

Background Paper for National Job Creation

**As part of the Sambell Oration presented by Nic Frances
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The Brotherhood of St Laurence (BSL) is calling for strong and enterprising leadership to deal with the economic waste and futility of large-scale unemployment, the growing divide between rich and poor and the ghettoising of Australians who are continuously denied the opportunity of full-time work.

We are urging the Federal Government to rethink policy and shift spending away from what benefits an exclusive few — like the subsidy on imported four wheel drive vehicles that costs \$480 million per year — to deliver essential social services in areas like education, health and the environment.

The BSL is not advocating job creation for its own sake. But we are calling for governments to provide more jobs that can lead to improved outcomes in areas the community values and where there are unmet needs.

There is some evidence that the Australian public will respond favourably. Polling, research, strategic planning by political parties and peak bodies and the BSL's work have identified that our society's priorities for a more cohesive and inclusive Australia include:

- valuing and investing more in education, with emphasis on the early years
- accessible and affordable health and community care, particularly for older people
- protecting the environment and encouraging environmentally sustainable industries.

We recognise that increased spending on public services is necessary to create more jobs at higher levels of skill, such as teachers for education and doctors and nurses in health care.

However to substantially impact on entrenched unemployment it is vital to create for some of the most marginalised and excluded members of our society new entry-level jobs, requiring relatively low levels of skills and linked to training and support that can lead to occupational mobility.

It requires determined leadership and a committed alliance between sectors and organisations to push for government policy changes so that all Australians can share in the benefits of future economic growth.

This background paper is a sketch of a future direction for Australian governments, to help improve social well-being, restore and protect the environment, reduce unemployment and foster social cohesion.

It provides a broad outline of the argument and ideas for debate and consideration. The Brotherhood of St Laurence has begun talks with other organisations as part of our plan to work with business, peak bodies, unions and non-government and welfare organisations to develop:

- an analysis of social, health and environmental needs
- an analysis of what types of jobs we need in these and other sectors and how much they may cost
- proposals to redirect government spending or tax subsidies to pay for better services
- improvements to labour market and training programs to help long-term unemployed people move into work
- a detailed, costed proposal on job creation to deliver essential social services to put to the Australian public and governments.

A moral question for our wealthy society

If our objective of an Australia free of poverty is to take flesh, we need to find the most effective ways of communicating the damage Australians are doing to themselves by tolerating so much poverty and inequality in this fundamentally very wealthy society.

There is a moral question. To have nearly a million children living in families with no adult in the workforce is to create a problem not just for this generation but also for generations into the future. (Brian Howe, foreword to *Values and civic behaviour in Australia*, 2002).

There has been a significant shift in public opinion over the past 30 years about the causes of poverty (Saunders 2002). In the early 1970s when unemployment was low, Australians saw lack of thrift and money management, and sickness or physical handicap, as the most common causes of poverty.

But as economic, social and policy changes have exposed more Australians to uncertainty, hardship and the risk of poverty through unemployment, the concept of blaming the victim for ‘a besetting reluctance to accept personal responsibility for anything’ (Abbott 2001) belongs more to politics than to mainstream community.

There is growing public unease about corporate governance and Australia’s widening income divide. It is shifting the spotlight on ‘mutual obligation’ away from those who have no prospect of full-time work to the executives and directors accepting bonuses and severance payments of between \$7 million and \$30 million, some preceding massive corporate collapses.

The evidence now is that Australians strongly agree that the most important causes of poverty are structural — joblessness, low wages and lack of opportunity. This indicates a more sophisticated and realistic understanding of the causes of poverty in the community than that promoted in much of the current policy debate:

There is now more support for structural explanations of poverty, particularly those relating to the disappointing performance of the labour market. This may help to explain why there has been an increase in perceived job insecurity despite the growth in actual employment stability.

The fact that public opinion is in such strong agreement with structural causes of poverty, particularly unemployment, suggests that public support for providing additional resources to assist the poor and by tackling unemployment may also be stronger than is commonly supposed. Those in government who persist in blaming the victim seem isolated from mainstream community, whose views on the causes of poverty suggest that they deserve better treatment than they currently get (Saunders 2002).

Why can't a 'miraculous' economy deliver enough work?

