractive approach is to allow "early access" to superannuation accounts for mid-life needs on broader grounds than the very narrow and somewhat arbitrary conditions which currently apply. Another more comprehensive option is to provide targeted tax concessions for specially-designated Lifelong Savings Accounts with banks or other financial institutions, from which mid-life withdrawals can be made on specified conditions. In either case, low-income people's accounts would need to be boosted by government contributions and excessive concessions for high-income people's savings would need to be avoided.

#### *Adequate revenue*

Loopholes and distortions in the taxation of assets and investment aggravate excessive debt levels, short-term

**Strong input from the community sector is essential if similar long-term benefits for the community, including its economy and environment, are to flow from the Panel's work.**

speculation and erosion of much-needed public revenue. They also unfairly benefit some businesses and investors at the expense of others. The community sector should staunchly resist further handouts of this kind, especially where they would reduce job opportunities and increase pressure to replace the lost revenue by raising the GST rate or taxes on wages.

The Tax Review Panel will be under great pressure from the business community to further reduce tax on corporations and wealthy investors in order to remain internationally competitive. Contrary to frequent assertions in the media, however, Australian companies are not especially highly taxed by international standards and their shareholders benefit from an unusually generous system of dividend imputation.

International tax competition does put some constraints on equitable and efficient taxation, however, especially while the crisis-driven shortage of finance remains. If some areas cannot be adequately taxed, an appropriate response is to reduce the current under-taxation of real estate which, of course, cannot be moved overseas in search of lower tax rates. This approach would not only reduce speculative and inflationary pressures but also improve equity. Ownership of land is a much better indicator of relative wealth and capacity to pay tax than the other main alternatives for higher taxation – wage income and consumption of goods and service.

**Community sector involvement is critical**

Over the years, ACOSS has developed a number of detailed and well-directed proposals in each of the areas mentioned above. The Brotherhood of St Laurence also has a strong track record on developing tax policies. Many welfare organisations, however, appear not to have fully recognised the crucial importance of tax reform for preventing problems of the kind which they seek to

ameliorate. This applies, for example, to the potential impact of reform on work opportunities, affordable housing and income security as well as on the adequacy of public revenue to help fund the organisations' services.

The establishment of the Community Tax Forum provides these groups with an opportunity to develop a closer interest and help argue for an appropriate report from the Panel. They will also have access to a new service, **TaxWatch**, providing independent, up-to-date information and analysis that, unlike much coverage of tax issues in the mainstream media, is not dominated by vested business interests and distortion of key data.

The Panel has been given an impossibly large task and its freedom to propose deep, long-term reform is somewhat constrained by its membership and the economic crisis. Ironically, this may apply especially to some of the key reforms which are necessary to curb the misdirection of business resources and private investment that have substantially contributed to the crisis.

Nevertheless, the recent stimulus package of major investment in education and housing demonstrates graphically how crises can be turned to long-term advantage. Strong input from the community sector is essential if similar long-term benefits for the community, including its economy and environment, are to flow from the Panel's work. This applies especially to organisations which focus on the interests of the most disadvantaged Australians.

*This article is written in a personal capacity and does not necessarily reflect the views of any member of the Community Tax Forum.*



# Fairness Matters

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Extract from the presentation given to ACOSS National Conference, April 2009

## Introduction – fairness matters

I want to concentrate on economic aspects of fairness, emphasizing one aspect particularly relevant to our time, namely the way we allocate risk across our society.

In relation to risk there are two basic inequities. One arises from the legacy of outdated categories of “labor” and “capital”, to which is attached the idea that because financiers contribute capital to productive enterprises, because they take the risks, they should be compensated with appropriate rewards. The other inequity arises from the way we have increasingly left people, including the least advantaged, to rely on flawed and high risk private markets to provide those buffers which would be more fairly and efficiently be provided by governments, while privileging some of the most reckless and irresponsible people in private corporations with government largesse for their risk-taking.

First, a look at how economics handles fairness.

## Pareto’s boats and public policy

“A rising tide lifts all boats” is the often heard metaphor to describe a society in which everyone becomes better off, even if disparities widen. It has become a justification for unfairness.

For much of recent history economic philosophy (and therefore public policy) has been in a struggle between two strong ideas, those of Jeremy Bentham and those of Vilfredo Pareto.

Bentham (1768–1832) was a liberal political philosopher, a child of the Enlightenment, with radical ideas for his time, such as equal rights for women, abolition of slavery, and abolition of the death penalty. His political philosophy has been claimed both by the right, because of its emphasis on individualism, and by the left, because of its emphasis on maximizing “utility” for all, or, in more commonplace terms, maximizing the community’s “welfare” or “happiness”.

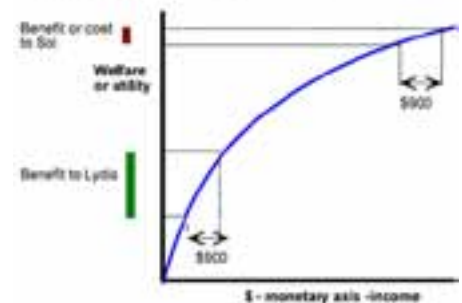
In the Benthamite world, redistribution is justified on the basis of the notion of what economists call “diminishing marginal utility”.

To illustrate, consider two hypothetical people. I’ll call one Sol, who has been an executive in a large company and has had a generous termination payment. And there’s Lydia, who is similarly out of work, but she was a machine operator at a clothing company which has recently shifted offshore. Both are eligible for the Government’s \$900 stimulus payment. Sol has a good accountant who has got his taxable income down to poverty line levels, while Lydia needs no accounting contrivances to show a low income.

Think of the benefit of the \$900 to these two people. By any stretch of the imagination the benefit to Lydia must surely be more than the benefit to Sol (assuming Sol even notices an unrequited \$900 deposit in his bank account).

What I have just illustrated is the Benthamite notion of diminishing marginal utility. By the same notion, overall welfare would be improved if we were to take the \$900 from Sol and give it to Lydia, for the welfare loss to Sol would be less than the welfare gain to Lydia. See Figure 1 for a conventional graphical presentation of this model.

Figure 1. Benthamite redistribution illustrated



Such a notion of welfare lies behind economic policies such as progressive taxation and means-tested benefits. Australia, for example, pioneered age pensions and used to have steeply rising marginal tax rates, as high as 66 cents in the dollar for high income earners, and our old sales tax system imposed high taxes on luxuries.

The economic philosopher whose ideas have tended to dominate in the last thirty years, however, is Pareto (1848 – 1923), who essentially said that it is impossible to compare and add or subtract different people’s welfare. According to the Pareto principle in economics, we can consider welfare to improve only if some are made better off, while no-one is made worse off. Thus, if economic growth is accompanied with widening inequality, it’s still beneficial, just so long as no one goes backward. If Sol gets \$900 while Lydia gets \$9 or even nothing, that’s a Pareto improvement, but if Sol is taxed \$900 to transfer a benefit to Lydia, that is not a Pareto improvement, because we cannot say anything about how Sol and Lydia value \$900.

