



Brotherhood
of St Laurence

Working for an Australia free of poverty

*Submission to the
Standing Committee on
Employment and Workplace
Relations*

Inquiry into employment: increasing participation
in paid work

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Introduction

This submission is the Brotherhood of St Laurence's response to the 'Inquiry into employment: increasing participation in paid work' conducted by the House of Representatives Standing Committee on Employment and Workplace Relations. The Terms of reference for the inquiry were to examine:

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

Brotherhood of St Laurence

The Brotherhood of St Laurence is a Melbourne-based community organisation that has been working to reduce poverty in Australia since the 1930s. Our vision is 'an Australia free of poverty'. Our work includes direct service provision to people in need, the development of social enterprises to address inequality, research to better understand the causes and effects of poverty in Australia, and the development of policy solutions at both national and local levels. We aim to work with others to create:

- an inclusive society in which everyone is treated with dignity and respect
- a compassionate and just society which challenges inequity
- connected communities in which we share responsibility for each other
- a sustainable society for our generation and future generations.

The Brotherhood has a significant focus on employment in both service delivery and research and policy development. Our employment-related programs include Job Network, Personal Support Program, STEP (a group training provider), GAPCO (disability employment), Jobs, Placement, Education and Training Program (JPET), Frankston Furniture Works (a social enterprise providing traineeships), and a Community Jobs Program run in partnership with Neighbourhood Renewal focussed on long term unemployed people living in public housing (the Atherton Gardens project).

Lack of work and participation

A fundamental relationship that must be understood when attempting to increase the level of participation in paid work in Australia, is that between the lack of jobs, unemployment and increased reliance on social security payments. Research indicates that much of the growth in social security spending since the 1970s stems from lack of full-time jobs, resulting in many people receiving benefits simply unable to gain employment despite extensive job search. This has negative consequences for individuals, children and families, and has serious long-term social consequences.

If you move to an area where there is very high unemployment and low job growth, it's going to affect you over your lifetime with respect to getting new jobs. It's also going to affect your children. Your children are going to grow up in an environment where many people don't work, they're not going to have good connections, they're going to go to a school where most kids come from families where people don't work. When you go to the poor ghettos, they're dominated by lack of work and lack of work is something different from low-income. Lack of work has very serious social implications (Professor Bob Gregory, 7.30 Report, ABC TV, August 2002).

Until the mid-1970s, full employment was viewed as a cornerstone of stable society, and the right to work was seen as a basic human right, as affirmed in the Universal Declaration of Human Rights. Full employment was specified as one of three objectives of the Reserve Bank of Australia, along with: the stability of the currency and the economic prosperity of the country.

However, from the early 1980s, the goal of full employment has progressively lost ground to the desire to control inflation, and in 1996 a joint statement was issued by the Treasurer and the Reserve Bank formally recognising the control of inflation as the primary goal of macroeconomic policy (RBA 1996) (This statement was reissued in July 2003).

Full employment now seems to have been abandoned as a policy goal, and employment policy focuses instead on full employability and supply-side measures such as labour market deregulation, and increasingly punitive labour market programs.

The focus on inflation rather than unemployment and rejection of demand management as a macroeconomic policy tool has resulted in the Australian economy operating with significant underutilisation of labour for over two decades. In November 2002 ABS job vacancy figures showed that there was only one job available for every six officially unemployed people (ABS 2003), and this figure would be significantly worse if hidden unemployment was taken into account (around one vacancy for every 13 underemployed people). This has had devastating effects in terms of increasing numbers of long-term unemployed, and the marginalisation of those at the lower end of the labour market.

The Brotherhood of St Laurence believes that current economic policy fails to appreciate the degenerative impact of unemployment on individual skill levels and affective states, the destructive impact of which can be seen in the growing pool of job seekers requiring extensive support to be reintegrated into the labour force. This impact of unemployment on individuals has been documented at a macro level by Mitchell (2002) who found considerable asymmetry in the response of the unemployment rate to cyclical shocks: unemployment increases rapidly in economic downturns but fails to achieve equivalent reductions during upturns which means that every downturn results in a net increase in unemployment over the long term.

