



Towards inclusive growth in Australia

Report arising from Inclusive
Growth in Australia roundtable

Jeannie Zakharov

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Brotherhood
of St Laurence

Working for an Australia free of poverty

The Brotherhood of St Laurence is a non-government, community-based organisation concerned with social justice. Based in Melbourne, but with programs and services throughout Australia, the Brotherhood is working for a better deal for disadvantaged people. It undertakes research, service development and delivery, and advocacy, with the objective of addressing unmet needs and translating learning into new policies, programs and practices for implementation by government and others. For more information visit <www.bsl.org.au>.

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Inclusive Growth in Australia roundtable

Melbourne, Thursday 20 and Friday 21 October 2011

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Dr Ruth Dunkin, Director Policy, Business Council of Australia

Saul Eslake, Program Director, Productivity Growth, Grattan Institute

Rod Glover, Senior Fellow, Institute of Large Scale Innovation

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Dr Pradeep Taneja, Lecturer in Asian Politics, School of Social and Political Sciences, University of Melbourne

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Presentations can be found at <<http://www.bsl.org.au/Hot-issues/Inclusive-growth.aspx>>.

Foreword

For some years the Brotherhood of St Laurence has been developing a policy framework that centres on social welfare as an investment in human capital with the potential to improve participation in the workforce, improve skills and lift productivity, rather than a cost with purely social benefits. More broadly over this period, economists have raised concerns about the slowdown in the rate of productivity growth and how to manage the mineral boom for the long-term good of the country.

These economic issues have been joined by social concerns. Are people resistant to economic reform because they do not see the benefits flowing to ordinary Australians? Can we hope for improved economic productivity without greater investment in our social infrastructure?

Today there is a new concern that economic reform will not secure popular support unless its benefits are more obviously shared. Moreover, since the National Reform Agenda there is something of a consensus that the key economic goals of raising participation and productivity will not be achieved without significant investment in overcoming social disadvantage.

As part of its policy work the Brotherhood hosted the Inclusive Growth in Australia roundtable in October 2011, which brought together key academic, government, business and community sector representatives to examine whether economic growth has benefited the poor and what the main elements of inclusive growth are in Australia.

As a contribution to further dialogue this report draws on the presentations and discussion at the roundtable and some other material to canvass ideas, issues and policy options for an agenda for inclusive growth.

My thanks go to Jeannie Zakharov, Campaigns Media Advisor at the Brotherhood of St Laurence, for preparing this report.

Paul Smyth, General Manager, Research and Policy Centre, Brotherhood of St Laurence

Introduction

In the past three decades Australia has become a richer country, but also a less equal country. As in most other developed nations, the gap between rich and poor has widened. Now, in the wake of the global financial crisis, the nation is still doing well compared with most other developed countries, but this is on the back of a mining boom that has created a patchwork economy, and about which there are concerns over whether sufficient proceeds will be used to build a stronger nation.

There are also concerns over the slowdown in the rate of Australia's productivity growth, by substantially more than in most other developed countries during the 2000s. Productivity growth is widely seen as important, if not essential, in reducing poverty. However, the economic reform momentum that began in the 1980s and opened up the economy to more competition has dissipated (Eslake 2011). Ross Garnaut refers to the Great Complacency of the early 21st century, in which Australians have forgotten the links between earlier economic reform and contemporary prosperity (Garnaut 2005).

The prosperity those reforms helped to generate has itself not been fairly shared. Income inequality in Australia has increased and is now above the average for the Organisation for Economic Co-operation and Development (OECD) group of developed countries in terms of inequality of income, after taking into account income tax and government payments (OECD 2011). From 1978 to 2010 workers' share of economic growth (wages as a proportion of gross domestic product) dropped by 10%, while casual employment and underemployment have become more prevalent – economic growth has not created sufficient decent jobs (Buchanan et al. 2011). During the boom from 2001 to 2008 economic growth did benefit the poor, but they gained less, as a proportion of their income, than income earners at the top end, and much less in dollar terms (Azpitarte 2011).

A new inclusive growth agenda for economic and social development could address the entwined goals of maintaining economic growth and reducing inequality. It has been defined as involving employment-centred economic growth, universal social services and the removal of inequality traps that arise from the class, gender, ethnicity and location of those trapped (Smyth 2011).

