



Signposts to welfare reform

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Address by ACOSS President Andrew McCallum to Melbourne Institute - The Australian 'Sustaining Prosperity' conference, March 2005

In this Federal Budget the Government is likely to announce major changes in our systems of social security and employment assistance for jobless people.

In responding to these proposals, we will ask five questions:

1. Will jobless people be better off or worse off financially?
2. Will the changes improve their future job prospects?
3. Will they strengthen or weaken the fairness and security of the safety net?
4. Will they strike a reasonable balance between the obligations of jobless people, government and employers?
5. Will it help make Australia a fairer and more inclusive society?

The Government's main argument for change is that too many people are dependent on social security. The media has picked up this theme. A recent media report was headlined '*Jobless crisis costs \$4.7 billion*'¹.

The irony is that the official unemployment figures are at 30 year lows – close to 5%. How can reliance on social security be rising when unemployment is falling? The short answer is that reliance on social security has *fallen* over the last seven years as full time jobs have grown. *There is no welfare dependency crisis*. But as unemployment falls, it is the people facing the greatest obstacles to employment who still rely on income support. Helping them find secure jobs is the real challenge.

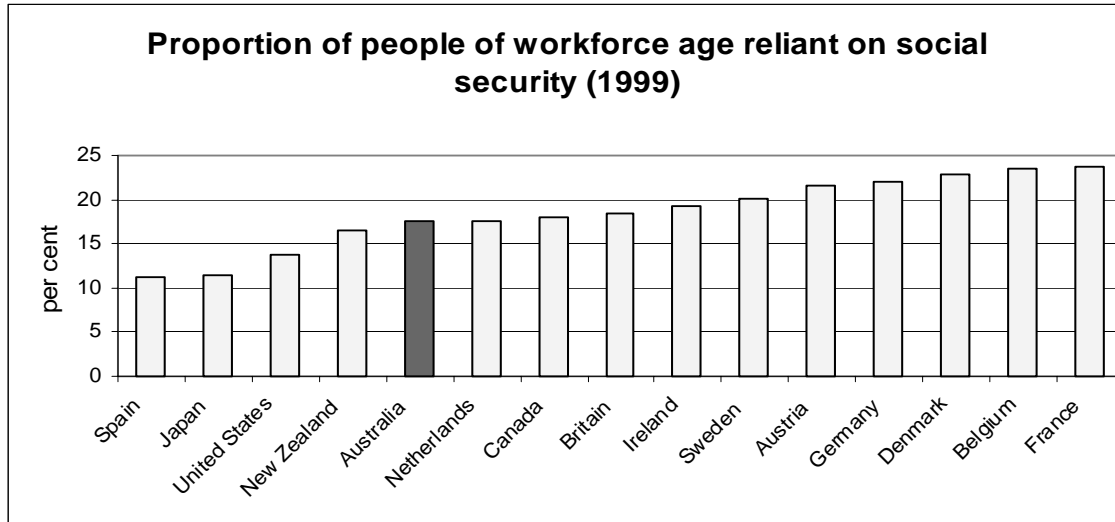
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¹ Herald Sun, 29/3/05.

The basic facts are these:

1. Reliance on social security is below the OECD average, and it has been falling as full time job growth has picked up over the past seven years.