The destructive effects of unemployment

Sustained unemployment is associated with sizeable and far-reaching costs to individuals, including the atrophy of work skills and loss of human capital, erosion of confidence and self esteem, social isolation, alienation and depression. There is also significant evidence of a causal link between unemployment and negative psychological states such as reduced life satisfaction, anxiety (Headey 2002), and separation, divorce and family conflict (Feather 1997).

The negative effects of unemployment are further compounded by long average durations, with greater strains on individuals and families, and four out of every five long-term unemployed persons shown to be living in poverty (Gregory & Sheehan 1998). Moreover, once the negative effects of unemployment take hold:

they become increasingly difficult to eradicate. Because they tend to feed off each other, their consequences are reinforced, making it harder to reverse the pattern of events that originally gave rise to them. Thus, unemployment adversely affects morale and health, making the prospect of re-employment less likely, whilst simultaneously leading to attitudes that reinforce isolation from the world of work that shape[s] people's lives. (Saunders 2002, p.20)

This effect was also recognised in the McClure report:

Disengagement from the paid workforce, which leads to long-term reliance on income support, can be harmful for individuals, for their families and for the communities in which they live. Long periods out of paid work reduce lifetime earnings and lead to a loss of skills and self-confidence. These in turn increase the risk of longer-term poverty and decrease the probability of a successful return to work in the future. (FaCS 2000, p.65)

Other research also indicates that the longer a person remains unemployed the greater, the physiological and psychological damage of each additional unemployment period (Mitchell et al. 2003). People interviewed in a recent joint research project between the Brotherhood, St Vincent de Paul and the University of Melbourne (Ziguras, Dufty and Considine, 2003) spoke of the impact that unemployment had had on their lives:

I never thought in my fifties I'd be living in my car and on the Centrelink payment. A few years ago I owned my own home and had a business ... I was married for 25 years.

I drink far more than I did three years ago. I'm probably not quite as positive as when I initially left university but that's as much related to not obtaining interviews ... I was surprised at how much the employment market had changed [between 1992 and 1999] ... for the first six months, I simply couldn't get an interview.

Many people we interviewed talked about the difficulty they had experienced in looking for work and the despondency they felt about long-term unemployment:

You start to get a bit disheartened after you've been unemployed for more than a year ... you start to think, 'Well, I'm not worthy ... low self esteem ... It's a vicious circle.

I was all over the place knowing that I was being shoved out and I felt very insecure, I was depressed ... about family issues, where I stood and owing to the fact that I wasn't then working ... so just a lot of things brought me down... too much too soon.

The devastating impact of long-term unemployment in terms of decreased participation is further highlighted when the characteristics of this group are taken into account. Compared to the rest of the population, long-term unemployed people are likely to be:

- less educated and qualified
- have previously been employed in a lower skill job
- reside in a lower socioeconomic location
- live with other non-working adults
- speak English less well (Mitchell et al. 2003)

The Brotherhood of St Laurence supports the aim of the government to increase participation in paid employment. We believe that any realistic strategy to meet this aim must include consideration of demand side as well as supply side initiatives. To this end we make the following recommendations.

Recommendations

- Make a renewed commitment to full employment as a central policy goal.
- Create greater employment opportunities across public and private sectors and in partnership with business, community and welfare organisations. This should focus particularly on regions with high levels of unemployment and should include jobs in health, education, community services and environmental restoration.
- Make more effective use of the public sector capacity to create unemployment opportunities relevant to the long term unemployed.
- Create employment opportunities across a range of skill levels providing opportunities for training and development.

Labour market assistance

In order to reverse the damage caused by long periods of inactivity and increase participation in paid work, it is essential that labour market programs are able to provide high levels of assistance and support to those most distant from the labour market.

In the Australian context the Job Network is the primary means for delivering such assistance. However, research conducted by a range of organisations, including the Brotherhood of St Laurence, has concluded overwhelmingly that long-term unemployed and highly disadvantaged job seekers have not been well served in terms of both employment outcomes achieved and quality of assistance delivered. (Productivity Commission 2002; Davidson 2002; Eardley et al. 2001; ACOSS 2001). Even the Department of Employment and Workplace Relation's own evaluation concluded that Intensive Assistance (the highest assistance category in the Job Network) provided only negligible benefits for job seekers taking part, and that the likelihood of being in employment three months after completion was increased by only 0.6 per cent.