The concept of inclusive growth developed in international development circles in this decade as it became clear that the earlier neo-liberal reliance on the tide of market growth 'lifting all the boats' proved to be misplaced. The market-focused 'Washington Consensus' approach, emphasising factors such as privatisation, deregulation and freeing up market forces, prevailed in international agencies such as the World Bank and elsewhere through the 1990s. In a 2005 review the World Bank found that policy changes made under the Washington Consensus approach in a wide spectrum of countries, on the assumption that 'rolling back the state would lead developing countries to sustained growth', produced an equally wide variation in results. These ranged from success in East Asia – and there reforms departed from conventional wisdom, by including a large presence of the state – to decline and incomplete recovery in the former Soviet Union (Nankani 2005). By 2008 the World Bank was outlining the key factors for inclusive growth in developing nations, including the more open and integrated world economy, effective government and strong public investment in infrastructure, education and health (World Bank 2008). And in 2012 the OECD identified policies and institutions that both encourage growth and are likely to reduce income inequality (see Appendix).

Many Australians are dealing with changes in society and the economy that create new challenges. More people are in insecure work – 40% of workers are in insecure work, reported the recent

inquiry commissioned by the Australian Council of Trade Unions (ACTU 2012). Manufacturing jobs have declined, while services jobs have increased and jobs have been lost or moved offshore through technology and globalisation (Horn 2011a). Risks have shifted from government and business to individuals and households: for example, the rise in insecure work transfers risk from employer to employee (Rafferty et al. 2011).

An inclusive growth approach offers new perspectives for policymakers by integrating economic and social policies. A major challenge is bringing jobless unskilled and low-skilled people into the workforce, while also maintaining and improving employers' competitiveness. New policies need to allow people greater flexibility in moving between education and training, work, caring for family, and retirement. An education and training system that people are able to turn to when they need new or upgraded skills is essential, and pertinent to many of the issues discussed in this report, including poverty reduction and productivity. In a world where households must manage more risks, people need to be able to develop their own capabilities to look after themselves, including making informed choices about training that gives them the skills they will need throughout their working life.

There is also a growing acknowledgement of the importance of recognising the diverse needs of the workforce, including women and men with caring responsibilities, people with disabilities, immigrants, refugees and Indigenous people. Policy approaches need to acknowledge this diversity, so that people can work and contribute to the economy, but also fulfil caring responsibilities, manage their health and take on education and training.

Australians are also living longer, and managing the social and economic contributions and needs over our longer lives is another challenge in sharing the benefits of economic growth.

Developing these policies requires fresh approaches. In Australia's patchwork economy, regional partnerships, supported and guided by sound governance processes, are essential to developing regional solutions. A new governance model is needed, in which coalitions of interests – community organisations, academia, business and unions – find common ground for developing policies for inclusive growth in partnership with government.

A broad-based growth model

The productivity challenge

Improved productivity is necessary for economic growth and poverty reduction, but, as noted, Australia's rate of productivity growth has declined. Possible reasons include shortages of skilled labour and infrastructure bottlenecks, strong corporate profitability lessening the impetus to find productivity improvements and that the 'low-hanging fruit' of micro-economic reforms have been picked (Eslake 2011).

Drivers of productivity include skilled workers, greater efficiency through reduced costs and better processes, good managers, investment in technology, competition, clusters of businesses and the right regulatory environment (Glover 2011).

It is possible that the pressures now being experienced in sectors of the economy could prompt firms to pursue productivity enhancements at the workplace level. Other steps noted by Eslake (2011) include:

- a revived program of productivity-enhancing regulatory reform – seeking to foster competition in areas which remain sheltered from it, and which have been ‘politically too difficult’ for the past decade
- taxation reform, in particular to reduce distortion of investment decisions
- a need for better targeted spending on skills and infrastructure, rather than simply more spending, and better use of existing skills
- a heightened focus on Australia’s innovation system and effort, which is not about more generous tax breaks for research and development expenditure, but rather a focus on removing impediments to innovation and the growth of innovative firms.

