

Submission to the Working Age Task Force

**In response to the discussion paper:
'Building a simpler system to help jobless families and
individuals'**

**From the Brotherhood of St Laurence and
the Welfare Rights Unit (Vic)**

June 2003

Summary

The Brotherhood of St Laurence and the Welfare Rights Unit agree that the social security system requires considerable reform. We congratulate the government on its willingness to consider changes and to take the views of community agencies into account. We see this as a major opportunity to improve the effectiveness of the social security system in the prevention of poverty.

While the background paper canvasses some changes in the labour market, it does not adequately consider the shortage of full-time jobs and the fact that there are at least six people unemployed for every job vacancy. In addition, the growth of ‘precarious’ work – part-time, temporary or casual jobs with low pay, low skill and with poor conditions – means that people taking up these jobs often do not earn sufficient income to live, and therefore continue to receive social security payments.

The number of people currently receiving income support is therefore a direct result of the inability of the labour market to provide adequate employment. Simply reforming the social security system will not address this issue. It is disappointing that there is no discussion of labour market policy in the paper, especially given that one of the two co-sponsoring Ministers is responsible for this area. If the government wishes to increase the number of people in employment and reduce social security spending as a result, the current focus needs to be complemented by changes to employment policy.

There are, however, still important gains to be made from reforming social security payments. We believe that the inadequate rates of payment for those on allowances is the biggest problem with the current system. The most urgent issue is to increase the basic payment level to the pension rate in order to provide an adequate safety net.

Other priorities should be to resolve the difference between Austudy and Newstart for those over 25 years of age, and to address the large drop in payments faced by those on parenting payment whose youngest child turns 16.

As older people are encouraged to work longer, the age of retirement will become increasingly blurred. It is important that the design of the working age payment resolves existing disparities between the Age Pension and working age payments, especially in relation to payment rates and withdrawal rates, and does not create new ‘blockages’.

The high level of breach penalties prevent some people from participating actively. Despite some welcome recent changes in the breach penalty system, it remains too punitive and continues to create ‘unnecessary and unjustifiable hardship’. Further reduction of breach penalty amounts is required.

Anyone who is unable to work full-time due to caring responsibilities (children, partners, parents or others) or because of physical or psychological ill-health should be exempted from activity testing, but they should have access to support to gain employment where they choose.

We do not believe that full-time workers on minimum wages should be subsidised either by income support payments or by a tax credit (although temporary continued eligibility for additional allowances or concession cards might be a useful way of easing the transition to work). This 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.

No-one should be worse off under the new system. We are strongly opposed to any move to reduce the rates of payment for people eligible for pensions to the allowance rate, as this would simply move more people into poverty. Any new payment must have the pension rate as the basic payment level.

We welcome the opportunity to contribute to debate around reform, and look forward to further opportunities to discuss specific proposals as they are developed.

Background

This response to the discussion paper 'Building a simpler system to help jobless families and individuals' is submitted jointly on behalf of the Brotherhood of St Laurence and the Welfare Rights Unit (Vic). The Brotherhood of St Laurence is a leading non-profit community agency dedicated to working for 'an Australia free of poverty'. Formed in 1933 the Brotherhood provides services to people who are homeless, unemployed, living on low incomes, elderly or disabled and/or who experience disadvantage and poverty. It also has one of Australia's leading research units on issues related to poverty and social disadvantage. The Welfare Rights Unit is Victoria's state-wide legal advice service for Centrelink (and Family Assistance Office) clientele. It specialises in assistance to people on income support payments dealing with appeals in relation to the reduction or cancellation of payments, unsuccessful applications and debts.

Message from the Ministers

The Brotherhood of St Laurence and the Welfare Rights Unit agree with the message from the Ministers that as a society, we 'need to ensure that people on income support can participate in paid work to the extent of their capacity'. We also agree that the social security system has an important role to play in facilitating access to employment, and in assisting people to overcome barriers to participation.

However, the underlying premise of the discussion paper seems to be that reform of social security policy is the only action necessary to increase employment (there is no certainly discussion of any other strategies being considered). This premise is misplaced since it ignores the impact of changes in the labour market itself. The 'welfare to work' approach embodied in the paper assumes that doing more to get those on social security payments into work will lift them out of poverty and get them off benefits, in other words, that work will pay a living wage.