There is a consensus among many organisations, from the Business Council of Australia (BCA) and the Committee for Economic Development of Australia (CEDA) to the Australian Council of Trade Unions (ACTU) and Australian Council of Social Services (ACOSS), that the benefits of Australia's economic growth are not being shared, particularly to create more jobs and reduce unemployment.

While Australia's economic performance has been hailed as 'miraculous and worldbeating', the reality indicates that governments have wasted the opportunity to create benefits for all Australians from a decade of growth. The unemployment rate remains high, the long-term unemployment rate has remained constant for five years, the number of full-time permanent jobs has decreased, dominant industries have shifted and jobs in the more precarious realms of casual and part-time work have increased dramatically.

One million Australians want more work

In fact there are about one million Australians, either with no work or in part-time jobs, who want the financial and emotional security of full-time work. New data from the Australian Bureau of Statistics for September 2001 classed 563,500 workers as 'underemployed', on top of 672,500 officially unemployed and about 800,000 more who said they wanted to work and were available to start, but were not looking (ABS 2002b).

The number of Australians classed as 'underemployed' has increased 20 per cent in the past year, with a record 355,000 people who work part-time wanting full-time jobs. Full-time jobs shrank by 13,000 and all net job growth has been in part-time work in the past two years.

Even the unemployment rate itself is an inadequate measure of people seeking work because it defines anyone working as little as one hour per fortnight as employed (ABS 2001a), and ignores many part-time workers who want to work more.

An analysis of employment income statistics between 1990 and 2000 shows the entire net job growth over the decade was in part-time and casual jobs. At the same time the number of full-time permanent jobs fell 51,000 and the wage gap between permanent and casual workers widened (Borland, Gregory & Sheehan, 2001).

Lack of work and social ghettos

Research also indicates that the last decade has seen the greatest growth in dependence on welfare since 1970s, from one in 20 to one in four. Much of this growth stems from lack of full-time jobs, resulting in many recipients combining part-time work and welfare, and creating ghettos with medium to long-term serious 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).

Who really loses in the labour market changes?

New jobs over the last twenty years

Australia has seen growth in jobs since the last recession, but the types of jobs being created has changed. Table 1 shows changes in employment since 1980. While total employment grew steadily during the last two decades, the majority of this growth was in part-time jobs. Of 2.6 million new jobs created since 1980, about 1.5 million have been part-time. This trend has intensified during the 1990's: of the 1.1 millions new jobs created during that decade, only about 282,000 or 25 per cent were full-time. Part-time work now accounts for 29 per cent of all jobs, and this proportion continues to increase (Borland, Gregory & Sheehan 2001).

Table 1

Job type	Employment (000s)			Change in employment					
	1980	1990	2000	1980-1990		1990-2000		1980-2000	
				No.		No.	%	No.	%
Full-time	4344.7	5169.3	5451.1	824.6	19.0	281.8	5.5	1106.4	25.5
Part-time	786.8	1396.2	2244.5	609.4	77.5	848.3	60.8	1457.7	185.3
Total	5131.5	6565.6	7695.6	1434.1	27.9	1130.0	17.2	2564.1	50.0

Source: Borland, Gregory & Sheehan 2001

A growing divide in wages

Growth in employment over the last decade has primarily been in low-wage jobs, either because of the nature of the work (relatively low-skilled service jobs) or the type of jobs (part-time). Of the 2.6 million jobs created between 1980 and 2000, almost 80 per cent paid less than \$600 per week (in year 2000 dollars). The number of middle and upper middle wage jobs has been reduced over the same period, although there was an increase in jobs paying very high wages (Borland, Gregory & Sheehan 2001).

Among young people, a group of particular concern are those who are not engaged in full-time study or full-time employment (McClelland, MacDonald & Macdonald 1998). In May 2002, 15.4 per cent, or around 211,000 of young people aged 15-19, were in this situation and faced severe long-term labour force disadvantage (Dusseldorp Skills Forum 2002).