It’s not hard to see the weaknesses in this economic philosophy, which completely ignores distribution. It has been a convenient justification for rising inequality

in times of strong economic growth, however, for it absolves the privileged from being concerned with inequality – if I become better off then society is better off. What's good for me is good for Australia.

This barren philosophy, however, comes under strain when the tide is falling. It is morally repugnant to many people, and it fails to recognize the economic cost of inequality.

### **The economics of inequality – perspectives of an errant economist**

The “errant economist” is Thomas Schelling, a pioneer in behavioral economics, particularly the application of game theory to economic situations, and winner of the 2005 Nobel Prize in economics.

Let's look at some of the games and simulations typical of those Schelling would apply to his experimental subjects.

The first is the ultimatum game. Player A, the “offerer”, has temporary control over \$10. She is to propose division between herself and Player B, the “acceptor”. If player B accepts the proposed division, then the division occurs. If player B rejects the proposed division, then both parties forfeit.

By the logic of Pareto economics, Player B, the “acceptor”, should accept any division – \$1.00/\$9.00, or even \$0.05/\$9.95. But, in repeated round experiments, researchers find that “acceptors” reject such imbalanced divisions, preferring to walk away empty-handed. And, unless prompted, “proposers” tend to offer divisions close to a 50:50 split.

### **The hardheaded economics of fairness**

Some hardheaded economists would argue that it's irrational for us to be concerned with fairness. We would all be better off if we keep our emotions at bay and accept what we can get; it makes no sense for us to incur a cost just to punish someone else who's doing better than us. And, as an appeal to higher authority, they may remind us that envy is one of the seven deadly sins – think how often a proposal to bring more equity into public policy is dismissed as “the politics of envy”.

The shortcoming of this view is that it models behavior on a purely individual basis. It's poor economics. When open-minded economists such as Schelling, systems theorists such as Natalie Glance and Bernado Huberman, and social scientists such as Robert Axelrod, get together, they find social cooperation can be a significant asset in evolutionary adaptation.

In simple terms, groups which cooperate can accumulate more resources than those in which each individual looks only after himself or herself. In groups without cooperation individuals must devote significant resources protecting their own interests, for fear of predation by other group members. We can see this most clearly in so-called “failed states”, where trust and therefore social cooperation have evaporated. Groups with strong norms of cooperation are more productive, because individuals can spend less effort protecting their own interests and can spend more effort contributing to their own and collective interests. In other words, if we are not fending off marauding competitors we can actually do something useful. In this way, groups with strong norms of social cooperation can accumulate more resources in the form of both individual and collective wealth than groups with weak cooperation. One such set of norms relates to fairness.

Of course cooperation can be enforced without regard to fairness. There can be systems of enforced cooperation ranging from strong anti-union legislation through to slavery. But, particularly as shown in research in the US comparing productivity before and after Emancipation, slave labor is much less productive than free labor. There are two reasons. One is that coercion is costly; as people lose trust in one another they have to spend more on coercive mechanisms. In a slave society those mechanisms are guards and supervisors, in a modern society those mechanisms are contracts, legal services, accountants, police forces etc.

The other reason is that, as psychologists know, coercion through punishment elicits at best sullen compliance, rather than productive effort. Even the much-maligned

Frederick Winslow Taylor pointed this out: when the laborer Schmidt found he could share in the rewards from his effort, his output rose strongly.

Public health research, such as Michael Marmot's famous Whitehall studies, and more recent work such as the research of Richard Wilkinson and Kate Pickett, finds that societies with fairer distribution of economic power, such as Japan and the Nordic countries, have less violence, better health, and longer life expectancy. These are economic benefits, as such societies need spend less on services such as policing, rehabilitation and health care, but, by quirks of national accounts (which record the costs of running jails, for example, as economic “output”), they do not show up easily in national accounts.

Social cooperation also allows for role specialization. When people feel they can trade in fairly constructed labor and commodity markets they are likely to engage in specialization and trade, thereby realizing further economies. Note, for example, that in societies with underdeveloped markets or with markets dominated by strong parties, there is often reliance on inefficient means of production, such as barter and attempts at household self-sufficiency. While we may have a romantic attachment to such arrangements, they do involve a large opportunity cost.

These arguments are not a soppy “left” defense of fairness. Rather, it's a hardheaded description of why norms of fairness are basic economic assets. It helps explain why it makes evolutionary sense for individuals to exert effort to punish those who violate such norms. It explains the value of unrequited altruism, ranging from giving way to others in a traffic jam through to sacrifice in battle.

Role specialization inevitably means different people will be exposed to more or less risk – test pilots and accountants bear different levels and types of risk. And role specialization is costly, for specialization requires investment in skills. Unfortunately, in our categorization of “labor” and “capital”, we do not fully recognize such investment and its risks. That's the subject of the next section of this paper.

## Workers as risk-taking capitalists

We bear the legacy of early Industrial Revolution ways of thinking, particularly about how we classify what economists call the “factors of production”. These three factors are land (or natural resources), labor and capital. We hear reference to these factors, such as in the recently-produced Commonwealth’s consultation paper on Australia’s future tax system, in which there is a clear distinction between taxing labor and taxing capital (investment), and which raises the question that perhaps we should be shifting the tax base away from capital.

This division rests on a model of the economy in which the entrepreneur makes a large and risky investment. According to this model the entrepreneur takes many risks – risk that the technology will become outdated, risk that competitors will do a better job, and risk that market fashions will change. By contrast, all the worker has to do is to turn up to work and get paid. If one company goes broke, the worker can move to another. The only risk the worker faces is a macroeconomic one of a recession or depression, but provided a high level of employment can be maintained, the worker faces no risk.

That model, and its associated classifications, is seriously outdated. For an illustration, consider the recent closure of the BHP nickel mine at Ravensthorpe in Western Australia. I’m not trying to single out BHP, which, by comparison with other multinational mining companies, has a good record of labor relations, but I do want to use this closure to illustrate a point about how risk is distributed.

To start with the perspective of “capital”. While BHP-Billiton is clearly suffering from depressed commodity prices, it is hardly under any risk of bankruptcy. Ravensthorpe is only one of BHP’s many operations. Even if the company itself were in trouble (as some mining companies are), few shareholders would be severely hurt by the company’s demise, for almost all shareholders, through superannuation funds or diversified personal holdings, have shares in other companies. They stand to lose only part of their capital and

income. And, of course, they have no long term commitment as owners; a few strokes on a computer keyboard can acquire or dispose of BHP-Billiton shares.

To move to the perspective of “labor”. Many people have invested heavily in developing skills relevant to mining. Many have developed further skills described as “firm specific” – that is, a set of skills relevant to the Ravensthorpe mine, and not immediately transferred to another establishment. (Compare that situation with the “investor’s” few clicks on a keyboard.) Some have bought houses in the area, have sent their children to local schools, and have invested in the local community in many ways. And of course the loss of a job and reversion to a Newstart allowance is catastrophic to the individual, quite different from a downturn in another individual’s share portfolio.