Economic policy has aimed to promote economic growth as an end in itself, achieved, in part, by policies to create a more flexible and adaptable labour market. These policies have fostered the growth of 'precarious' work – part-time, temporary or casual jobs with low pay, low skill and with poor conditions – which do not provide an adequate income. People taking up these jobs often do not earn sufficient income to live, and therefore continue to receive social security payments. One reason that these jobs have increased is that they are effectively subsidised by the social security system itself. In addition, continued high levels of unemployment mean that there are simply not enough jobs for those who want them.

The number of people currently receiving income support is a direct result of the inability of the labour market to provide adequate employment. Attempts to increase participation in employment and hence to reduce social security spending simply by reforming the social security system are destined to fail. In order to embark on real and meaningful reform, the current focus needs to be complemented by changes to employment and industry policy.

One further aspect of the 'message from the Ministers' requires some comment. The Ministers argue that: 'It is important to understand that reform cannot be achieved by just shifting everyone up to a higher level of payment or the most generous income test. We simply cannot afford that' (p. i). We believe that the inadequate rates of payment for allowances are the biggest problem with the current system. While the pension rate does not allow people to live in comfort, it does allow most people to meet their basic needs. Our experience of working with people in receipt of allowances is that the rates are simply inadequate for most people to meet even the most basic expenses.

The discussion paper indicates that there are around 1.5 million people of working age in receipt of allowances. As a rough estimate, paying the pension rate to this group would add around \$2b per year to social security spending. This is about the same amount the government indicated it was willing to spend on tax cuts for middle and high income earners in the 2002-03 Federal Budget. The issue is therefore not whether we can afford to provide adequate social security payments to the poorest Australians but whether the government is willing to give this priority.

1. The government's record on reform

The McClure Report (Reference Group on Welfare Reform 2000) recommended that the income support system be made simpler and fairer. Any proposed reforms must ensure that changes meet both of these aims. The paper seems to be mainly concerned with the simplicity aspect of reform, and to a lesser degree, fairness in terms of horizontal equity. We believe a stronger emphasis needs to be placed on vertical equity considerations, or in other words, how those worst off are given the most support.

The McClure report also argued that the principle of 'mutual obligation' applied to government, business and the community as well as individuals. There is little discussion in the discussion paper about the responsibilities of business or community to improve employment opportunities for people without work. The Government's responsibility for increasing employment appears to be limited to reforming social security policy, but as we have argued throughout our submission, this is unlikely to have much impact, without attention to the labour market itself.

2. The case for reform

The availability of work

The paper discusses the rise of part-time and casual work but is surprisingly silent on the large gap between jobs available and the number of people seeking work.

In February 2003 there were 606,700 people unemployed (ABS 2003a). In the same month, there were a total of 107,000 job vacancies across the public and private sectors (ABS 2003b) and in December 2002 there were an average of 85,915 positions advertised in the major metropolitan newspapers and employment internet sites (ANZ 2003). This equates to an average of seven applicants for each position advertised and even if all positions were filled, this leaves at least half a million people who are currently unemployed without paid work.

The growth in part-time work has some positive aspects since many people prefer part-time work such as 'those juggling caring commitments or undertaking further education' (BSL 2003, p. 11). However a quarter of those working part-time want more hours of work (ABS 2003c).

In September 2002, when there were 617,100 people officially 'unemployed' (ABS 2002) there were an additional 589,800 workers who were employed part-time but wanted more hours (ABS 2003d) and 808,100 who were 'marginally attached to the labour market' (ABS 2003c).

This means that as well as continued unemployment, there is a very large number of people living in the grey area of underemployment – technically not unemployed, but not working as many hours as they would like or as they need.

This trend is further exemplified by the number of people who find work, but do not earn enough income to get off benefits. According to the ABS definition, the number of long-term unemployed, those unemployed for more than one year, was around 140,000 in February 2003 (ABS 2003e), but this excludes those who worked as little as one hour per week. The number of people receiving Newstart Allowance and Youth Allowance (Other) for more than one year, which includes those worked but whose income was insufficient to get off benefits was 393,100 in December 2002. This figure was higher than the rate six years earlier (ACOSS 2003a).