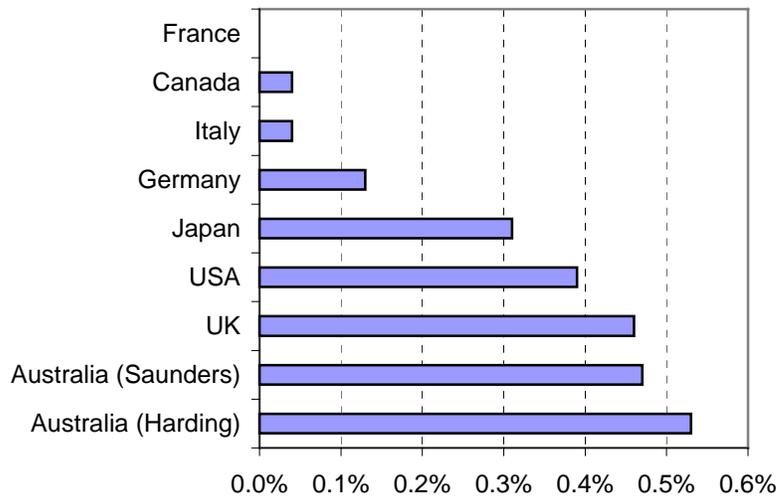
Increasing inequality

The distribution of income in Australia has become more unequal over the last two decades. Figure 1 shows increases in inequality in equivalent disposable income for several OECD countries, measured as the percentage change in the Gini coefficient of equivalent disposable income. It should be noted that the figures for Australia refer to the

period 1989-1999, while figures for the other countries cover the period from 1979 to the mid 1990s. Australia's rate of increase in inequality exceeded all of the other countries shown.

Figure 1

Average annual increases in Gini coefficient for equivalent disposable income since 1979.



Sources: Burtless 2001, Saunders 2001 and Harding and Greenwell 2001.

A few key factors contributed to earnings inequality. There has been an increased demand for more highly skilled workers, and the wages of this group have increased dramatically as a result. The move to individual and enterprise bargaining has rewarded those with greater bargaining power. As women have made further inroads into the labour force, the incomes of partners in couples have become more similar. This has resulted in increases in both the number of households with two wage-earners and households where neither partner has a job (Dawkins and Scutella 2001).

The answer depends on whether you are rich or poor

It is often argued that people on low incomes are better off even if inequality is increasing, because increased inequality is associated with higher economic growth which benefits everyone in real terms - the 'the rising tide lifts all boats' argument. Gary Burtless (2001) from the Brookings Institution has shown that inequality has increased most rapidly in countries with the highest average levels of economic growth. There does therefore seem to be a link with increasing overall wealth of a country and increased inequality. However, Burtless argues that the poor in European countries have done better over the last decade despite having lower rates of growth than the UK and the USA, because the benefits have been more equally distributed.

The results of research from the Luxembourg Income Study, an international study of well being, supports his argument. This study examines real income differences between different groups in each country with a particular focus on children. It does this by adjusting income for purchasing power – what someone can buy for a given amount of money in his or her own country. Importantly, it allows us to answer the question – is someone on a particular income (measured as a point in the income distribution) in Australia better or worse off in absolute terms than someone on an equivalent income in other countries? The answer depends on whether you are rich or poor.

In general terms, children of the rich in the USA (a child in a family at the 90th percentile of the income distribution) are better off than the children of the rich in any other country. Australia comes in at about the middle. For the children of the poor (a child in a family at the 10th percentile of the income distribution) the story is the opposite – poor children in the USA are worse off in real terms than poor children in all of the other 12 OECD countries in the study, with the exception of the UK. Australia comes 11 out of 13 – only in the UK and the USA are the poor worse off than in Australia. These findings mirror those of the United Nations Development Programme (UNDP) on poverty rates in developed countries where Australia comes 14th out of 17 countries – followed only by the UK, Ireland and the USA (UNDP 2001).

Increased inequality also has negative effects on the community as a whole. Some evidence shows that societies with greater inequality have poorer community health. Social cohesion is also threatened when people feel that the benefits of economic growth are not shared equitably, with a breakdown in community relationships. Inequality may also lead to increased crime, feelings of disconnection and isolation. These affect all of us.

Unemployment rate is inadequate measure

Unemployment has declined over the last decade, from a high of around 11 per cent in 1992 to around 6 per cent during 2002. In March 2002, there were 609,400 people unemployed (seasonally adjusted estimates, ABS 2002). However, because of limitations in the way that unemployment is measured, these figures do not reflect the reality of the number of people looking for work. Unemployed people are defined as all people 15 years of age and over who were not employed during the reference week, and:

- had actively looked for full-time or part-time work at any time in the four weeks up to the end of the reference week and
- were available for work in the reference week, or
- were waiting to start a new job within four weeks from the end of the reference week, and could have started in the reference week if the job had been available then (ABS 2001).