Now it’s gratuitous to point out the unfair distribution of risk in this and similar situations. But the point I want to stress is that we will find it hard to develop a fairer system of economic rewards until we re-frame our thinking, particularly away from the old labor/capital divisions – a way of thinking which is deeply entrenched, from Karl Marx through to industry lobbyists. We need to look more fundamentally at what we mean by the term “investor”, and to appreciate how investor risk is distributed.

Our Government has announced an aspiration to have 40 percent of young people participate in post-secondary education by 2025. Few would question the desirability of such an upgrade of our skills, but we need to realize that we are asking people, perhaps as young as 14, when they start to take on elective school subjects, to make decisions involving risk. These decisions are investment decisions. They are investments in human capital, and they involve much more commitment, with far fewer escape routes, than the decisions faced by a plant manager deciding to invest in a piece of machinery, or by a shareholder deciding how to allocate a portfolio.

We cannot avoid risk, but we can ameliorate its consequences. And we can provide mechanisms which provide a backstop

for those whose investments in human capital turn sour. Unless we provide such mechanisms we will lose out, for we will become more risk-averse. For example, in the absence of such mechanisms, young people choosing tertiary studies, are likely to opt for low-risk low-reward courses such as “business studies”, which will always provide adequate skills for low grade clerical work, rather than high-risk courses such as mechanical engineering or drama. Without well-designed safety nets risk aversion will dominate, at a huge economic cost as we become less risk-taking and less entrepreneurial.

Schemes such as universal tax-funded health insurance, unemployment and retraining benefits, and assured retirement pensions, are not just some distributive luxury. Rather, they are economic assets underwriting the risks which people are called upon to take in an energetic and innovative society., where some people will inevitably find their risky investments fail.

But, rather than strengthening those mechanisms we already have, we have gone horribly wrong in the rewards and punishments for risk taking. We have rewarded the recklessness of the privileged, while leaving many of the weakest in society unnecessarily exposed to high risk in flawed private markets as we wind back forms of collective insurance.

## The risk-shift society

“We will establish a National Compensation Scheme to reduce the hardships imposed by one of the great factors for inequality in society – inequality of luck.” That was Gough Whitlam’s promise in his 1972 election speech, and he tried to make good on that promise, establishing a committee, headed by Justice Owen Woodhouse, to inquire into and recommend on a national rehabilitation and compensation scheme, to replace fragmented transport accident, workers’ compensation and other schemes, in which outcomes largely depended on the luck of the draw and on one’s access to a sharp lawyer.

The committee reported in 1974, and recommended a scheme which would

provide high income support (85 percent of pre-incident income) to those suffering illness or injury, irrespective of cause.

The reaction to the recommendations was hysterical. Doctors and tort lawyers saw lucrative sources of income threatened. Life and general insurance companies were even more horrified; they even encouraged their employees to take to the streets to protest about such a threat to their jobs.

The hysteria was enough to give the opposition-controlled Senate an excuse to block the government's legislation giving effect to the recommendations. We now realize, however, that the insurance industry's opposition to government underwriting of risk is strangely absent when the injured are the insurance firms themselves.

Shortly after, in 1976, an inquiry headed by Keith Hancock recommended a partially contributory, universal pension system with an earnings-related supplement. By then the Whitlam Government had lost office, and the report fell on deaf ears. Ten years later, even though Labor had returned to office, the political scene had changed.

The insurance industry was given a boost by the Hawke Government's introduction of compulsory occupational superannuation. Initially this was a small contribution at three percent of income, and was designed more for immediate macroeconomic needs rather than as a retirement income scheme, but by 2003 it had risen to nine percent, and there is now pressure to take it up to fifteen percent.

This has been a compulsory privatization of retirement savings for all but those eligible for the full pension. The aspect that is of most relevance in the context of risk is that, unlike almost every other developed country, our scheme carries the risk of personal accounts. To illustrate this risk, consider someone with 40 years of work, with an income of \$60 000 (inflation-adjusted) over that period. Assuming a real (inflation-adjusted) average return of four percent, with a plus or minus distribution of two percent, his or her retirement accumulation and the pension it can

finance will vary over the range shown in the table below.

Real Return	Retirement accumulation \$'000	Pension \$'000
2%	290	27
3%	360	33
4%	450	42
5%	570	53
6%	720	67

It may be surprising that a two percent swing around a mean can have such a strong effect, but that's the power of compounding over a long period. In fact, such differences in returns can be explained by fees alone; differences in pre-fee returns can result in an even wider spread, even for similar products such as "balanced funds". Two people, in similar occupations with similar incomes over their working lives, can find their retirement outcomes varying between poverty and high comfort.

It is absurd to believe that individual investors should be able to assess these differences at the time they make their fund choices. Even well-informed investment specialists cannot make such predictions. Essentially individuals are left to take their chances in a lottery, with very little hedge cover (other than a parsimonious age pension).

The calculations in the above table assume a well-functioning market for private pension products, but in reality the odds are stacked against retirees who depend on financial institutions. While it is easy to buy a term pension (which lasts for a defined period) or an allocated pension (which lasts until funds are exhausted), it is very difficult to get a lifetime pension which lasts until death. Insurers claim that they have retreated from this market because of what is known as "longevity risk" – the risk that you or I on retirement may have the indecency to live beyond our statistically determined life expectancy. Longevity risk is shifted away from the so-called "insurer" (which has the capacity to pool risks, and to hedge longevity risk against death policies), back to the individual.

In house insurance, it is easy for people to find themselves under-insured, not because they have underestimated the present replacement value of their house, but because their house is lost in a regionally concentrated incident, such as Victoria's recent fires, Canberra's fires in 2003, or the 1989 Newcastle earthquake. In such instances authorities generally apply higher and more expensive requirements for re-building, and there is usually a regional shortage of tradespeople, resulting in higher building prices. In such cases individuals are left bearing open-ended risk, while "insurers" cap their own risk. (Only a small number of insurers provide cover against such inadvertent under-insurance.)

In private health insurance, even the most expensive ancillary policies cap the health insurer's liability, leaving consumers bearing the open-ended risk.

The feature that these and other policies have in common is that they leave individuals bearing open-ended risk, while the firm contains its risk. In fact, most products called "insurance" should not be called by that name; it's a cruel hoax to play on consumers who believe they are insured when they are left bearing open-ended risk. At best their offerings should be called "limited insurance" or "bill paying supplementation".

As a consequence of our privatization of risk, we are left seriously exposed in some areas and over-insured in others. The risks described above relate to everyday and unavoidable risks, such as fire, ill health and unemployment. But there is another class of risk, of collapse of financial markets.

It is obvious in the current crisis is that private markets are not good at providing cover against significant risks, particularly those that arise because of the nature of the financial system. Private markets can do a reasonable job in covering against risks which have neat, normal, distributions around a mean, and such models form the basis for financial market operations, which, based on certain assumptions about rationality and well-informed actors,

can keep the financial system humming along in more or less stable equilibrium.