Casual employment

The growth in casual work (which we use here to refer to short-term and temporary jobs) is also of concern as many casual employees do not develop skills or gain significant experience to obtain ongoing full-time work (Hall, Bretherton & Buchanan 2000). Poor pay rates and regular cases of non-payment often mean that those who undertake casual employment end up financially worse off than if they would not taken the work at all.

While casual work enables some people to gain work experience and gain full-time permanent work, the working reality for many is a series of short-term casual jobs interspersed with periods of unemployment (Chalmers & Kalb 2001, Le & Miller 1999). This trend also appears to be growing (Watson & Buchanan 2001). Therefore casual employment's role in reducing long-term dependency on social security benefits is illusionary.

Older workers

The section on 'the case for reform' refers specifically to older workers – those over 50 years of age. In order to reduce the dependency of many of this group on social security it will require significant investment in training and re-skilling.

Older people face the additional hurdle of employer discrimination, since many employers prefer younger staff who they consider to be more flexible. This ignores the maturity and experience which older workers bring. The Government needs to employ significant resources in conjunction with major employer and business groups to create significant attitudinal change to reduce such prejudices if it wishes to reduce the number of older people requiring government income support.

Sole parents

We agree that the transition from Parenting Payment to Newstart for parents whose youngest child turns sixteen is deeply problematic. The reduction in household income is substantial, at the same time that some costs (for example of clothing and education) are highest. We believe this should be an immediate priority for reform.

There is a very real problem with concepts of 'couples' in social security legislation. Lone parents particularly are in an invidious position. Most lone parents are women, most potential partners are men who are usually non-custodial parents, if parents at all. Men entering relationships in these circumstances often do not feel any financial or other responsibility to the children of their new partner. Any reform of the system needs to be mindful of the realities of 'couples' in the present situation and particularly the assumption that both parties will bear some financial responsibility for children.

Access to training

To improve access to training, the government must ensure that Job Network services provide information and access to clients about training. The payment structures for Job Network currently provide a disincentive for 'education outcomes' since services receive far higher returns for an 'employment outcome' even if this job only lasts a few months.

Austudy

Radical reform of Austudy Payment is long overdue. People who attempt to re-train or improve their skills move into a situation where they receive less than 85 per cent of the payments made to Newstart Allowance recipients. In addition, Austudy recipients have no entitlement to Rent Assistance, which means that their entitlement is only 67 per cent of the maximum NSA rate (including RA). There is clearly a strong disincentive to take up study or to retrain. This disparity (a loss of \$4,000 per annum or nearly half of previous entitlement) is one of the reasons people spend a long time on Newstart payments rather than attempting to study on Austudy. Changing the rate of Austudy to the same as Newstart and allowing access to RA should be key priorities for reform.

Labour market policy

Given the failure of the labour market to generate adequate employment opportunities, it is disappointing that there is no discussion of labour market policy in the paper, especially given that one of the two co-sponsoring Ministers is responsible for this area.

We agree with the Government that paid work enhances both self-reliance and social inclusion and that policies that enable paid work are of benefit to the whole community. To ensure an increase in employment, a much broader approach is required to that in this discussion paper, and the focus of government policies needs to be on increasing job opportunities, and expanding the availability of education and training.

Two other policy areas should also be considered: incomes and industry policy. Keating observed that the failure of the labour market to create full-time permanent and well paid jobs is a feature of the last decade:

Australia was reasonably successful in creating jobs in the 1980s, with the number of full-time employees increasing at an average rate of 1.6 per cent from 1980 to 1990 compared to an average increase of on 0.7 per cent from 1990 to 2000 ... the obvious difference was the considerable restraint of real wages in the 1990s. (Keating 2003, p 30).

Policy mechanisms to moderate total income growth would ensure that a higher proportion of economic growth went towards employment creation. An industry policy which addresses regional disparities in growth and employment is also necessary.

3. Objective and principles for working-age support

The paper discusses payments to those of working age and does not consider the links with the Age Pension. However, as older people are encouraged to work longer, the age of retirement will become increasingly blurred. It is important that the design of the working age payment resolves existing disparities between the Age Pension and working age payments, especially in relation to payment rates and withdrawal rates, and does not create new 'blockages'.

Failure to consider this interaction may result in a system which does not support older people to keep working, and as the paper points out, over the next decade or two, this will be a significant issue as the growth of the labour force slows.

Q 1: Are the suggested objective and design principles appropriate? Should others be added?