With income and wealth inequality increasing, there may be strong resistance to changes intended to improve productivity in individual workplaces or more broadly if most of the benefits are seen to go to the wealthy. Advocates for productivity-enhancing organisational and structural change must also be concerned about issues such as executive remuneration and assistance and support for those affected by change (Eslake 2011).

More generally, employment legislation and related policies must ensure the protection of basic universal rights and entitlements of all workers to decent, sustainable work (Horn, 2011a).

The skills challenge

Australia is poised for long-term prosperity through the resources boom, but will be held back unless the nation can meet the requirement for the additional skills the economy demands and ensure they are well used. Those who are underemployed or unemployed need to gain skills to take advantage of the growth in job opportunities that will open up through economic growth and workforce retirements (Skills Australia 2011).

However, there are many reports of problems in the vocational education and training (VET) sector. For example, the Productivity Commission, after an inquiry into care for older people, said an issue raised consistently was variability in the education and training of aged care staff; concerns included the quality of training and assessment and the extent and nature of practical experience, if any (Productivity Commission 2011).

Australia needs training that is more inclusive, better focused and better used. The quality of teaching and assessment in the sector needs to be lifted. Workforce development is needed to reduce the under-use of skills. A major issue is how well the output of graduates keeps pace with the changing needs of the economy as well as meeting students’ interests and career aspirations. While most courses can adjust according to student demand, in those where training is lengthy, and most graduates work in the field of their training, and where a skills shortage would hamper production, there may be a case for overriding student demand in order to match skills with industry needs. Disadvantaged students should be given greater assistance, including mentoring, low or zero fees and more adequate income support. Alongside vocational skills their training should include building expertise in the core skills of literacy and numeracy (Burke 2011).

Skills Australia, an independent statutory advisory body to the Australian Government, recommends reforms, including: a national strategy for developing the VET workforce, a robust and properly resourced national regulatory system, more rigorous regulation of training providers, mandated independent validation of a sample of a training organisation’s student assessments and stronger professional requirements for trainers (Skills Australia 2011).

The OECD nominates several key elements of national skills strategies, including: treating skills as a tool to be honed over an individual's lifetime, from early childhood education to formal and informal learning in adulthood; taking a whole-of-government approach, linking policy areas including education, science and technology, and family; combining both ad hoc responses to emerging or cyclical changes and longer-term planning; and integrating national, regional and local dimensions of skills policies (OECD 2012a).

The patchwork challenge: working from the ground up to find regional solutions

Australia is not one national economy; rather, it is a group of state and territory economies that trade internally, with each other and globally (Glover 2011). Within those regional economies disadvantage is often entrenched in particular regions and neighbourhoods.

There is a need to foster regional approaches that encourage economic growth and reduce disadvantage. While this is already beginning to happen, much more needs to be done by developing local partnerships that work to create solutions by addressing regional differences. The focus should be on this national framework of regional economies, rather than on protection for different industries.

This approach involves different government agencies and organisations outside government coming together in order to collaborate – all of course have their own priorities and report to different authorities. Therefore, strong mechanisms need to be in place for each partnership to ensure effective collaboration. These include a robust, well-governed structure, shared key performance indicators, common training and investment, joint resource allocation and shared accountability (Considine 2011).

However, there is a question mark over the capacity of government bureaucracy to drive such a collaborative model due to factors that include its loss of in-house knowledge and expertise as a result of contracting out many services and functions. Collaboration is more difficult when quasi-markets are in place, such as for Job Services Australia, where organisations, both not-for-profit and for-profit, compete for government money. Government needs to build its strengths in developing and driving policy in order take the lead in working with 'common cause' coalitions drawn from the community sector, academia, business and unions.

Invest in social infrastructure for growth

Education

Investment in human capacity through education – from early childhood through the school years to the transition to working life – is an effective step by governments to improve productivity and economic growth simultaneously (OECD 2012b).

The most important key to ending the cycle of poverty is to invest in the capacity of children growing up in poverty; this includes early childhood development programs and child care as well as schooling and support for students at school (Sachs 2011). Success in early childhood and at school is important because early failure is compounded, narrowing life chances in ways that crush individuals and impose burdens on society. Those with poor reading or maths skills are at high risk

of leaving school early, with grim prospects in the labour market. On the other hand, early gains increase the chance of later school success, with corresponding employment rewards (Sabel 2012).