The failure of this system to effectively assist disadvantaged clients is clearly reflected in the increase in the number of job seekers on benefits for 12 months or more, from 361,000 in 1996, to 391,100 in December 2002. This has occurred despite strong economic growth over this period and an overall reduction in unemployment (ACOSS 2003).

A number of factors have been identified as contributing toward this situation. The Job Network funding structure has created an incentive for providers to utilise the lowest cost inputs and achieve quick outcomes, rather than investing in quality services with the potential to address underlying causes of labour market disadvantage. The result of this has been, by and large, short-term minimum cost assistance, and insufficient emphasis on training and skill development.

As John Quiggin (2003) points out 'an incentive-based system like the Job Network is perfectly designed to produce statistical outcomes at minimum cost. Service providers have strong incentives to focus resources on the easy cases in any given category and to adopt strategies that produce the measured outcomes required by government rather than those that meet the needs of their clients'. There has been little financial incentive for providers to invest in those with less chance of gaining employment. Whether the new funding arrangements adequately address this remains to be seen.

Work done by the Brotherhood of St Laurence with long-term unemployed residents on the Atherton Gardens housing estate in Fitzroy demonstrates clearly that positive outcomes can be achieved with long-term unemployed people. The key components of our work include pre-vocational support (including building self-esteem and understanding of work requirements), concurrent training and work experience, a clearly identified strategy for placement into ongoing positions at the end of training and intensive post-placement support. Substantial assistance and

ongoing support is essential, but our results suggest that this investment is rewarded by greater uptake of opportunities and retention in paid work.

A current limitation in employment programs is lack of work experience for the long-term unemployed. Employers often prefer to appoint job seekers with recent work history, and the longer someone is out of work, the more uncompetitive they become. Work experience can overcome this in part, and provide on-the-job training in work practices and expectations of employers. A serious strategy to reduce long-term unemployment must provide greater opportunities for paid work experience.

One example of how this could be provided is the Transitional Jobs scheme suggested by ACOSS (2003a) which would provide 6 months' work experience for very long-term unemployed people. Another with great potential is the Swedish 'training and hiring' model which provides public subsidies to employers who temporarily release low-skilled workers to upgrade their qualifications as long as they are replaced by an unemployed person (Schmid 1998).

Australia's investment in labour market programs is significantly less than that of the OECD (OECD 2002). A greater level of investment in programs to provide training, work experience and post-placement support is necessary to enable the most disadvantaged job seekers to participate in employment.

Recommendations

- Increase the level of assistance and support provided to long-term unemployed people to facilitate their reintegration into the labour market.
- Implement labour market programs that are developmental and emphasise education training and skill development.
- Introduce employment subsidies and work experience programs targeting the long-term unemployed.
- Restructure the Job Network model to better target long-term unemployed and highly disadvantaged job seekers and sustainable rather the short-term employment.
- Provide better integration between employment and social services.
- Increase the focus on life-long learning, and ensure enhanced access is provided for vulnerable groups and those furthest from the labour market.
- Significantly improve funding levels to labour market programs as a proportion of GDP, and bring Australia back in line with the OECD average.

Assistance, incentives and obligations

Balancing assistance and obligations

Australia's employment assistance arrangements are among the most radical in the OECD. No other country has so large a one-stop-shop (as Centrelink) to act as a single window for all forms of income support, nor so complex a multi-agency arrangement (as the Job Network) for contractors to deliver job matching and intensive assistance. Underpinning these radical administrative arrangements is a unique version of the more general approach to active labour market programs (ALMPs) seen in many countries.

In the Australian case we see many aspects of the US model in which access to assistance is made more and more contingent upon the recipient successfully responding to administrative demands by

the state or its agents. Broadly, what distinguishes the Australian from the typical (state-based) US system is that Australia has less draconian rules for eligibility to receive income support, but more numerous passive bureaucratic requirements for maintaining such assistance—passive in the sense that they often do not relate to any increase in job readiness. The flip-side of this characterisation is that while many US states offer such things as childcare, education and transportation assistance to those actively seeking work, in Australia these are generally outside the remit of the employment assistance agency.