An adequate safety net

The first and over-riding objective of the social security system is to support people who, for whatever reason, are not able to support themselves. This means that the system must prevent people from falling into poverty, and given the lack of jobs available, payment rates must be set to ensure that those who cannot find work do not live in poverty. The current system does not provide an adequate safety net.

There is a clear need for an official measure of income which provides an adequate standard of living. In the absence of any other official measure, the current pension rate which is set at 25 per cent of Male Average Weekly Total Earnings acts as such a measure, and should be regarded as the minimum rate for income support payments. As a central element of reform, the basic payment rate should be gradually raised (perhaps over a period of three years or so) until it is the same level as the age pension.

Complementarity with the tax and wages systems

We also support the objective that the income support, tax and related systems work together. In this context, the absence of any reference to labour market policy is surprising since this has much greater potential to help people become self-reliant.

It is true that the present systems discourages participation in part-time work. The combined effects of the taper rates of income support payments and tax payments can lead to workers taking home a net amount of less than one dollar an hour and this is before the costs associated with employment are taken into consideration - travel, appropriate clothing, childcare etc.

Simplicity and fairness

BSL and WRU believe that an improved income support system will be structured to assist movements between payment criteria with differences in capacity to find and engage in paid work reflected in participation requirements.

However we are concerned that there may be considerable conflict between the principles of simplicity (including transparency, ease of navigation and cost-effectiveness) and responsiveness to individuals. The report fails to discuss the multiple barriers that many unemployed people face, which include homelessness and poor mental health (due in part to unemployment itself). The assessment process for people in these circumstance in receipt of Newstart Allowance is not accurately measuring individual barriers to employment nor is the system currently responsive to individual needs. These contribute to the overall 'welfare to work' system performing poorly for those with the greatest labour market barriers (Parkinson & Horn 2002; Ziguas, Dufty & Considine 2003).

Improved assessments of capacity and needs will require greater time on the part of Centrelink staff, both in the initial contact phase and when individual's circumstances change. It will also require better skills than many staff currently possess. Meeting both of these demands may make the system both more complicated and costly.

Due to the current inadequacies of the assessment process for Newstart and Youth Allowance (Other), Centrelink and community agencies have started to discuss ways in which information about joint clients can be shared (with the clients permission). While this is to be welcomed, there is also a danger that community agencies will play a greater role in the assessment process without a corresponding allocation of resources. Some Brotherhood of St Laurence services currently spend a large amount of staff time resolving problems with Centrelink payments. Further reliance on community agencies without corresponding resources may

mean that the purposes for which they are funded cannot be met because Centrelink payment problems take precedence over other types of assistance.

Incentives and requirements

The paper suggests that a balance between assistance, incentives and requirements is desirable. We agree. However the current situation for those in receipt of Newstart and Youth Allowance (Other) is extremely unbalanced. There is too great an emphasis on compulsion and punishment, and the level of financial penalties for breaches are still excessively high. A recent study found that people with the greatest barriers to employment find the system the least helpful, in part due the complexity and over-reliance on compulsion (Ziguras, Dufty & Considine 2003). Finding a fairer balance between incentives and requirements is necessary.

Better access to labour market assistance and training

One additional principle should be added, namely that some people will require access to resources such as employment assistance, training, paid work experience and mentoring. The resources available to those with substantial barriers to employment are currently inadequate, demonstrated by the poor performance of the Job Network for this group (DEWR 2002). In large part, this is due to under-investment in assistance for disadvantaged job seekers, with Australia's expenditure around half of that of most other OECD countries (OECD 2002).

4. Size of reform

Whether change is incremental or more 'revolutionary' depends on the commitment and resources the government is willing to provide. For example, full integration with the tax system would probably involve assessing eligibility for income support payments on an individual basis as is the case for tax assessment. This would involve significant additional expenditure as the paper points out. While we are not opposed to broader reform, it seems sensible to start with a few smaller steps.

The most urgent issue is to increase the basic payment level to the pension rate in order to provide an adequate safety net. Other priorities should be to resolve the difference between Austudy and Newstart for those over 25 years of age, and to address the large drop in payments faced by those on parenting payment when their youngest child turns 16 years of age.

5. System design – elements, relationships and constraints

We agree that the base rate should not be paid to those in full-time work, and expand on the reasons for this below.