The unemployment rate is an inadequate measure of the number of people seeking work because it defines anyone working as little as one hour per fortnight as employed (ABS

2001). Consequently, it ignores the many people working part-time who want to work longer hours (Denniss 2001). As the proportion of people working in part-time or temporary jobs has increased over the last 20 years, the unemployment rate has become much less accurate as a measure of the need for additional work.

The unemployment rates also does not include people 'marginally attached to the labour market' who

- want to work and are actively looking for work but not available to start work in the reference week; or
- want to work and are not actively looking for work but are able to start work within four weeks' (ABS 2000b)

Although people in this group are not defined as part of the labour force, they do want to work. They include many such as sole parents and people with disabilities who are being encouraged by government policies to find paid employment.

The increase in the proportion of part-time jobs means that many who are working and therefore not included in the unemployment rate are still not earning enough to support themselves, and need to rely on government social security payments. On the other hand, some part-time workers are in two-income families with a full-time worker, and do not wish to work more hours.

The real picture of long-term unemployment

While unemployment has decreased, a key area concern is with people who have been unemployed for a long time. The ABS defines long-term unemployment as the number people unemployed for 12 months or more. According to this measure, there were 216,000 long-term unemployed people in 1996 and 161,900 in 2002 (March figures for both years, ABS 2001b).

As described above, a limitation of this measure is that it excludes unemployed people who have worked one hour of work or more per week. There are many people who find only occasional or casual work that does not provide a 'living wage' or enough income from wages to cease receiving unemployment benefits.

A better measure of long-term unemployment is the number of people receiving unemployment payments for more than one year. Using this measure, the number of long-term recipients has hardly declined at all, since the mid-1990s reaching a low of around 343,000 in 1996, but increasing again until 1999 (ACOSS; ACTU et al. 2001). There were still 384,000 long-term unemployed people in April 2002, more than in 1996 (ACOSS 2002).

Not surprisingly, long-term unemployed people tend to have low levels of education and few qualifications. ABS surveys show that half had not completed secondary school, and one third were labourers. Nearly two thirds are men, and a third of the long-term

unemployed are married. Indigenous people are also vulnerable since they experience unemployment at three times the rate of other Australians.

Regional economies traditionally dependent on manufacturing (including northern NSW and Canterbury/Bankstown, northern and western Victoria, some Queensland coastal areas, Tasmania and South Australia) have higher rates of long-term unemployment.

Unemployment's destructive impact

The human costs of unemployment can be counted in many ways (Taylor 2002). It creates long-term financial hardship so that people have difficulty paying for rent, food, bills, transport, clothes, shoes and basic costs of schooling. Children miss out on holidays and extra-curricular school activities like music, sport and camps.

The stress of continually balancing inadequate income with bills begins to take its toll, affecting relationships and potentially contributing to family breakdown. There is a clear link between unemployment and homelessness. Psychological impacts include loss of identity, poor self-esteem, mental health problems and depression, especially among older retrenched workers.

Unemployment and the nature of precarious work is a big issue for young people and has enormous impact on their capacity to plan for the future. Many of them, caught in the churn of temporary and casual work, also experience lack of savings, limited prospects of home ownership, reduced capacity to contribute to superannuation, and difficulty finding fulfilling work and establishing a career.

The real demand for full-time jobs

Given the difficulties associated with measures of unemployment, we need a better indicator of demand for full-time time work. One way of doing this is to add:

- the number of unemployed people who want to work full-time
- the number of people marginally attached to the labour force and who would like to work full-time
- the number of people employed part-time who want to work full-time.

An estimate of the number of full-time jobs needed is shown in Table 2. Data for different categories are not available for the same time period, and the number of extra hours which people would prefer to work is also not available. This estimate can be seen therefore as an approximate measure with some limitations, but one that provides a better indication than the unemployment rate.

Table 2

Number of people seeking full-time and part-time work.