Scandinavian countries spend the biggest share of public revenue on services that enable the development of their citizens' capacities, from day care to programs for the unemployed. Their relatively high expenditure on these services correlates over the last decade and a half with high rankings in international competitiveness and increased social protection. In particular, Finnish students regularly outperform their peers in other developed countries in international test comparisons and the bottom 20% outperform by the greatest margin, raising the average performance to the top of the international league tables. The Finnish school success depends on classroom practices that systemically tailor teaching to the needs of individual students and place a strong emphasis on special education for underperforming students (Sabel 2012).

In Australia, on the other hand, while students overall perform above the OECD average, disadvantaged students are less likely to do well than their counterparts in Finland and some other developed countries. The OECD's Programme for International Student Assessment (PISA) classifies disadvantaged students as resilient if they perform much better than would be predicted by their background, and on this measurement Australia is on the average for the OECD – 31% of disadvantaged students are resilient. This compares to 46% in Finland, 39% in Canada and 56% in Korea (OECD 2010). The Brotherhood of St Laurence and Melbourne Institute Social Exclusion Monitor (Brotherhood of St Laurence 2012) provides a clear link between education and social exclusion, and shows that social exclusion for early school leavers persists at a higher level over time compared with Australians possessing higher qualifications (Buddelmeyer 2011).

Australia's total expenditure on schooling (3.5% of gross domestic product) is just below the OECD average (3.6%). Increased efforts are needed at all levels of government and in all school sectors (government, Catholic and independent) to increase the effectiveness of existing expenditure, but the twin challenges of excellence and fairness will require additional spending on schools and programs that lift the learning of disadvantaged students and communities (Williamson 2011).

Health

There is considerable and convincing evidence that economic benefits can be achieved by improving health. Research commissioned by the European Commission found that better health increases labour supply and productivity and historically has been a major contributor to economic growth (Suhrcke et al. 2006).

At a personal level the link between work and health is strong. The Royal Australasian College of Physicians found that, in general, work is good for health and wellbeing and long-term absence from work, work disability and unemployment have a negative impact on health and wellbeing (RACP 2011). Better health can result in substantially greater participation in the labour force. Laplagne et al. (2007) found that mental health or nervous conditions are the pre-eminent health reason for lowered labour force participation.

Changes that would enable more people to take up paid work include:

- sensitivity in workplaces to managing the employment of workers in poor health, including people with a mental illness or a disability

- the organisation of work to allow workers to rearrange their hours in order to attend therapy or medical appointments, and parents to rearrange their working hours to look after ill children
- more funding of preventative health measures to prevent illness and lost productivity.

Modernise the welfare system

Traditionally social policy covered and insured relatively few well-defined risks, including short-term unemployment, disability during the years of working age, and insufficient resources in childhood and old age. This assumed a clear demarcation between the phases of life, strictly defined roles for women as housewives and men as breadwinners, and uninterrupted full-time working careers. These assumptions no longer apply, due to changing patterns of female participation in the labour force and changes in employment patterns. New risks can often reinforce each other, as seen in the interaction of balancing careers and child-raising for women and the impact on these of divorce and changing patterns of family formation. Responses to these new risks include delayed childbearing, smaller families, or one spouse scaling back work (Whiteford 2011).

Contemporary social risks

- Separation: more than 10% of women and men separated from their long-term partner or spouse between 2004 and 2008.
- Health: over a four-year period nearly 50% experience serious injury or illness of a close relative.
- Job loss: 10% are fired or made redundant over four years.
- Death: 3% experience the death of a spouse or child over four years. Another 40% experience the death of another close relative.

Source: Whiteford 2011

The rise of insecure work is a major risk that often makes it harder for people to build good lives for themselves and their families. Some 19.3% of those in the workforce are in casual positions, 4% are in fixed term positions, with similar wages and conditions to permanent employees, but no job security, and a further 9% are independent contractors. Many of the latter, although independent under law, are economically dependent on a single client (ACTU 2012). Insecure work is actually often less flexible than permanent employment because employees are loath to refuse work in case they are not offered any more. Insecure workers also miss out on workplace training and prospects for career progression (Horn 2011a).