6. Major reform dimensions – eligibility, structure and incentives

The design of the new payment should be informed by whether the expectations of different groups are different enough to justify some continuing categories of payment. We agree that the basic payment should be the same, plus top-ups for additional costs of disability, parenting etc.

However withdrawal rates and requirements may differ for some groups. For people who cannot work full-time such as parents with children, many people with disabilities, and possibly others, part-time work may be the main goal. Eligibility, taper rates and requirements may then be set with this in mind. For those

unemployed people with the capacity for full-time work, the incentives should to promote access to full-time jobs, which might mean different withdrawal rates and requirements.

Q 2: Should people with profound disabilities who are never likely to be able to get work get a special disability payment or the same base income support payment as other working-age people?

We are not in favour of a separate payment for people with profound disabilities. This would in effect send a message to this group that they will never be able to work, despite their own aspirations. It may also mean that governments see no need to provide any assistance to this group. The payment category itself would be very stigmatising and would perhaps dissuade some people who should receive it (for example those with severe psychiatric disabilities) from applying. This is currently the case for Disability Support Pension (DSP).

Our experience is that there are many people currently receiving Newstart with health problems, especially mental health, which make them on the margin of eligibility for DSP. This group finds the activity requirements and exemptions within Newstart very complex and confusing and are struggling to cope with the demands placed on them (Ziguras, Dufty & Considine 2003). Moving more people from DSP to Newstart will exacerbate this problem.

If there is a broad disability category, the flexibility to assess someone as having little capacity to work could still be maintained and their activity test requirements set accordingly. The costs incurred by people with disabilities are not adequately met by the current payment structure and a 'disability allowance' to cover these costs (as discussed below) should be considered.

Q 3: Should full-time workers with incomes below the Federal minimum wage be able to get a part rate of income support payment?

We do not believe that full-time workers on minimum wages should be eligible for the base rate of income support payments (although temporary continued eligibility for additional payments might be a useful way of easing the transition to work). This 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.

People in apprenticeships or traineeships are paid a full-time 'training wage' based on the National Training Award. While there is an argument that trainees should receive a lower wage than a fully trained worker, these wages are currently too low. There is some evidence that employers, particularly in the retail sector, provide very little training and are using traineeships merely to avoid paying decent wages to adults. There is a high drop-out rate from traineeships because of the low wages and poor quality training. These should be addressed through the training scheme itself. Subsidising trainee wages with income support payments would remove even more responsibility from employers to pay adequate wages.

There is a case for a subsidy for the employment of people with disabilities at least in the short term. A subsidy paid directly to employers (via a disability employment agency) would be more effectively targeted than by general eligibility for income support.

Q 4: Should the assistance that goes to individuals depend on differences in people's individual needs or costs, or vary on some other basis?

We believe the proposed structure of a base payment with additional allowances depending on need is worth investigating further. Presently the system deals with extra costs with 'add-ons' such as Rent Assistance (RA) in a reasonably flexible way, but RA in particular is too low to make housing affordable in areas with high rental costs. A range of similar allowances relating to extra costs could be introduced to assist people to deal with a range of these issues. An allowance for people who do not have easy access to public transport (as is now provided for some people with Mobility Allowance) is essential.

A key issue is to ensure that the base payment is set at a level which ensures an adequate standard of living. Allowance rates have been set lower than pension rates based on the argument that people receive allowances for only a short period whereas pensions may last for a considerable period. This distinction is no longer tenable: the casualised labour market and the incidence of long-term unemployment mean that many people must rely on unemployment payments for an extended period. Given these changes, and the inadequacy of the current allowances, there is no rationale for the continued difference in payment rates. We believe that the individual rate for benefits should be set at the pension level of 25 per cent of male average weekly earnings.

People with a disability face numerous additional costs. In broad terms, these may differ according to a person's requirements for assistance with mobility and transport or greater health costs. A 'disability allowance' could attempt to cover the average costs across these categories. On the other hand, there may be some merit in meeting health and mobility costs with separate payments, in recognition that some people experience one but not the other, and some experience both. Such payments should also be able to be delivered flexibly. Mobility Allowance is a model worth emulating: those eligible can take their eligibility either as the payment itself or as a tax credit towards the cost of a motor vehicle. A similar approach could be taken to the range of costs facing people with disabilities.