If we look in the other direction, the Australian system also appears less oriented to the needs of disadvantaged job seekers than many of the European systems. The lack of anything beyond minimal income support and the weak integration of employment services with other social assistance (training, health and housing being the best examples) sets the Australian case apart from the UK, Netherlands, Denmark and Germany where reforms have emphasised the need to address the barriers faced by those more distant from the labour market.

Under the current arrangements in Australia people are required to undertake activities which, in theory, encourage and enable them to find a job. However in practice the experience is often of repeated failure and demoralisation. While the activities themselves do not lead to employment, they must be carried out in order to maintain an income, even when there are no jobs available.

Research carried out by the Brotherhood of St Laurence, St Vincent de Paul, and the Centre for Public Policy (Ziguras, Dufty & Considine 2003) found that those job seekers with the greatest barriers to employment felt the system to be least helpful. At the same time as managing other difficulties in their lives, they were so engaged in meeting their requirements that these seemed to have replaced actual job search activities. Many people in this situation expressed great dissatisfaction, even hostility, with Centrelink.

Meeting obligations also posed great difficulties and absorbed a significant amount of time and emotional energy. This group tended to regard both administrative and activity test requirements as an unfortunate necessity: they met the requirements simply in order to get paid, but did not perceive them as helping them find work. In essence they were literally ‘working for the dole’.

Contrary to the underlying aims, the emphasis on compulsion in the Australian mutual obligation regime appears to generate avoidance and resentment amongst those who most need assistance. While people may comply, these requirements are not a means to finding work, but a necessity for remaining eligible for benefits.

Centrelink is positioned at the centre of the support system, and the first point where job seekers will turn for assistance; however this aim is undermined, even contradicted, by the emphasis on compulsory requirements and punishment. There is little evidence of a personalised approach in Centrelink; in contrast, it appears that current administrative systems lead to a standardised specification of requirements for most job seekers.

Motivation

The active labour market approach aims to motivate people to engage in two sets of activities; those expected to lead directly to employment (including active job search) and those which are expected to improve an individual’s potential or capacity to find work over the longer term (such as training, skills improvement, or taking a casual job as a strategy towards gaining permanent employment).

How can policies motivate people to undertake these activities? The most relevant and widely studied psychological construct is ‘work-related motivation’ which Pinder (1998) describes as the set of internal and external forces that initiate work-related behaviour, and determine its form,

direction, intensity, and duration. This definition recognises that both environmental and internal forces affect work-related behaviour, and has been widely studied. While there are some problems in applying the idea of 'work related motivation' to unemployment - for example some theories examine the motivation effects of job characteristics that do not apply when someone is not employed - much of the research is directly relevant to unemployed job seekers.

Five major theories of work-related motivation have received substantial empirical investigation over the last three decades; expectancy, equity, goal setting, reinforcement, and cognitive evaluation theories. While a full discussion of research into these theories is beyond the scope of this submission, a few general principles that influence an individual's work-related motivation can be summarised based on research evidence (a more detailed analysis is available from the BSL). People are likely to be motivated when they:

- Have specific, difficult but reachable goals
- Have a single goal or a small number which do not conflict
- Are able to set their own goals
- Are committed to these goals and feel they have the capacity to reach them
- Receive positive feedback about their progress in meeting these goals, especially if the feedback is specific and practical
- Receive some valued reward upon achieving their goals
- Believe that rewards for their efforts are fair compared with the rewards received by others
- Receive positive reinforcement for their efforts
- Feel that their behaviour and rewards are consistent with their intrinsic goals and needs

Conversely, motivation is reduced when people:

- Have no goals, or goals which are too difficult
- Have vague, multiple or conflicting goals
- Have goals assigned by others
- Do not feel they have the capacity to reach the goals set
- Believe the rewards for their efforts are unfair compared with rewards received by others
- Have no reward or recognition associated with achievement
- Receive no positive feedback about their progress or encouragement;
- Are subject to punishment and negative reinforcement rather than reward;
- Feel that external agents are attempting to control their behaviour.