Managing transitions between education, work and family responsibilities

The concept of transitional labour markets developed by Gunther Schmid (2006) provides a useful framework for considering how to modernise the welfare system to better protect people from the consequences of these important risks, particularly at main transitions in their lives.

Institutionalised bridges are needed between education and work, between unemployment and employment, between paid work and unpaid work and between work and retirement. New forms of social security provision would cover not only the risk of involuntary unemployment but also the risks of other work–life discontinuities in order to encourage men and women to undertake family,

employment or human-capital decisions in spite of uncertainties, thus making the labour market more flexible and open for groups at high risk of social exclusion (Schmid 2006).

Education, training and work transitions

In particular, Australia needs to improve the education-training-employment transition to better assist people into employment and to provide the skills employers are looking for. Most training should benefit the individual, employer and society. The benefits include for the employer higher productivity from job-specific training, for the individual transferable skills (Glover 2011). Even where higher productivity is not achieved, decent employment brings health and social benefits to individuals, encourages their participation in the life of the community, and reduces government spending on income support and other payments.

However, despite existing subsidies, training is a risky individual investment, given the uncertainty that it will produce the desired results of work, better paid work, or more satisfying work. A policy change that would reduce this individual risk is the introduction of personal learning accounts that operate over the life course. These learning accounts would enable individuals to better adapt to changing circumstances. The learning accounts need to be accompanied by high-quality training organisations, support for training in the workplace and expert advice on training for individuals so that the account holders do not fall prey to unscrupulous trainers (Glover 2011).

Work and family transitions

One of the great social changes of the past 30 years is the increase of women in paid work: the proportion working part-time or full-time, or looking for work is now 59%, up from 44% in 1978 (Baird & Heron 2011). Employee-friendly flexibility in the workplace is essential to allow women to enjoy secure and satisfying paid employment – and to move towards enabling men to share caring responsibilities, given the continuing gender division of care and housework (Craig & Mullan 2009). It should also enable workers, men as well as women, to undertake care and volunteer activities that contribute to community wellbeing (AHRC 2007; Baird & Heron 2011).

Practical changes to promote women's workforce participation include (Baird & Heron 2011):

- monitoring the uptake of unpaid parental leave by women, possible associated discrimination and the impact of the leave, and of motherhood, on career and lifetime income
- policies to facilitate more care by fathers, such as paid paternity leave and flexible work arrangements, and monitoring their take-up
- expanding the right to request flexible work hours from parents of children under 18 years to all workers with caring responsibilities (employers may refuse requests on reasonable business grounds, and employees may appeal against refusal to Fair Work Australia)
- extending the affordability and availability of out-of-school-hours child care
- tackling the pay gap between the genders, which stands at 17.4% (EOWA 2012). Fairly valuing work that is predominantly undertaken by women and addressing gendered patterns of skills acquisition are critical in doing this (AHRC 2007; Baird & Heron 2011).

Work and retirement transitions

Lengthening lives, as our population ages, are often assumed to mean a shrinking middle stage of working life, with more time in education at the start and in retirement at the end. An alternative is to think of the 'stretched' life course: as well as more time in retirement there are also more

economically productive years in a longer and more flexible working life, with opportunities for part-time work (Biggs 2011). Increased flexibility in the workplace would not only help younger women and men balance work and caring responsibilities, but also assist in retaining older people in the workforce (Baird & Heron 2011).

Older people make a contribution to society not only as workers across a longer lifespan, but also as consumers in a 'silver market', and as familial and civic 'glue', for example through voluntary community work and active citizenship in community, electoral and political processes (Biggs 2011).

This demographic change also creates new business and employment opportunities, including in the design and construction industries in building and renovating homes, workplaces, other buildings and parks to better accommodate older people. Skilled work in aged care and health care will increase as the population ages (Biggs 2011).