% of people of workforce age on social security in OECD countries²



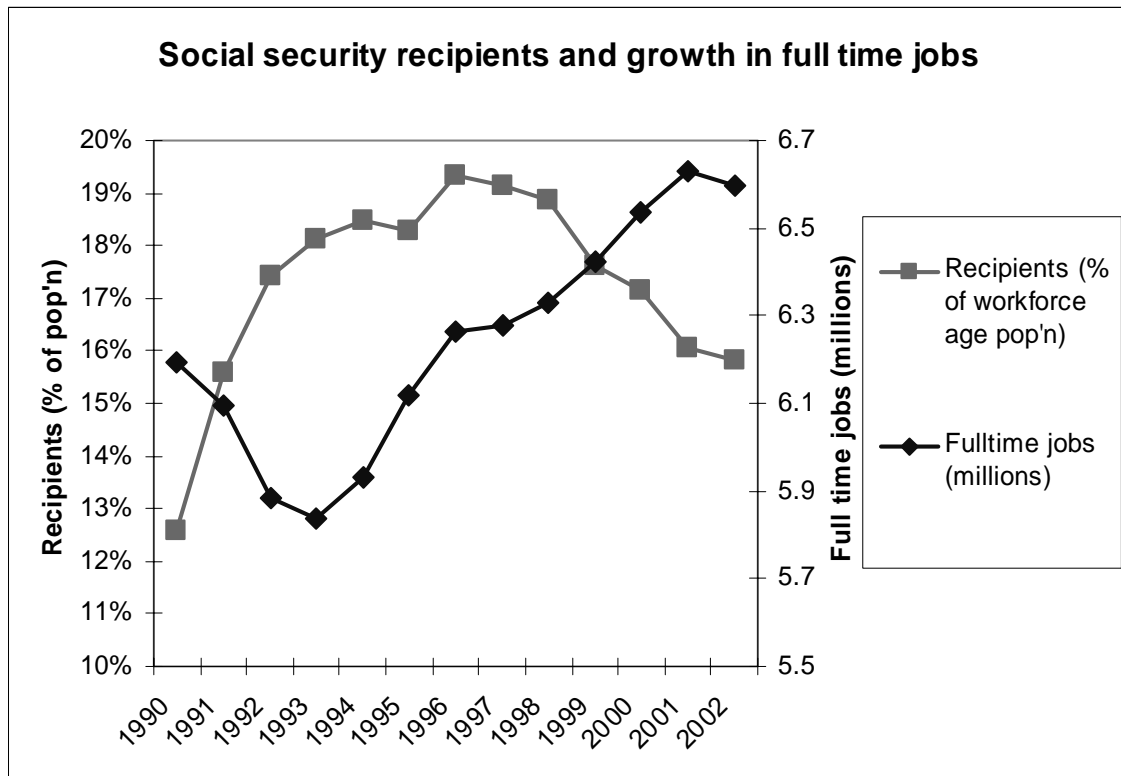
Reliance on social security payments is below the OECD average, and reliance on disability pensions is about average³. Social security spending is well below the average. The Productivity Commission acknowledges that social security is affordable, even as the population ages⁴.

² OECD 2003, *Employment outlook*.

³ ACOSS 2005, *Disability Support Pension, myths and realities* at www.acoss.org.au

⁴ Productivity Commission, *Economic effects of population ageing*. Draft Report, 2004.