Since there are far fewer jobs than job seekers, the likelihood of finding a job as a result of job search is low (particularly for the long-term unemployed), leading to discouragement for those who are continually rejected. In Australia welfare to work policies have tended to emphasise obligations and penalties (through both the social security and employment services systems), with less attention paid to rewards and self-direction.

Goals are largely established on the basis of bureaucratic requirements rather than an individual's aspirations, although there is scope for 'preparing for work agreements' to perform a more useful role. The large numbers of requirements are likely to be seen as attempts to control a person's behaviour rather than as a form of positive feedback or assistance. Punishment is common and reward rare, and many job-seekers perceive the system in negative terms, the more so the longer they have been unemployed (Ziguras et al 2003).

Based on the available research, the main features of the social security system seem likely, at worst, to reduce motivation among long-term unemployed people, or, at best, to do little to enhance it. In addition, some features of the system seem destined to engender negative attitudes towards Centrelink at the same time that policy aims to encourage job-seekers to see it as a source of help.

Current policies may be contributing, at least in part, to the continuing high levels of long-term unemployment.

This and other research cited above suggests that the current combination of assistance, incentives and obligations, the mutual obligation regime, is failing the most disadvantaged job seekers. Overall, the system operates for many disadvantaged job seekers not as ‘welfare to work’ but ‘welfare as work’.

Significant rethinking about the number and range of requirements is necessary to ensure that those most distant from the labour market are not caused harm by imposing requirements on them that are unattainable or excessive. A further possible change would be to explore a new program model which combines personal support, access to health or mental health services, assistance with housing and greater employment support. This might be an expanded version of the Personal Support Program. Given the often intractable difficulties which confront long-term unemployed people, more intensive support over a reasonably long time frame is necessary.

Social security policies and employment

Changes to social security policies may also contribute to an increase in the number of people participating in paid work. An extra participation allowance should be paid to people whose participation requirements mean they have to travel four or more times a fortnight (including job interviews and reporting requirements such as attending interviews Centrelink or a Job Network service).

Despite some recent changes in the breach penalty system, it remains far too punitive and continues to create ‘unnecessary and unjustifiable hardship’ that prevents some people from participating actively (Pearce, Disney & Ridout 2002, p.13). The Independent Review of Breaches and Penalties in the Social Security System (Pearce, Disney & Ridout 2002) recommended that, amongst other reforms, the rate and duration of breaches should be decreased to reduce the overall level of financial penalty. The general public also believe the current penalty amounts are too high and would support a reduction (Ziguras & Flowers 2002), and this remains a key area for reform.

The rewards from undertaking paid work are often minimal. Key issues concern high marginal tax rates, the loss of benefits such as health care card concessions, and the additional costs incurred in undertaking work.

High effective marginal tax rates currently punish people taking up part-time work. Raising the income free area and reducing benefit withdrawal rates to 60 per cent as proposed by ACOSS would help to ameliorate this. This would mean that the maximum income at which someone could still receive income support would remain less than the minimum wage. The principle of income smoothing embodied in the earnings credit could also be extended to allow a greater uptake of temporary work.

One current anomaly is that when people on Newstart do get part-time work they don’t receive any ‘credit’ for it against their activity test. A more flexible activity test, similar to that which applies to Youth Allowance (Other) could reflect participation in part-time work. If someone obtains a day’s work, that is one day they can’t spend fulfilling other parts of the activity test. Each session of part-time work (for example a day or an afternoon) should get a corresponding reduction in ‘job search’ (or similar) activities.

Maintaining eligibility for some benefits for a ‘transition period’ when someone first gains full-time employment would be of assistance. Presently there is at least one benefit along these lines for some people which would be worth expanding. Some people who begin work keep their Health Care Card even after their income has increased above the threshold until the card runs out (usually

six months). A widening of this scheme and a lengthening of it (for a year for example) would be a positive step. An ability to keep 'allowances' (for example, rent assistance, as opposed to base payments) for some time after starting work (for say six months) would assist persons with the transition from benefits to employment especially in meeting the additional costs of first entering employment. Rent assistance (for those not eligible for it via FTB) telephone and pharmaceutical allowances are three benefits that would benefit new employees greatly.