But the world is not so neat, and occasionally there come along events way outside the range of the models, what Nicholas Taleb calls “black swans” (in a world conditioned to seeing white swans). And the mechanisms which are designed to bring stability, such as hedge funds, can actually develop wild and uncontrollable positive feedback loops which promote instability. That’s the system failure we are now experiencing.

### Conclusion – closing the casino

In the financial system we are seeing the worst case of market failure in 80 years. Over the last thirty years in particular, the finance sector (including insurance) has moved from a role of serving the real economy (the economy where people make things and provide real services for one another) to become a huge parasite on the real economy. Over the period 1974 to 2008 the sector “finance and insurance” has grown from under five percent of GDP to more than seven percent of GDP – a period when one would have expected the huge gains from information technology to have seen the cost of financial services reduce, rather than expand.

Note, from Figure 2, the growth spurt in the mid 1980s when the Hawke Government deregulated the finance sector. From then on, many of those employed in finance lost all contact with the real world, as they traded between one another in products such as collateralized debt obligations and credit default swaps that were separated by many stages from any real assets.

Even as a parasite the sector has not been particularly clever. Intelligent parasites try to maintain an equilibrium with their hosts, but this one has been dumb enough to inflict severe damage not only on its host but also some of its own species. Perhaps the greatest damage the financial sector has imposed is a destruction of norms of fairness. For many years we have seen bigger and bigger profits accruing to financial firms, and bigger and bigger returns to their senior managers, even as the crisis develops. As one commentator has said, the captain and crew have grabbed the lifeboats for themselves.

Financial systems rely on trust, but those in the financial corporations have lost our trust, and have lost the trust of one another; that’s why it’s so hard to get credit flowing again. It is not just the clear criminals like Bernie Madoff who have let us down; they are only the extreme examples, scapegoats paying the price for much wider bad behavior. Every trader who lived in the make-believe world of finance bears some responsibility. They came to believe that they were creating wealth (they still talk about “wealth management”), when all they have been doing is shuffling money around, and keeping some for themselves. Money is not “wealth”; it is merely a partial and flawed representation of wealth. So too do our politicians bear some responsibility, particularly those in office over the boom period who took credit for the booms in asset prices (which were nothing more than price inflation).

It is because there has been a loss of trust that it is so hard to get the financial system reestablished, and that is why governments need to go much further than they have

done so far. It’s not just about re-jigging a few regulations, or clawing back a few bonuses. We need to atone for the broken trust. We need to live in a society where we know the economic rules and norms are fair: otherwise we will withdraw from productive economic

cooperation. The financial system needs re-designing, so that it serves the real economy rather than itself. As Peter Hewson has said, arguing for a fundamental re-design of our financial systems: “If we learn anything from this crisis, it should be that economic growth based on excessive liquidity, debt and greed is unsustainable.”

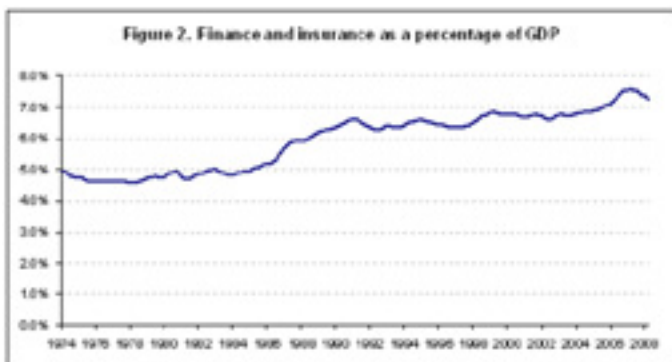
The real economy does not need all the opaque and manufactured complexity that has been built up over the last twenty years. All it needs are a few simple instruments, such as shares, loans, and a limited range of hedge products to cover real trade and investment transactions. The rest is fluff, and expensive fluff at that.

Such a re-design may take out some of the fun in the sector. Most of the people who are still working in the sector may need to go and get real jobs. But it will dramatically reduce the risk of economy-wide damage, and will allow governments to underwrite the risks of people doing useful work and taking risks that, in aggregate, will have some productive payoff, rather than playing computer games with other people’s money.

It was Keynes who warned about the risk of the capital development of a country becoming the by-product of a casino. As we know, in a casino the only assured winners are the casino owners. In a well-functioning capital market serving the real economy there is still risk to investors as they take on the normal risks of technologies, markets etc, but by good regulatory design there is protection against “casino risk” – the risk that the market will be transformed into a casino by those with no concern for the real economy, and whose attention is focused on the high rollers rather than on sober investors.

It’s time to close the casino.

The full text of this speech is available at [www.acoss.org.au/publications](http://www.acoss.org.au/publications)



**Given this “quick fix” model of assistance, it is unsurprising that after eleven years of Job Network, there remain a significant group of people who have been in assistance for many years without achieving employment.**



## **Implications of the Economic Crisis for Employment Services**

**Lisa Fowkes | Chief Executive, Job Futures**

### **Extract from a speech given to the ACOSS National Conference 2009.**

To understand the capacity of employment services to adapt to the current economic downturn, we need to look at the assumptions and ideologies that underpin it.

While the system will change from 1st July this year when the Job Services Australia program takes effect, many of the foundations that were laid by the previous Government will remain.

In 1997 the then new conservative Government privatised the delivery of employment services. It abolished the Commonwealth Employment Service and created a new Job Network program. It contracted delivery to both private and non profit providers.

When it created Job Network, it stripped approximately \$1 billion per annum in funding from the employment services system – something more possible when unemployment was on the wane.

Since then, the Job Network has operated in an environment of near continuous employment growth.

Over eleven years a buoyant labour market enabled the Government to sheet home much of the blame for unemployment to welfare recipients themselves.

In 2000, the Government commissioned to assist in program design and delivery which segmented unemployed people by their attitudes and motivation to work.

Key segments included discouraged job seekers, the “cruisers” who were quite comfortable being unemployed and “selectives” who had unrealistic expectations of work. Then Minister Abbott summed up the prevailing philosophy on in his characterisation of unemployed people as ‘job snobs’. Anyone who couldn’t get a job in these strong times was simply not trying hard enough.

But even in times of strong growth, there has been enormous variability in job prospects for individuals depending on a range of factors including where they live, their educational status, health, age and Indigenous status. Overall strong employment growth has masked underlying unevenness in distribution of opportunities to work. It has made it possible for Government to blame unemployed people for their position.

The focus on job seeker attitude as a key cause of unemployment has been reflected in the structure of our labour market programs. Unemployed people must conduct mandatory weekly job searches. There are periods of mandatory intensive activity – where job seekers must attend a provider’s site full or part time. This is backed by a harsh penalty regime for cases of non compliance.

Work for the Dole is the most important of these mandatory activities. Work for the Dole has meant that anyone who has been unemployed for six months must participate in approximately 15 hours of activity per week for six months in every year . Work for the Dole has elements which are relevant to employment and employability. But the exit to employment

or training by a participant has actually impacted negatively on provider Key Performance Indicators. While individual Work for the Dole projects have delivered benefits for communities and for many job seekers, it is important to understand that for Government, its primary purpose was to address attitude by forcing beneficiaries to work in return for their benefits.