Reliance on social security, compared with full time job growth⁵

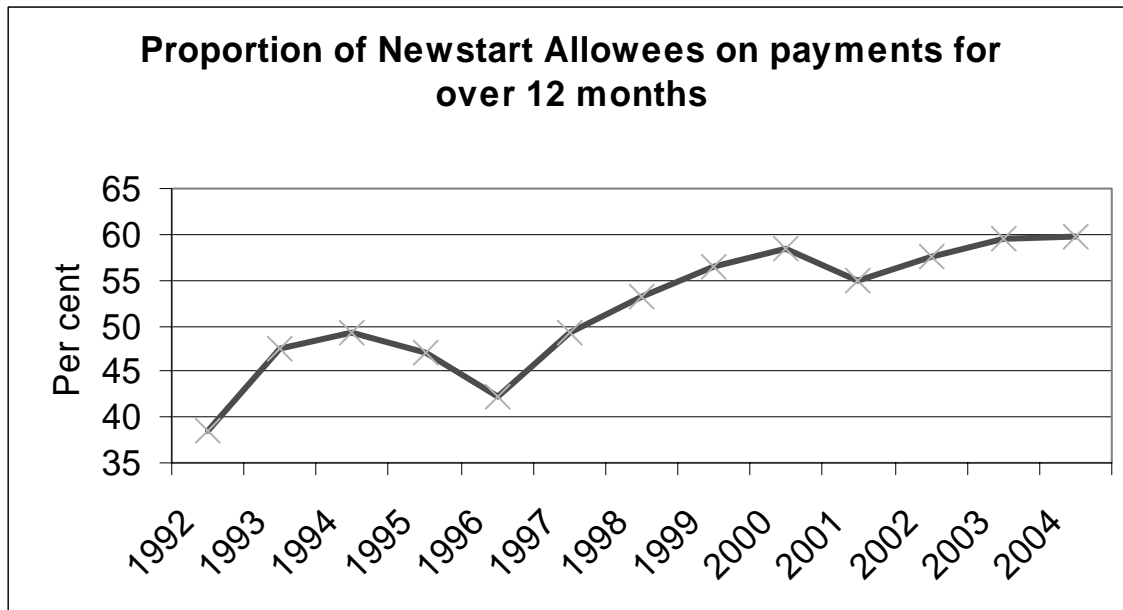


These figures show that reliance on social security has fallen with strong growth in full time jobs over the past seven years. But for most of the 1990s we only enjoyed strong growth in part time jobs. Many social security recipients got part time work, but their income wasn't enough to take them off income support. In the recession of the early 1990s many fulltime jobs were lost. That led to the sharp rise in reliance on social security in the early 1990s.

2. At this stage of the business cycle, people with the greatest barriers to employment form a growing proportion of social security recipients. Getting them into work becomes harder.

⁵ FACS data on receipt of social security payments (excluding age pension and student payments), ABS data on full time employment.

Long term unemployed as a % of Newstart and Youth Allowance recipients



For example, the proportion of unemployment payment recipients on benefits for more than a year has risen from under 40% after the last recession to over 60% today.

Barriers to work

Barriers to work

- 60% of people with disabilities have no post school qualifications
- 350,000 Newstart and Youth Allowees have been on payments for over 12 months
- 25% of sole parents on Parenting Payment suffer from depression
- DSP recipients are medically assessed and must be unable to work fulltime for at least 2 years
- at least 50,000 Newstart recipients are assessed as having disabilities or illnesses.

The barriers to work include limited education, lack of recent work experience, disabilities, poor physical and mental health, and lack of affordable child care.

These facts provide no grounds for 'moral panic' over 'welfare dependency'. But we do have an historic opportunity to assist the most disadvantaged jobless people into work. In the short term, employment is still booming. Over the next 30 years, labour shortages will emerge as the population ages.

ACOSS enthusiastically supports efforts to assist people off social security into employment, where this is a reasonable and realistic expectation. We have

consistently supported positive policies to that end from *Working Nation* in the mid 1990s to the *Australians Working Together* changes in 2000. I emphasise this because this support is often forgotten, or taken for granted, in the heat of debate.

Over the past five years there has been a broad consensus over welfare reform, in favour of the broad directions advocated by the Government's Reference Group on Welfare Reform five years ago (the McClure Report).

The key elements of that Report, and the Building a Simpler System paper released by Ministers Vanstone and Abbott in 2002 are as follows⁶:

McClure Report framework

The McClure Report's framework for welfare reform (2000)

- encourage participation in the labour market, subject to people's capacities and caring responsibilities
- employment assistance, advice and support based on individual needs
- a simpler and fairer social security system in which distinctions between 'pensioners' and 'allowances are removed
- improve work incentives by easing income tests and assisting with the direct costs of work and further education and training
- use penalties as a last resort only.

If the Government builds on this framework, it will announce five things in the budget:

- First, a substantial improvement in employment assistance, especially the Job Network.

Those who remain out of work long term today are among the most disadvantaged people in the labour market. Many have been out of work for two years or more. It would be misleading to argue that simply imposing greater obligations will turn this problem around.

The Job Network must now focus on the individual needs of the most disadvantaged jobseekers, and both the Job Network and specialist providers must be available for people with disabilities and sole parents. The Government should give Job Network providers the resources they need to invest in wage subsidies and substantial training. They can now use a *Job Seeker Account* to help overcome work barriers. But the average sum available is around \$1,000 – enough to buy a few weeks training. That won't overcome years of educational disadvantage and exclusion from the mainstream employment.

It would be a mistake to burden the Job Network with social security

⁶ Reference Group on Welfare reform 2000 *Participation support for an equitable society*. Abbott and Vanstone 2002, *Building a simpler system*.

administration – for example work testing. The Job Network would start to look less like an employment service and more like a privatised Centrelink. There is already too much emphasis on benefit compliance, and too little scope to offer people the individual help they need to get them into work.

The Government is planning changes to the CDEP for Indigenous communities. The key to reducing the very high levels of Indigenous joblessness is a partnership between the Government, Indigenous communities and employers. Change should not be imposed from above.

On the employer side, a national strategy to encourage and support employers to take on people with disabilities, mature age workers and other disadvantaged job seekers is needed.