Unemployment, social security and the labour market

Reform employment services to better serve job seekers

The unemployed and underemployed – people who have some work but want more – make up about 12% of the workforce. They miss out on the benefits of work and society misses out on their productivity potential. One-fifth of the unemployed are long-term jobless and one-third of the underemployed have been seeking extra work for a year or more (Horn 2011b). Improving the way the long-term job seekers are assisted to enter the workforce enables them to benefit from participation in the economy while also assisting employers looking for staff.

The policy challenge is in building a bridge for highly disadvantaged unemployed people into decent paid work. They have severe barriers to employment, such as housing instability, health issues and the stigma of long-term unemployment. Job Services Australia, the Australian Government's outsourced employment services system, is working well for most people looking for work, but not for the most disadvantaged. Problems include contract arrangements and funding structures that tend to ration expenditure on highly disadvantaged job seekers and constrain integration of assistance for the hardest to help (Horn 2011b).

The Brotherhood of St Laurence's Centre for Work and Learning, Yarra, is developing an alternative model for disadvantaged job seekers, helping them build a pathway to work through a mix of personal support, training in general and occupational work skills, and work experience. Critical to this approach are strong partnerships with employers, in order to match job seekers' training to the skills they need. This contrasts with the Job Services Australia model, in which there is insufficient focus on employers, who themselves are reluctant to take on job seekers from some backgrounds, and a mismatch between qualifications and employer requirements (Horn 2011b).

Consider alternative approaches to social protection

Welfare protection differs between developed nations in the way it is funded, from public revenue or from individual contributions, and in the way it is structured, in terms of the relationship between benefits and the past or current income of beneficiaries. Redistribution can be between rich and poor, across the life cycle, and as social insurance against unemployment, disability, sickness and so on (Whiteford 2011).

While the mix varies in different countries, Australia provides the strongest example in the OECD of redistribution between rich and poor via public revenue, and also has the most targeted public

welfare system. The system is universal, but also tightly means-tested, so there is less ‘middle class welfare’ in terms of government cash benefits, which are more tightly targeted to low-income households, and also less ‘churning’ of taxes and government payments compared with other OECD countries.

However, Whiteford also notes that what is called ‘middle class welfare’ in Australia is called social insurance in Europe and social security in the United States of America. In these countries there is more emphasis on funding via individual contributions from people in employment, and only contributors to the scheme benefit. On average, social insurance schemes are more expensive and therefore appear more generous to recipients, but this can be generosity to better-off recipients.

Universal and means-tested schemes such as Australia’s are likely to be relatively more generous to the lifetime poor and to those who would not have been able to contribute to social insurance schemes – particularly young people, women and migrants.

However, one of the central issues in this debate is the argument that welfare systems with a broader reach provide bigger benefits because the middle classes have a stake in them. Does tightly targeting benefits to the poor undercut community support for their welfare (Whiteford 2011)?

The Australian Council of Trade Unions proposes establishing an unemployment insurance scheme to create a better buffer for workers when they become unemployed. The proposal is linked to the Superannuation Guarantee Charge, although such a scheme could also stand alone. If one percentage point of the forthcoming rise in the superannuation guarantee charge from 9% to 12% were paid as a premium for unemployment income insurance, this would buy six months of an income for an unemployed person at 60% of his or her gross prior earnings (Belchamber 2011).

Another policy option to consider is the individual investment account that can be drawn on for different purposes over a lifetime, such as provided by the Singapore Central Provident Fund (Whiteford 2011). This is a compulsory savings plan for working Singaporeans primarily to fund their healthcare, housing and retirement. Workers and their employers make monthly contributions to the fund, which they can draw on for purposes including buying a home, education, retirement and hospitalisation expenses (Central Provident Fund Board 2012).

Remove disincentives to work in taxation and income support

The way that the taxation system, government income support and government concessions interact may leave disadvantaged people worse off when they find a job. This is because all these are still based on the assumption that most people find full-time jobs, and do not recognise the prevalence of insecure employment. Jobs for low-paid workers are increasingly casual, short-term or seasonal: more than half the disadvantaged job seekers in the Job Services Australia system who find paid work are in this category. So moving off government benefits is risky because if precarious work falls through, the individual must go through the lengthy process of reapplying for assistance (Bodsworth 2010).

The Australian Government has already made changes such as liberalising income tests, but needs to continue these reforms in order to remove disincentives to taking up work and to smooth the transition between short-term jobs.