Those who work longer than 12 weeks must also re-apply for benefits and serve an unpaid one-week waiting period, which is in effect a financial penalty for accepting work. Extending the period for which people can remain eligible and doing away with unpaid waiting periods would overcome these difficulties.

Another major problem for many people working and attempting to stay eligible for benefits is that they must report when they have an entitlement to an income, even if it has not been received. For those working casually or intermittently, and even for full-time workers, income can vary from week to week and a person may not know how much income they have earned or derived. The consequences for their social security payments can be enough to pose a serious barrier to employment. Some people never receive their earned income because employers do not pay them. Since their income support payments are reduced this group is in very great danger of financial crisis and homelessness.

Other means of determining income received from employment could be explored, for example, links with tax records (with the clients consent). If information about earnings was gathered directly from tax records rather than self-report, people would not have to go through the time-consuming process of attempting to calculate their gross income, and reporting would be both more accurate and efficient.

Some overpayments might then occur because someone started a permanent full time job but received income support payments until the information was provided to Centrelink via tax records. In this situation, overpayments could be reconciled with tax returns at the end of the financial year.

Earned income tax credits

Some commentators have promoted the introduction of an earned income tax credit (EITC) as one way of supporting the wages of low-paid workers. While an EITC has some merit, there are significant limitations.

An EITC would effectively mean that government replaced regulation with business welfare as a means of protecting low-paid workers. It would also provide a subsidy regardless of employers' capacity to pay better wages, and possibly result in a longer-term effect on employer expectations, with government seen to have primary responsibility for the adequacy of workers' incomes.

If competition is left to determine wages at the bottom end of the labour market, wages will continue to be driven down in the context of a large pool of unemployed people, and governments may find themselves picking up an ever larger share of the incomes of this group. While this choice might be justified in terms of equity, a more practical issue may be whether and for how long governments could afford it.

The establishment of an EITC in the USA should be placed in the context that there is no family payment system in the USA equivalent to that operating in Australia. The EITC was introduced partly to address the issue of replacement rates for workers with children, but this issue is already addressed in Australia by Family Tax Benefit payments.

To return to the broader issue of low-paid work, from a purely economic perspective, moves toward a high skill 'knowledge economy', which is vital for Australia's continued economic well-being, will not be helped by simply reducing wages and encouraging the substitution of labour for capital.

Recommendations

- Revise the administration of PFWAs to ensure that staff genuinely engage people in setting goals based on their own aspirations, to minimise compulsion and the threat of punishment. More emphasis should be placed on personal engagement and fostering individual's own goals rather than simply compliance with requirements.
- The connection between preparing for work agreements and entitlement to benefit should be removed to make the goal-setting role of PFWAs more appealing to job-seekers.
- Allow additional flexibility in the time taken to develop PFWAs to allow individuals to feel a greater sense of ownership and commitment.
- Reduce requirements such as job search diaries and employer contact certificates for long-term unemployed people with significant additional barriers.
- Methods should be found to reward people who make progress towards their goals. These may include a 'participation payment' for undertaking training or meeting progress goals, and reducing the effective marginal tax rates for casual and part-time work.
- Redesign the breaching system to enable it to function as a method to ensure compliance rather than as a form of punishment. Two key changes need to be made: reducing the absolute amount of the penalties and ensuring that once a person complies with their obligations, their payment is restored to its normal level with no further loss of income.
- Reduce marginal tax rates for people undertaking part-time work by raising the income free area and reducing benefit withdrawal rates to 60 per cent.
- Revise activity test requirements so that requirements for job search are reduced if someone is working part-time.
- Extend the period of time for which people remain eligible for concession cards after starting work and give consideration to allowing people to retain eligibility for additional payments (such as rent assistance) for some time after starting a job.
- Extend the period for which people can undertake temporary work and remain eligible for benefits without having to go through the entire application process if they become unemployed.
- Do away with unpaid waiting periods for those people who do not receive a retrenchment payment when ceasing a job.
- Revise the reporting arrangements for earned income to enable people to report income when they receive it rather than when they earn it, and investigate the feasibility of assessing income earned via the tax system rather than self-report.
- Provide more resources to programs which target disadvantaged job seekers, to enable better access to training, work experience and personal support.

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