- Second, the unfair and counterproductive anomalies between pension and allowance payments should be removed without making anyone worse off.

For example, if a disability pensioner undergoes rehabilitation and is able to work again they are likely to be transferred to Newstart Allowance. This means a drop in income from \$235 per week to \$197 – a fall of around \$40 per week. If they then undertake full time study to improve their job prospects they go onto Austudy, which is at least another \$30 per week less. People are penalised for trying.

The old distinction between ‘allowances for people able to work’ and ‘pensions for those who aren’t’ is the worst work disincentive in the social security system. Pensions have become ‘dead end payments’. But people are discouraged from leaving them because they would be even poorer on the Newstart Allowance.

This is what would happen if the Government proceeds with proposals to shift people with disabilities who can work part time from the Disability Support Pension (DSP) to Newstart Allowance. We urge the Government not to go down this track.

There is no evidence to suggest that the people affected could easily get full time work if compelled to do so. Most would simply end up on Newstart Allowance, and at least \$20 to \$40 a week worse off. The DSP would become even more of a dead end payment because people would be reluctant to try part time work in case they lose it.

The solution is to close the gap between pension and allowance payments, not to shift people to the cheaper payment. This was proposed by the McClure Report five years ago and raised by Ministers Vanstone and Abbott in a discussion paper three years ago. This is the direction New Zealand is taking. We hope Helen Clark convinced the Prime Minister to follow suit.

- Third, work incentives should be improved by offering more help with the costs of job search, training and employment and easing the most severe income tests.

An unemployed person living on around \$200 a week can't afford to look for work. They don't get the same public transport concessions and telephone allowances pensioners get. Nor do they get the pensioner education supplement to help with the cost of fees and books for their TAFE course.

And if they earn more than \$71 per week, they lose 70 cents in Allowances for every additional dollar earned, together with income tax.

People with disabilities face much higher work related costs – for example transport – but receive too little help with those costs.

- Fourth, obligations for recipients must be realistic, grounded in individual circumstances, and balanced by a substantial government investment in employment and support services.

For example, the Government imposed new activity requirements on Parenting Payment recipients in 2001 – to participate in part time employment training or voluntary work once their youngest child reached 13 years. Those requirements were balanced by investment in personal advisors at Centrelink and an expansion of child care subsidies. Efforts were made to keep breaches and penalties down to a minimum. Parents unable to meet the new requirements (for example those whose children were ill or have a disability or who are subject to domestic violence) were exempted. Breach and penalty arrangements were changed.

If activity requirements for parents are increased without maintaining and improving these protections and supports, the well being of poor children would be jeopardised.

The McClure Report argued that governments must invest up front to reap benefits later on. If the forthcoming welfare reform package saves money, or even if it is revenue neutral, that means there will be large number of losers. It will be a cost cutting exercise, not welfare reform.

- Fifth, the harsh, counterproductive breach regime should be eased and the review and appeals systems strengthened.

The present system imposes penalties of up to two months' loss of payment where people fail to meet requirements that are often unrealistic and badly administered.

For example, many people with mental illnesses are breached because their illnesses are not properly identified and they fail to attend an interview, or to declare earnings, when they have an 'episode'.

The Social Security Appeals Tribunal and other protections against arbitrary and unfair decisions should be strengthened, not removed.

These protections are all the more important if the Government is considering extending activity requirements to vulnerable groups like people with disabilities and sole parents.

The Government says it will not use its control of the Senate in a harsh or preemptive way and that they won't impose American style welfare reform on Australians. There are indications that the Minister (Kevin Andrews) understands the barriers that confront jobless people in their efforts to raise themselves out of poverty⁷. The Government has been talking with community organisations about these issues, but has only formally consulted over about the last four weeks.

It took two years to develop the McClure Report and the directions for reform in that report are broadly supported. We urge the Government to stick with the balanced approach, the consensus approach to welfare reform. This requires an investment of public funds now to reap benefits in future years. It requires a careful balancing of requirements and legislative protections for vulnerable Australians. It requires much more substantial consultation than four weeks to get it right.

We urge the Government to build on the work already done, not to force welfare recipients to take a leap in the dark in the name of welfare reform.

⁷ Hon Andrews, K *Speech to Sydney Institute*, March 2005.