Category	Type of work sought			Total
	Full-time	Part-time	Not stated	
Unemployed ¹	424,200	133,600	0	557,800
Marginally attached to the labour force ²	186,100	493,900	143,900	823,900
Employed part-time wanting more hours ³	355,500	236,900	0	592,400
	0	0	0	0
Total jobs needed	965,800	864,400	143,900	1,974,100

Notes

1. ABS Labour force July 2002, 6203.0
2. ABS Persons not in the Labour Force September 2000, 6220.0
3. ABS Underemployed workers September 2001, 6205.0

It can be seen that as of mid-2002, almost a million more full-time jobs were needed to meet demand. In contrast, during 1990s almost all job growth was in low-paid and part-time jobs, and only 282,000 new full-time jobs were created during the whole decade despite sustained economic growth.

As Borland, Gregory & Sheehan comment:

...the economy has failed to generate an adequate supply of jobs that pay a living wage and hence supporting full and independent involvement in the Australian community (2001, pp.19-20).

Reflecting on these trends, John Quiggin recently wrote that:

Taking all the evidence into account it seems reasonable to conclude that unemployment in Australia is worse than at any time since World War 2, except for the trough of 'the recession we had to have'. This dismal outcome has been recorded at a time when our economic performance is routinely touted as 'miraculous' and 'worldbeating' (Quiggin 2002, p. 70).

Strategies to reduce unemployment

Apart from creating jobs to address social and environmental needs, other strategies that can help to reduce unemployment include:

- sound management of the economy to ensure continued economic growth
- an incomes policy to moderate wage growth, especially among high-income earners

- regional policies to stimulate investment in local economies, perhaps involving requirements for the investment of some proportion of superannuation funds in regional initiatives or infrastructure, and
- policies aimed at reducing very long working hours, and redistributing working time.

We also know that some of the new jobs created will not go to people currently unemployed but may be taken by people re-entering the workforce, for example women going back to work after having children. The estimates of this effect vary from around half to three-quarters of new jobs creation (Borland 1994).

There appear to be four different mechanisms by which expenditure on human services and the environment can provide jobs for unemployed people:

- a certain proportion of new jobs can be entry-level jobs requiring relatively low levels of skills
- some unemployed people with quite high levels of skill and qualifications can be expected to take up more highly skilled positions
- some unemployed people will require access to better support and training to take up employment opportunities,
- an increase in public sector jobs will lead to a ‘flow-on’ effect where workers may move from lower to more highly skilled jobs in the public sector, creating more vacancies in other entry-level jobs.

Such a proposal also needs to take into account displacement and substitution effects. To fund more spending on services on a sustainable basis — without a budget deficit — government needs to find the money either by reducing expenditure on other areas or by increasing taxation. Either way, some jobs may be lost from the areas where spending is reduced – the so-called displacement effect. Quiggin argues that because the human services sector is more labour intensive than the economy as a whole, there is a net increase in employment despite the displacement effects (Quiggin 1999).

The other issue is that the jobs created can be counter-balanced by job losses in the same field. For example, the creation of additional public teaching positions might replace positions in private schools, or the employment of teachers’ aides might be argued to be a substitute for teachers, leading to a reduction in teaching positions.

However if the additional positions were created to address unmet needs, substitution effects are likely to be small. So, for example, reducing classroom sizes by employing more teachers will not in itself create a substitution effect. Still, we need to ensure that the jobs created in this program will not substitute for other positions, or cuts in other areas of funding (for example in cost-shifting between federal and state governments).

Economic costs of unemployment

Unemployment has a range of financial costs attached. These include the direct cost to unemployed people (income forgone from not working), the additional costs to

government (increased expenditure on labour market programs and social security payments, and decreased income from tax) and economic cost to society generally.

It is notable that no work has been done on quantifying these costs since the early 1990s. While it is beyond the scope of this study to assess these costs in any detail, previous work by Junankar and Kapuscinski (1992) provides some idea of the magnitude of these costs. Junankar and Kapuscinski estimated that if the then unemployment rate of 9.5 per cent (in 1991) was lowered to a 'high' rate of 6.5 per cent (i.e. about 3 percentage points), an output loss of around 6 per cent of GDP could be avoided.

John Quiggin estimated in 2000 that, after taking account of the displacement effects discussed above, creating a net of 600,000 new jobs would increase GDP by around 1.5 per cent (Quiggin 2000). This would be worth around \$11 billion based on our current GDP (Commonwealth of Australia 2002).

Are we spending enough for our well-being?

In Australia...a continuing problem has been the preoccupation of public policy with the economy, with social and environmental issues relegated to secondary concerns. We do not argue that economic policy is unimportant. We believe it to be of prime importance...However economic growth is not an end but a means. As Adam Smith, the father of modern economics, observed long ago, the basic test of the success of an economy is the well-being of its people.