Most people receive very light assistance in the Job Network in the form of job search training, assistance with resumes and application letters. Case management services are available to people who have been unemployed for over 12 months, or who have otherwise been assessed as highly disadvantaged. But even where case management is available, the most common forms of assistance are short term training, including motivational training, and incentives to employers to take on unemployed people.

Financial incentives and KPIs have meant that providers move participants as quickly as possible into work. So to, has the volume driven nature of the services. In the process of juggling limited internal staff resources, it rarely pays dividends to invest heavily in those for whom an employment outcome is a long way off.

At a macro level the Job Network has been highly effective at moving people into work, provided that they had the basic skills needed for the job and were relatively work ready. Close targeting of limited resources both at Government and provider level has allowed the Government to boast that each outcome has cost as little as one third of those achieved under previous systems.

Given this “quick fix” model of assistance, it is unsurprising that after eleven years of Job Network, there remain a significant group of people who have been in assistance for many years without achieving employment. Admittedly, in the last couple of years, we have started to

make inroads into getting employment for this group – this reflects the fact in many locations the more employable have been taken into the workforce. We ‘ran out’ of the other clients.

### Employment services reform – the current agenda

The Labor Government’s new Job Services Australia program will take over from the current programs on 1 July 2009. In establishing this program the new Government identified, and sought to overcome, two key failures of the current system.



First, its failure to adequately address the needs of the very long term unemployed, including those with mental health issues, the homeless and Indigenous people. Second, its failure to address the gap between the skills demanded by employers and the skills held by job seekers.

Key features of the new system include:

- Integration of programs so that Work for the Dole is no longer a standalone program and services for very highly disadvantaged people (JPET and PSP) are integrated into the mainstream employment program;
- Reallocation of resources to very highly disadvantaged job seekers; and

- Key Performance Indicators that emphasis longer term job outcomes and skills acquisition when it leads to a job.

The Government has also implemented changes to the compliance regime so that it is less punitive and better protects vulnerable people.

While there have been changes, some of the basic ideological underpinnings are still in place:

Firstly While services are more flexible than they have been, the basic model of rationing assistance according to bureaucratically assessed need remains. Job seeker disadvantage will be assessed by Centrelink and job seekers will be assigned to different service ‘streams’ that have different level of resources attached.

I should say here that I don’t have a problem with rationing resources per se. What I find troubling is the way that the system shunts people into boxes based on their characteristics. People’s lives are always more complex than the list of their so called barriers. My guess is that we could improve the targeting of resources if we gave people more opportunity to participate in decisions about their services.

Secondly no more funding has been allocated to the system, in fact savings have been achieved by combining programs. The Government appears to have bought the ‘cost per outcome’ line which means that pressure on providers to ration scarce resources across their caseloads and to focus on throughput will only increase.

Thirdly, Work for the Dole. The Government baulked at getting rid of Work for the Dole. They have removed the current disincentives to employment, but the basic idea of requiring 15 hours per week activity – even if it doesn’t directly

improve work prospects – remains. While other options are available to job seekers, the Government has made it clear that Work for the Dole will remain the primary destination for most.

It appears that JSA, like Job Network, will still run as a low cost service which will ration assistance and rely heavily on job seeker compliance to manage a high volume of people through the system.

In a buoyant labour market, this minimal change approach could have been expected to deliver results at least on par with what would have been achieved by Job Network. In a recession, I think more radical action may be required.

#### **Labour market assistance in poor market conditions**

Once people fall out of work it is much harder to get them back in. Employers compete for workers with recent work experience discounting the long term unemployed as irrelevant to their needs. While people with poor levels of education are more likely to be permanently displaced, even those with vocational qualifications find

it hard to compete with people with recent work experience.

Analysis of the impact of the 1997 and 2001 downturns showed that a half to a third of workers made redundant either were unemployed for at least six months or left the workforce altogether. This should sound alarm bells in what is likely to be a much more significant and prolonged downturn.

The exit of significant numbers of people from the workforce has serious long term consequences for our prospects of economic recovery. On both efficiency and equity grounds, we need to act to retain as many people as possible in work. If we don't stop people permanently exiting the workforce we will have a skills shortage that is deeper than before. The high cost of housing in places like Sydney and Perth will mean workers who are made redundant may be forced to leave – again, exacerbating the skills and labour shortage problem. Those permanently displaced, and their children, are likely to become the next generation of the socially excluded as the social, health, and economic effects of unemployment take their toll.

The Government has made some important and welcome moves to stimulate the economy and try to retain more people in work. These include significant infrastructure spending, with preference to contracting companies that undertake to recruit and maintain apprentices as well incentives to maintain existing apprentices.

Another area for government consideration could be the promotion of part-time work. If our goal is to maximise labour market attachment, then more people can be given this opportunity through part time work or job share. To achieve this, government would need to look at the impact of high effective marginal tax rates for Newstart recipients. It would need to rethink the weight of full-time versus part time work in incentives for employment providers.

Where it is not possible to keep people in work, we need an employment services system that maximises capacity to take opportunities that are there, and that ensures that people are ready to take advantage of new opportunities in a recovery.

The Government has announced that all retrenched workers will have immediate access to Stream 2 services in the new program. Normally, most of these job seekers would have gone straight to Stream 1 – where significantly less assistance would have been available. But at a maximum of \$885 in service fees for 12 months, Stream 2 is clearly insufficient to deliver a quality case management service.

This is not the first time a Government has fast tracked access to increased services. Mitsubishi workers received immediate access to case management services in the Job Network (the equivalent of new stream 3).

While there is some evidence that this service improved re-employment



L-R: Lisa Fowkes, Professor Stephen Sedgewick and Julia Perry

prospects for this group, a major study of the experience of these workers also highlighted some concerns about their relevance. There were complaints that Job Network staff were ill equipped to deal with people who had skills and were looking for skilled work.

Similarly, our own recent focus groups with newly retrenched workers highlighted a real concern at the lack of advice available through Job Network about skilled work and about opportunities to re-skill for other careers.

Many participants were worried about the prospect of being forced into work for the dole. They saw it as demeaning and providing little prospect of improving their chances of getting a job. These participants are highly motivated but bewildered and somewhat dismayed at the system that they have found themselves caught up in.

The Federal Government has rightly identified this as a time when we should attempt to re-skill and up skill our workforce. Fewer than 15% of jobs in the Australian economy do not require qualifications, but 50% of the people in the workforce have no qualifications. The size of the skills gap means that, both in the short and long term, the development of vocational skills will be critical to maximising employment participation.

Employment services providers should be significant players in brokering opportunities to gain new skills. But the comments from our focus groups and the Mitsubishi workers highlight the inadequacy of current assistance to help job seekers make informed choices. To some extent this is a function of the focus in our services on the low skilled and hardest to place. It also reflects a funding model which is based on delivery of low cost/high volume services.

It is not just the structure of the employment services program that is at

issue here. The bureaucratic delivery systems underpinning employment and training are very different and hopelessly siloed. On the employment side, contractual requirements to move people quickly conflict with the lead times of many training providers. Performance measurement systems and funding structures make it difficult to engage with employers or industry on any long term strategic basis.