Governance challenge: partnerships for policy development

The inclusive growth approach would require new partnerships between government, the community sector and business. The community and private sectors need to find common cause on ways to reduce social disadvantage and build stronger communities while increasing economic growth. This kind of cooperation will also require greater capacity in government if our political leaders are to be able to bring the sectors together on the new agenda. Government is not the sole source of policy innovation. Government departments often operate as contract managers rather than policy developers, and accountability to different ministers makes it hard for agencies to think outside departmental boundaries. Decades of outsourcing have resulted in many departments lacking the knowledge of and capacity for policy development to properly support the necessary political leadership.

Finding approaches to encouraging inclusive economic growth will start with non-government organisations, academia, business and unions working together on problems where they can reach a consensus on ideas to be then taken to government. Government in turn needs to beef up its capacity to develop and drive policy ideas.

Precedents for ideas that are developed and put to government, which then takes them forward, include the Prices and Incomes Accord between unions and the Labor Government in the 1980s, where unions agreed to restrict wage demands and the government pledged to minimise inflation, and the National Disability Insurance Scheme which, after a concerted campaign by disability organisations, the Gillard Government has made a commitment to introduce.

In developing policies for inclusive growth, there are several key questions:

- How do we organise income support and education opportunities throughout the life course for those out of work, with caring responsibilities, in retirement or unable to work?
- How do we encourage inclusion in mainstream economic and social life for those furthest outside the mainstream, such as Indigenous Australians? According to the Brotherhood of St Laurence and Melbourne Institute Social Exclusion Monitor, one in six Indigenous Australians deal with deep exclusion from society (Brotherhood of St Laurence & Melbourne Institute 2012).
- What are the features of workplaces that are inclusive of different groups, including people with dependants and people with disabilities, and how do we encourage those features?
- How do we achieve the creation of good jobs in a competitive globalised economy, while also ensuring employees have the security to plan their lives outside work?

While the devil, as always, will be in the detail, finding answers to these questions offers the potential for more Australians to both create and benefit from prosperity.

Appendix

Growth and equity

The OECD identifies these policies and institutions that both encourage growth and are likely to reduce income inequality:

- **Improve the quality and reach of education:** reforms to increase human capital are important for improving living standards, and are likely to reduce labour income inequality. A rise in the share of workers with upper secondary education is associated with a decline in labour earnings inequality. Examples of policy initiatives to raise upper secondary education attainment include enhanced accountability for schools and special support for pupils at risk of dropping out.
- **Promote equity in education:** raising social mobility by making educational outcomes less dependent on personal and social circumstances should boost GDP per capita by enhancing entrepreneurship, the quality and allocation of human capital and, ultimately, productivity. A more equal distribution of educational opportunities has been shown to result in a more equal distribution of labour income. Examples of reforms include strengthening links between school and home to help disadvantaged children learn, and providing early childhood care.
- **Reduce the employment-protection gap between temporary and permanent work:** if employment protection is much stricter for regular than for temporary contracts, workers at the margin of the labour market – such as young people and immigrants – risk getting trapped in a cycle between temporary work and unemployment, with adverse implications for human capital and career progression and, ultimately, income equality and economic growth.
- **Increase spending on active labour market policies:** well designed active labour market policies may raise employment by better matching jobs with skills and enhancing support for job search and monitoring, with positive effects for on both GDP per capita and labour income equality.
- **Improve women’s involvement in paid work:** women tend to take on more caring responsibilities than men, meaning they work fewer hours and take home less pay. Improving the availability of formal care for children and the elderly should help to reduce gender differences in working hours and improve long-run living standards through more involvement of women in the workforce.
- **Implement taxation in a way that allows equitable growth:** taxes not only affect the distribution of income; they also affect GDP per capita by influencing labour use and productivity, or both. Some policy options that could promote growth and reduce inequality are re-assessing tax expenditures that benefit mainly high-income groups, such as tax relief on mortgage interest in some countries, and reducing tax relief on income from capital. Raising such taxes would increase equity and allow a growth-enhancing cut in marginal labour income tax rates.

Source: OECD 2012b

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