A participation supplement is essential in assisting people to participate in paid work or job search. Many people already struggle to afford the additional costs of job search or training. These include travel costs to attend job interviews or training sessions. Presently, a daily concession card (for one zone) in Melbourne costs between \$1.90 (in Zone 2 or 3) and \$2.70 (Zone 1) per day (Victrip 2003). After taking account of fixed costs such as rent, food and bills, many people are left with as little as \$7 per day to cover all other costs, including unpredictable expenses such as moving costs, replacing appliances, and debt repayment. This means that their capacity to participate is severely limited by income.

Q 5: Should the base rate of working-age payment vary according to relationship status, living arrangements, neither or both?

Eligibility for payments is currently based on an individual's circumstances, but payment is calculated on the basis of relationship status. A clear anomaly exists for people in 'same sex' couples since they are not treated as being in a 'marriage like' relationship. Partners of someone already in the workforce (in part-time or low paid work) face extremely high marginal tax rates, since they face taper rates for their partner's income as well as their own.

The simplest solution would be to treat each individual for an entitlement based on their own situation, with the income test applying only to the income of the individual, not a family group. This would bring about greater consistency between the social security and tax systems. Of course, this would mean that people currently in relationships where the family income precluded them from payment would be eligible in their own right, provided they met the other eligibility criteria, and would be expensive.

If assessment based on individual circumstances is not pursued, the fairest alternative would be to retain the family as the basis, not the household. People who share a house but who are not members of a family group can be reasonably expected to share the costs of housing, and probably the connection costs of utilities.

However most other costs shared within families are not shared consistently within households. These include food, costs of children, transport, medical expenses, clothing, utility user charges, debt repayment, and insurance. We do not believe it would be fair to assess entitlement based on household circumstances, with the exception of rent assistance which currently does taking the household type into account (but not the household income which would be extremely time-consuming).

Q 6: What needs or costs should be met through additional assistance? Are they best met through cash supplements or by directly providing goods or services?

The way in which the costs of additional needs should be met is an open question. In theory, such costs could be met by a payment to individuals or by the direct provision of services. Individual payments could be based on an average for a category of need (for example pharmaceutical allowance) or on the actual cost incurred. The latter would be more time-consuming both for individuals and Centrelink, and would carry high transaction costs if it covered frequently incurred expenses such as travelling costs, regular child-care, medication and so on.

It would seem reasonable to ensure that predictable, high frequency costs are included in the allowance paid directly to individuals. Less frequent or more substantial costs could then be met through a more individualised mechanism such as the Job Seeker Account held by Job Network members, or by direct funding of services. However, care needs to be exercised when providing discretion to third parties to assess needs and decisions on eligibility should be subject to policy guidelines and have review and appeal rights.

Q 7: How should additional assistance for participation be structured to help people become more self-reliant?

The basic payment should provide an adequate standard of living and cover the costs food, housing, basic transport, normal health expenses (including medication), insurance, utilities, telephone, clothing and recreation. At a minimum, this should be set at the same level as the individual Age Pension rate and indexed in the same way.

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). The government should conduct more research to investigate the costs of having a disability.

The high level of breach penalties prevent some people from participating actively. Despite some recent changes in the breach penalty system, it remains far too punitive and continues to create 'unnecessary and unjustifiable hardship' (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.

Q 8: How could rewards for work be structured better so there is always an incentive for people to earn more?

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 (ACOSS 2003b) 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.

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.

The poor quality of administration in this area by Centrelink is also of concern. The WRU has had many examples of complaints where overpayments have been raised against people who have provided income details to Centrelink but the information has been lost, misplaced, not noted or ignored. These administrative errors take a great deal of time to resolve, and cause some people to feel that taking up casual work is 'just too hard'.

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.

Case study: Francine

Francine is a woman in her early fifties. After an industrial accident some years before, she attempted to obtain work, and eventually found a job as a courier. However, residing in the country due to income issues, she has to travel 100 kms each way to work as a courier. Every fortnight she provides her income details to Centrelink. On a number of occasions Centrelink have not properly assessed her and have raised overpayments later. She is living on the breadline as it is and sees these problems as a major disincentive to work:

I don't need the hassle. If it's going to keep happening all the time despite my best efforts I might as well not bother. The Government spends so much of its time slandering income beneficiaries that you can't talk to anyone about it. You feel like a criminal. I might as well just chuck it in. It's more trouble than it's worth.