If growth does not provide properly for the well-being of all Australians, if it does not contribute to the solution of existing social, cultural and environmental problems, if it increases disadvantage, produces new inequities, and further despoils the environment, then it not only causes pain and hardship to those affected but also undermines the fabric of the society and the future potential of the economy. Much more attention needs to be paid to these problems.
(Australian Collaboration 2001)

All governments have a responsibility to deliver sound economic management, but that alone is not enough. One of government's important roles is to contribute to the so-called 'social wage', the expenditure of taxation revenue on areas such as health, education, environmental programs, public transport, childcare and labour market programs.

Income through taxation revenue and other sources must be at a level to ensure that there is enough spending on these important social issues or 'goods' that underpin a fair and civil society. This expenditure is an important means of redistributing income and wealth in our society, so it must be broad-based to benefit all our communities.

The strong economic growth over the past decade has not resulted in improved quality of life for all Australians, because economic benefits have been unevenly distributed. We have to ask serious questions about Australia's economic achievements and why some people, and the environment, have not shared in these benefits.

Clearly, recent expenditure on many social issues has been inadequate and has contributed to the growing inequality within our society. A consideration of three of the issues regularly reported to be highly valued by Australians — health, education and the environment — highlights the need to increase public expenditure on social goods.

Creating jobs for a healthier society

Health and related support services, fundamental to a fair society, are struggling to meet demand. Medicare, our universal health insurance scheme, is designed to ensure all Australians have access to high quality health care, regardless of their income. But its adequacy and future have been undermined. Increased pressure, in the form of lifetime cover and taxation rebates, has been placed on people to join private health insurance schemes, using resources that could have been directed to Medicare or other health areas such as public hospitals, public dental services and mental health services.

Many community care organisations providing services that enable frail older people and people with disabilities to continue living at home cannot meet the demand for their services. This leaves many people with inadequate support.

For those older people who cannot continue to live at home, residential facilities provide either high-level care in nursing homes or low level care in hostels. But there are considerable waiting periods for some people to access this care, with 50 per cent of older people being forced to wait more than one month and 25 per cent having to wait three months or longer (ACSA 2001).

There is plenty of evidence that the supply of health and related support services does not meet demand. Beyond that, not all members of the community have equal access to these services, nor do they experience comparable outcomes. Indigenous Australians continue to suffer severe health disadvantage (Australian Collaboration 2002, AIHW 2000), in conditions that are a travesty in a country as wealthy as ours. Individuals and families on low incomes and battling poverty also suffer poorer health than the general community (AIHW 2000). It is the people in these groups who bear the brunt of inadequate expenditure on public health and related services.

Meeting health needs can create many jobs in community, health and aged care.

Addressing the lag in education

Australia's social and economic future depends on the quality of all levels of our education system. We are not spending enough on education in Australia to guarantee our long-term economic prospects, and there are no signs that this is about to change. Educational outcomes must be improved for all participants, and this requires more funding. However, Indigenous Australians and people on low incomes are currently experiencing the greatest disadvantage within our education system (NEEF 2002, Australian Collaboration 2001). Addressing this to make high quality education available to all must be one of our affluent society's highest priorities.

There is some evidence that Australia may be lagging behind in terms of a skilled, highly educated workforce. In 2000, 63 per cent of Australians in the labour force had completed upper secondary, vocational or tertiary education, contrasted with around 80-90 per cent in many other OECD countries.

We need to spend more to employ more teachers and reduce class sizes, and can also employ teachers' aides.

Green jobs and our environment

The case for increased expenditure on environmental programs has never been stronger. Australia is experiencing ever-increasing problems with land degradation, inadequate water supply and quality, greenhouse gas emissions and air quality. Unless a concerted effort is made to address these serious issues, the country we leave to future generations will be a shadow of what we inherited.

Salinity, acidity and erosion must be addressed. Deep-rooted vegetation must be replanted, land clearing must cease, and inappropriate farming techniques must be replaced. Action to improve water quality and supply has to be implemented if we are to have enough of this precious commodity in coming decades. A commitment to reduce our reliance on fossil fuels will decrease greenhouse gas emissions and lessen the impact of global warming. Unfortunately, the environment won't wait. Large-scale action is vital and governments must make it a priority to spend more on measures to improve the environment.