On the training side the information available to Government or anyone else about emerging skills needs is extremely poor. A recent study of the Skills Councils conducted by the Nossal Group highlighted the fact that information provided by these key players in the allocation of training dollars was patchy at the very best. The Productivity Places Program, which is a key strategy being employed by the Federal Government to address the skills gap, is being delivered based on inadequate advice and ad hoc delivery systems.

The devolution of PPP administration to State Governments, where it will be further removed from employment services provision, presents even greater risks to the integration of these functions.

There is strong evidence that, in order to be effective, training needs to be combined with job search/work focussed activities. While skills development requires training, what employers really want is evidence of practical application of skills on the job. Qualifications alone, in the absence of proven on the job experience, will not equip job seekers to take up labour market opportunities. The lack of connection between employment services provision and training provision is a fundamental flaw in our support for unemployed people. This disconnect is most challenging for those whose experience of formal education has been poor and for whom

learning is likely to be most effective if it is in the context of real work.

I have talked about the challenges in providing quality services for newly displaced workers.

An even tougher challenge is for those people who have already been in the system for many years, and for young people looking for work for the first time. These people will be competing with others with higher skills and recent work experience. Employers will be looking for employees who need minimal support. Convincing them to give people who might be tougher to manage will be harder than it has ever been.

In the new Job Services Australia program the most highly disadvantaged will be accessing the same service providers as the most employable. Historically it is these short term unemployed people who argue most loudly for support. There is a real risk that the harder to place will lose out in the competition for limited staff time and resources.

I mentioned before the dismay that redundant workers in our focus groups expressed at the thought of being pushed into work for the dole. Many very long term unemployed people will move immediately into work for the dole on 1 July. Anyone not placed in work in the first year of assistance will almost certainly wind up in this stream.

Many participants enjoy work for the dole and would rather be doing something than nothing. But the most common complaint from participants is that it is not like work. And it isn't.

Participation in 'real work' is earned, not required. Real work involves tangible outcomes with customers or end users. Real work means that there are consequences for all involved if

outcomes aren't delivered. Receipt of a wage is a marker that what is being done is valued by the employer and by the community. Recent, proven capacity to perform in a real work setting is what will secure a future place in work. A mere qualification, or participation in a program that is required by law, is not enough. When you are in real work, you are not a case to be managed, you are a member of a team.

The Labor Government has just dismantled one of the most positive paid work experience programs that I have been involved with – the Green Corps program. Through that program 1700 young people each year, mostly early school leavers, experienced work in a team, with real job outcomes, with

supervisors that helped them learn and achieve but didn't treat them as clients who needed to be fixed. Over ten years the program also delivered substantial and proven benefits to the environment. Green Corps remains in name only in Job Services Australia, as its fundamental features – its voluntary nature and its payment of an allowance - have gone.

My hope is that the new Communities Fund will enable us to create new initiatives that provide paid work opportunities for the most vulnerable in our community so that they are equipped to compete for new jobs.

**Conclusion**

If there is a silver lining in the current economic crisis, it may be that those

newly retrenched bring a new focus to those aspects of employment services that are demeaning, demoralising and strip people of their right to make decisions.

I hope that this Government, now that it has its new employment services system, finally addresses the disconnect between training and employment services. A disconnect that wastes so much time and money.

Finally, I hope that new opportunities will be created for those who cannot immediately access work in the mainstream economy to make a meaningful contribution through projects in which they are given training and the dignity of a wage.

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## The Road Home Reforms Assessed

Pamela Foster | Chairperson, Homelessness Australia

**Clearly the commitment to halve homelessness will not be possible without a well resourced specialist homelessness sector.**

There's much to welcome in the White Paper's holistic national response to the challenge of homelessness. The homelessness support sector has long advocated for key reforms announced in the package, including better integration of policy and service approaches among varied Commonwealth, State and Territory portfolios and between homelessness specific services and other social services – a key aim of the White Paper reforms.

The White Paper sets out clear, ambitious targets. These include the headline goals of halving homelessness and offering accommodation to all rough sleepers who need it by 2020. This equates to a reduction in primary homelessness of 750 to 1000 people per year for each of the five years to 2013.

Interim national targets to 2013 include a:

- 20 per cent reduction in overall homelessness
- 25 per cent reduction in primary homelessness
- 25 per cent reduction in the number of people seeking assistance from specialist homelessness services more than three times a year (presumably this is assumed to indicate an increase in the numbers of people accessing permanent accommodation, though how this will be measured is not yet clear).

As service delivery is devolved to the States and Territories under the reforms, the White Paper also sets out a comprehensive list of state and territory

targets to be achieved by 2013.

These are admirable goals that – with resources, cooperation and commitment – are also achievable. However, it is as yet unclear how progress will be measured at the state, territory or federal levels. Data for the several of the 2013 goals appears not to be readily available. As well, the White Paper questions the usefulness of the existing evidence base on homelessness and proposes a new national homelessness research strategy which will include changes to the SAAP National Data Collection process. Establishing clear, nationally uniform guidelines for progress measurement at the state/territory and Federal levels is a matter of priority, as unclear evaluation is likely to disguise our true progress toward the White Paper's goals.

Funding arrangements under the White Paper have changed dramatically. The homelessness response will now be delivered by states and territories through the National Affordable Housing Agreement (NAHA). The NAHA will combine the base funding for SAAP, as well as funding for public, community and other housing programs previously funded under the Commonwealth State Housing Agreement (CSHA).

There are also 'partnership payments' under the NAHA. These tie increases in funding to particular Government initiatives.

A Homelessness National Partnership (NP) will fund the objectives of the White Paper with the exception of a small number of social and indigenous housing objectives included in other reforms. Under the Homelessness NP,

**The White Paper presents an overarching vision of policy reform, with many positive moves as well as areas requiring clarification and further action.**

\$800 million will be allocated to 2013 with half of the funding to come from the Commonwealth and the other half from the states and territories.

A Social Housing NP, announced at the end of 2008, will fund the construction of 1600 to 2100 new properties. This measure is also intended to fund specialist housing models such as Foyer and Common Ground initiatives. Funding of \$400 million was made available under the Social Housing NP payment. However, since this announcement, the Federal Government has announced \$6 billion in funding under its economic stimulus package for the construction of new public and community housing dwellings. Around 20,000 properties are estimated to be funded under this measure.

An Indigenous Housing NP will pay the first instalment of a plan to build up to 4,200 new houses and upgrade 4,800 existing houses in remote Indigenous communities over the next decade. Funding of \$1.94 billion from 2009 has been made available.

These funding arrangements are complex and at this stage it is unclear what the final funding allocations to States and Territories will be, although implementation agreements should be signed by April 2009.

### **Key challenges**

#### ***Legislative changes***

Some of the most significant reforms set out in White Paper relate to legislative changes. Primary among these is the repeal of the SAAP Act, which will be replaced by a broader 'Homelessness Act' that seeks to guarantee quality services and adequate support to clients.