Case study: Julia

Julia plays the harp. It is a rare instrument and there are only a few harp players in Victoria. Sometimes when the principal harp player for the state orchestra is unwell, the orchestra asks Julia to play for them. She likes to do this and is paid very well. Julia can earn \$200 per night. However the state orchestra pays at the end of the musical season, and sometimes does not have the funds to pay its staff. So when they ring Julia she has three options: do the work and lose a large percentage of her entitlement and hope she will get paid the end of the season months later; do the work and don't tell

Centrelink until she actually receives the money (and risk overpayment and prosecution) or don't do the work at all.

Q 9: Should people in full-time work get extra supplements as incentives to stay in work if they have additional needs? Which people should benefit and what should they get?

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' (rather than standard benefits) for some time after starting work (for say six months) would assist persons with the transition from benefits to 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 in which people can remain eligible and doing away with unpaid waiting periods would overcome these difficulties.

Presently the 'Aged Pensioner Bonus Scheme' has a work test of '20 hours per week' averaged over a twelve-month period for time to be credited as 'work'. 'Mobility Allowance' has a test which covers a month. For those with fluctuating work periods, an average could be worked out over a month or even a 'quarter' to ensure entitlement.

Q 10: Should employment (or earnings) conditional benefits be used to improve work incentives? If so, how should they work and who should get them?

As stated above, we do not believe that the government should be subsidising full-time work whether via social security payments or some type of tax credit. Reducing marginal tax rates for people working less than full-time should be a priority for reform, but this would be much more efficiently achieved by adjusting the free area and taper rates of income support payments.

Q 11: In what circumstances might people not be expected to look for paid work (e.g. people with profound disabilities, parents caring for young children, people caring for someone who needs constant attention)? In what circumstances should people's caring responsibilities be recognised as reducing their availability for paid work?

All participation requirements must be realistic. Some WRU clients have been breached for not obtaining part-time work. That is, they were not breached for 'not looking for part-time work' but for not succeeding in finding such work. This is unreasonable since it is beyond the person's power to complete this requirement (for example they may apply for hundreds of jobs and not be offered any).

Anyone who is unable to work full-time due to caring responsibilities (children, partners, parents or others) or because of physical or psychological ill-health should be exempted from activity testing, but they should have access to support to gain employment where they choose. People should be properly and professionally assessed by independent professionals as to their ability to undertake work. This includes proper assessment of their work capabilities, any significant assistance required and assistance to look for appropriate work. Custodial parents or those with a main caring role should be exempted from looking for work until the child is 16 years of age.

While social security payments are regarded as a cost to government, in fact they often save the government a considerable amount. For example each person receiving Carers Payment for the care of an elderly person saves the federal government a substantial portion of the \$28,000 pa cost of residential care by extending the

period someone can live at home (Commonwealth Department of Health and Ageing 2002) and even more when state government costs are included for each person properly cared for. An exemption from an activity test for carers recognises that they are both participating and contributing to society. An expansion of this category of 'caring' to allow more people to care for family members at home is worth pursuing.

Q 12: To what extent, and in what circumstances, should participation in education or training be recognised as an appropriate activity to build capacity for self-reliance?

It is effectively impossible to increase employment capacity and therefore build self-reliance without access to high quality training and education. Whilst education itself is no guarantee of work, those with low levels of education are vastly over-represented in the unemployment statistics. We have highlighted the problems with Austudy which limit the capacity of some people to undertake training.

More broadly, if a highly skilled and educated workforce is desirable then there is some argument for relaxing the requirements to be engaged in a full load course in order to be exempt from activity testing. Consideration should be given to exempting those undertaking part-time study (perhaps for those with a half-time enrolment or higher) or reducing activity test requirements.

7. Transition to a new system

Q 13: Should a new payment system for working age people include transitional arrangements for people on existing payments?

No-one should be worse off under the new system. We are strongly opposed to any move to reduce the rates of payment for people eligible for pensions to the allowance rate, as this would simply move more people into poverty. Any new payment must have the pension rate as the basic payment level. As far as other changes are concerned, people should continue their current arrangements until they cease to be eligible for the payment. This is the case with other 'no new-claim' entitlements such as Wife's pension and Widow B Allowance etc.

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