The White Paper indicates that the best aspects of both the SAAP Act and the Disability Services Act will be incorporated into the new Act, implying

that the principles underlying the SAAP Act and the service quality standards in the Disability Services Act may be the basis for similar inclusions in the new 'Homelessness Act'.

However it is not yet clear whether the new Act will provide a legal framework for the entire homelessness response or just specialist homelessness services. Homelessness Australia advocates for a strong rights-based legislative underpinning to the homelessness response, and looks forward to meaningful consultation between government, the homelessness sector and other services involved in the implementation of the new approach to ensure robust legislation is developed.

#### ***Common Definition of Homelessness***

The Federal Government seeks to implement a common definition of homelessness across all jurisdictions, agencies, and community organisations. This definition of homelessness will determine which people are eligible for assistance under the reforms and the definition used is therefore central to the reform process.

Among the definitional issues in the White Paper, it is unclear whether 'people at risk of homelessness' will be incorporated in the definition of homelessness used in the new Act. This is something that the SAAP Act currently provides for in its definition of homelessness, which also includes people living in housing that places the person in circumstances which threatens or adversely affects their safety and security. This is especially an issue for women and children escaping domestic violence. Domestic violence has consistently been the largest reason people seek support from specialist homelessness services over the life of SAAP.

Homelessness Australia will continue to advocate for the national use of a holistic definition based on Chamberlain

and Mackenzie's cultural definition that encompasses primary, secondary and tertiary homelessness. We will also argue that we need to acknowledge people at risk of homelessness in any new legislation.

### ***The 'No Wrong Doors' Model: Joined-up Policy and Service Delivery***

The White Paper states that the new response to homelessness will be delivered through joined-up policy and service delivery between 'mainstream services' and specialist homelessness services.

This approach aims to create a 'no wrong doors' system, which will provide 'mechanisms for cross-agency case assessments, case management and case planning, as well as service protocols [between specialist homelessness services and other services].'

For example, mainstream services might assess the housing needs of their clients, while specialist homelessness services might consider other client needs beyond housing (for instance education and employment needs). Strong service networks and agreements will be created at a local level; and agencies will undertake joint assessment, planning coordination and case management and share information about clients.

This large scale change to the service system will require a significant upgrade of data collection and sharing mechanisms as well as substantial coordination infrastructure to coordinate community organisations and state/territory and Federal Government departments.

Experience suggests this will be a challenging processes. For instance the NSW Auditor-General found that in that state that there were "no state-wide performance measures or targets on homelessness." It also found that in terms of access to services that "significant barriers still exist. These

include waiting lists, expectation gaps, intimidating physical environments, and reliance on paper based systems."<sup>1</sup> From Homelessness Australia's perspective, the priority will be to improve mechanisms that allow services to coordinate their work – this may mean "joined-up" service delivery or merely communicating better with each other.

### ***Funding for specialist homelessness services (formerly SAAP)***

Base funding for what was SAAP services will now be delivered under the NAHA. At the time of writing, it is not clear how it will operate in practice. We hope that greater flexibility in funding provided to the states and territories will not lead to any unintended consequences. Clearly the commitment to halve homelessness will not be possible without a well resourced specialist homelessness sector. Homelessness Australia will continue to advocate strongly for the value-add that specialist homelessness services provide through their experience, skills and proven effectiveness in supporting people who are homeless to achieve sustainable positive outcomes.

### ***National Accreditation and Service Standards***

The White Paper commits to creating a national accreditation system for homelessness services. Service funding could become provisional on accreditation. What form accreditation will take has not yet been announced, but from Homelessness Australia's perspective a priority is that accreditation takes into account the value of diverse service models and services of varied sizes.

### ***The advanced practitioner model and workforce strategies***

The White Paper calls for the creation of a new award for 'advanced practitioners' working in specialist homelessness services. This new award would allow services to pay highly skilled workers more

than the current award and is intended to facilitate the retention of highly skilled homelessness workers. While this is a positive goal, it fails to address underlying workforce and resourcing problems that are the most pressing challenges for the homelessness service sector. While both the Green Paper and White Paper acknowledge that workforce issues require attention, the White Paper says that these are state and territory issues and does not address these in a broad way as part of the reform package. Unaddressed, workforce issues have the potential to undermine the role of the advanced practitioners by diluting their capacity across the range of tasks left incomplete because of the underlying workforce deficiencies.

### ***The 'no exits from homelessness' policy***

The White Paper proposes a 'no exits into homelessness' policy that will be implemented by State and Territory governments and aims to prevent institutions from discharging people from medical, care and custodial settings into homelessness. This is a welcome announcement. However the strategy does not make clear how this will operate in practice, particularly if a person is exited after a relatively short stay in care. For example, it will be difficult for a hospital to justify keeping someone in care after they are discharged; raising the prospect that people may be exited into short-term unsustainable housing options. The White Paper also fails to canvass how people at risk of homelessness will be prevented from becoming homeless on entry to medical or custodial services by virtue of their stay in that service. There are no contingencies to prevent a person becoming homeless simply because their housing wasn't maintained during a period in care or custody. In short, while the 'no exits into homelessness' policy has the potential to make significant in-roads in homelessness reduction, its effectiveness will be determined by the manner of its roll-out and the resources put behind it by Federal, State and Territory governments.

## Governance Structures

A Prime Minister's Council on Homelessness will be appointed to drive and monitor the reforms in the White Paper to 2020. This continued high-level leadership will be crucial to the success of the strategy, but it is not yet clear how the Council will be constituted or how it will engage with existing State/Territory and National bodies representing community sector agencies working in the homelessness field. For greatest effectiveness, the Council's findings on progress should be binding and made public, and its recommendations should create a mandate for amendments to the policies announced in the White Paper.

## Moving forward

There are a range of other initiatives announced in the White Paper, and a full analysis from the perspective of the homeless service sector can be accessed here: [www.homelessnessaustralia.org.au](http://www.homelessnessaustralia.org.au).

As this brief discussion makes clear, the White Paper presents an overarching vision of policy reform, with many positive moves as well as areas requiring clarification and further action.

The detail of the reforms and their implications for the quality of services provided to people experiencing or at risk of homelessness will be clearer once implementation agreements are reached

with the States and Territories in April. Sector workers and others interested in engaging with this process should contact their State or Territory homelessness peak body.

In the immediate future Homelessness Australia will encourage information-sharing at the national level, with the aim of ensuring a consistently effective response to homelessness under the new strategy. Homelessness Australia members are encouraged to feed into this process contacting:

[info@homelessnessaustralia.org.au](mailto:info@homelessnessaustralia.org.au)

<sup>1</sup> NSW Auditor General's Report: Performance Audit, *Responding to Homelessness*, Sydney, 2007, pp.2-3.

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This report underscores the case for any increase to extend to all social security recipients, and for a reassessment of the adequacy of Rent Assistance which covers only a small fraction of the costs of renting privately.



## Missing Out : which income support recipients are most at risk of hardship?

Peter Davidson | Senior Policy Officer, ACOSS

New research published by ACOSS finds that those on the lowest social security payments face the greatest hardship. The social security system is poorly designed to prevent poverty.<sup>1</sup>

The ACOSS report draws on a study by the Social Policy Research Centre, in collaboration with ACOSS and member organisations, that surveyed access to essential items across the Australian population in 2006. Respondents were asked what they regarded as the essentials of life, whether their household had these items, and if not, whether this was because they could not afford them.

Examples included a decent and secure home and access to dental treatment when needed. Only those items which more than half of those surveyed considered essential were used as indicators of deprivation.<sup>2</sup>

The average level of multiple deprivation across the whole population was 19%. However, the following groups faced a much higher risk of hardship (see table 1):

*Indigenous people, sole parent families, unemployed people, people with disabilities and renters* stood out as groups most likely to lack the essentials of life.

In contrast to the overall population, 65% of Indigenous people, 54% of unemployed people, 49% of sole parent families, 27% of people with disabilities, 53% of public tenants, and 48% of private tenants experienced multiple deprivation.<sup>3</sup>

On average, *young people* were more likely to experience multiple deprivation (27%) than middle aged (19%) or mature aged people (12%).

Among *mature age people*, those who *rent their homes* stood out as a group most likely to experience multiple deprivation (39%) and *single mature age people* (19%) were more likely to experience multiple deprivation than couples (8%).

People living in Victoria (21%), Queensland (21%), and South Australia (20%) were slightly more likely to experience multiple deprivation than residents of other States and Territories, and residents of the Australian Capital Territory (10%) and Western Australia (12%) were less likely.

**Table 1: Percentage of each group experiencing multiple deprivation (lacking at least 3 essential items)**

By at-risk group	Per cent	By age	Per cent	By State/Territory	Per cent
Indigenous people	65%	Under 25 years	27%	Victoria	21%
Unemployed people	54%	26-64 years	19%	Queensland	21%
Public Tenants	53%	Over 64 years (all)	12%	South Australia	20%
Sole parents	49%	Over 64 (renting)	39%	New South Wales	19%
Private tenants	48%	Over 64 (single)	19%	Northern Territory	19%
People with disabilities	27%	Over 64 (couple)	8%	Tasmania	17%
		Over 64 (less than \$500pw)	12%	Western Australia	12%
		Over 64 (over \$700pw)	3%	Australian Capital Territory	10%
All persons	19%	All persons	19%	All persons	19%

Source: Data provided to ACOSS from *New Indicators of Disadvantage* project. For background see Saunders, Naidoo & Griffiths 2007, *Towards new indicators of disadvantage*, Social Policy Research Centre, University of NSW.

To paint a clearer picture of hardship among social security recipients, the ACOSS report also examined access to 12 items that were regarded by most people as essential (see table 2).

The key findings regarding access to these 12 essential items are:

The overall proportion of the population lacking one or more of these items was generally low (well under 20% in most cases), reflecting Australia's status as a high income nation.

However recipients of *Parenting Payment (mainly sole parents)*, *Newstart Allowance (unemployed people)*, and *Disability Support Pension* stood out as being well over twice as likely as the general community to go without most of these items.

Among *mature age people* those who *rent rather than own their homes* stood out as being much more likely to lack these items. Single mature age people were also significantly more likely than other mature age people to lack these essentials.

Table 2: Percentage of social security recipients and mature age people lacking 12 essential items (2006)

Essential item	all people	Newstart Allowance	Parenting Payment	Disability Support Pension	Age Pension	Mature age (over 64 years)			
						renting	single	married	income >\$700pw
decent and secure home	6.6	23.1	43.1	7.1	7.3	29.8	8.3	2.1	2.9
could not pay utility bill	12.5	27.5	56.6	28.6	5.6	8.8	3.3	2.2	0
\$500 in emergency savings	17.6	53.8	55.8	42.2	10.1	39.3	14.5	8.2	3
home contents insurance	9.5	55.6	51.9	31.0	7.6	28.6	11.1	2.1	2.9
unable to buy prescribed medicines	3.9	16.7	12.5	11.4	2.0	6.7	4.5	0.6	2.9
dental treatment	13.9	44.7	54.0	32.4	12.9	28.1	17.5	5.9	2.9
regular social contact	4.7	20.6	14.9	18.1	5.4				
presents for family and friends	6.6	29.7	27.7	26.4	7.2	19.6	8.9	3	0
week's holiday away from home	22.4	69.4	63.3	52.9	23.5	43.9	27.2	14.4	3
bedroom for each child >10	6.1	8.6	20.0						
up to date schoolbooks & clothes	3.8	6.5	24.0						
hobby or leisure activity for children	5.7	24.2	39.6						

Source: Data provided to ACOSS by Social Policy Research Centre; for details of source see Saunders et al 2007, *Towards new indicators of disadvantage*, Social Policy Research Centre November 2007.

Note: Shaded areas represent cases where the risk of deprivation exceeds twice that of the general population (the figures in the first column).

**Is the social security system inadequate?**

These findings have implications for policy because many of those at greatest risk of hardship – such as unemployed people, sole parents, young people and people with disabilities - receive the lowest social security payments (such as Newstart or Youth Allowance). This suggests that the system is poorly designed to reduce poverty.

Social security payments are well below typical community incomes. In December 2008 the base rate for a single pensioner was \$281 per week while Newstart Allowance for an unemployed adult was \$225 per week and a young person living independently of their parents received up to \$178. A sole parent with two school age children on Parenting Payment received \$477 per week (including Family Tax Benefit).

The Government is reviewing the adequacy of pensions through the

Harmer Review, while the Henry Review of the tax-transfer system will consider the social security system as a whole.

The outcome of the Harmer Review is likely to be announced in this year's Federal Budget. Media reports indicate that age pensions are likely to be increased for single people and that this may also extend to disability pensioners and carers. It is not clear whether sole parents on Parenting Payment Single, who are currently paid at pension rates, will receive from any increases. Also, the Government has not yet committed to increasing the lower allowance payments such as Newstart Allowance.

The missing out report underscores the case for payments to be reassessed, along with the adequacy of rent assistance which covers only a small fraction of the costs of renting privately.

In its Budget submission, ACOSS called for a \$30 per week increase in Newstart and other allowances for

single people and for a 30% increase in Rent Assistance.

<sup>1</sup> 'Who is missing out, hardship among low income Australians', ACOSS Info Paper 391, is available on the ACOSS website – [www.acoss.org.au](http://www.acoss.org.au)

<sup>2</sup> From the *New Indicators of Disadvantage* project conducted by Professor Saunders and colleagues at the Social Policy Research Centre in collaboration with ACOSS, Brotherhood of St Laurence, Mission Australia and Anglicare NSW.

<sup>3</sup> Carers of people with disabilities are another group at risk of financial hardship, but there were not enough carers in the survey sample to draw clear conclusions about their circumstances. Other reports emphasise the severe impacts of prolonged caring on the health and finances of many carers (King 2008, *Who is caring for the carers?*, Anglicare NSW; NATSEM 2008, *Women carers in financial stress*, Commonwealth Financial Planning and Carers Australia).

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