All levels of government must accept their responsibility to contribute to an adequate social wage for all Australians. Greater expenditure on social goods will not only benefit all Australians but also can create work opportunities in a society experiencing unacceptably high levels of unemployment and underemployment.

Finding the money to create work and deliver services

The Brotherhood of St Laurence is focusing on the redirection of government spending and taxation subsidies that are inefficient, inequitable, or environmentally damaging to generate the necessary funding for this proposal. The following initiatives indicate the types of redirection we advocate.

Health Insurance Rebate

The private health insurance rebate is now costing around \$2.3 billion annually (ACOSS 2002) despite being forecast originally at \$1.7 billion. However there is mounting evidence that this subsidy is inefficient and inequitable.

Health economists have argued that the subsidy cannot be justified on efficiency grounds and that pressure on public hospitals will be reduced more effectively by direct government funding (Duckett and Jackson 2000). The rebate is effectively acting as a subsidy for the higher cost for profit sector (Ans 2000), providing more government assistance than to the mining, manufacturing, and primary agricultural industries combined (Duckett and Jackson 2000).

Although the rebate was originally intended to reduce the share of taxpayer funding going to health the reverse has actually occurred. The Commonwealth share of funding has increased from 45 per cent to 48 per cent (Smith 2001) under the Coalition, placing pressure on other areas of the health budget (ACOSS 2002) and draining funds from public hospitals and other health priorities (Smith 2001).

Serious equity concerns have also been raised by the positive association between private health insurance and income (Palmer 2000), which results in a skewing of benefits toward high-income earners. Tax statistics quoted in a recent Australia Institute study (Smith 2001) show that half the present tax rebate goes to the richest 20 per cent of households and that nearly three-quarters goes to the richest 40 per cent of households. The system has indirectly paid for \$360 million in private dental care predominantly for high-income families, while at the same time the government has abolished the \$100 million per year public dental program for low-income families.

To address this inefficiency and inequity, and encourage a health system where the private health sector plays a complementary rather than competitive role to Medicare, the BSL believes the health insurance rebate must be phased out.

- Revenue: \$2.3 billion 2003-04

Four wheel drive tariff

The concessional rate on four wheel drive vehicles was introduced by the federal government in the 1970s when these vehicles were used predominantly for commercial purposes. Currently passenger cars are taxed at the rate of 15 per cent while 4WDs are

taxed at the reduced rate of five per cent, effectively subsidising the cost of these vehicles. However, since 1980 4WD sales have increased dramatically from two per cent of the market to around 15 per cent in 2001 (Productivity Commission 2002), with growth being driven almost entirely by private buyers in urban localities (Productivity Commission 1997).

Continued support for this policy cannot be justified, especially when we consider the negative effects of 4WD vehicles on both road safety and the environment. Research by the Monash University Accident Research Centre (2000, cited in PC 2002) found that 4WDs pose a significantly greater risk to drivers of other cars than do large passenger cars. Australian and US data also suggests that the risk of a car occupant fatality is several times higher in a collision with a 4WD than a large passenger car (Productivity Commission 2002).

The average fuel economy for 4WDs is around 30 per cent worse than for passenger cars, and a continued trend toward the use of these vehicles in urban areas is likely to contribute to a deterioration in urban air quality (Productivity Commission 2002). Tariffs encouraging the use of relatively heavy, inefficient vehicles are in direct conflict with the Federal Government's objective of reducing average fuel consumption by 15 per cent by 2010.

It is unreasonable to continue to differentiate between vehicles based on intended usage. Government subsidies ought to encourage safe fuel-efficient vehicles, and be in line with other environmental objectives. Tariffs on 4WDs must be raised to the same level as applies to passenger vehicles.

- Revenue: \$480 million 2003-04

Superannuation subsidy

A recent review of tax arrangements on superannuation contributions by ACOSS concluded that these arrangements are inequitable, inefficient and wasteful (ACOSS 2002a). Under the current system high-income earners receive significantly greater subsidies per dollar contributed than low-income earners. This is due mainly to tax being charged at a flat rate of 15 per cent rather than the normal progressive rates. However, the superannuation surcharge does alleviate this to some extent.

For every dollar of employer contributions:

- a person earning less than \$20,000 receives a tax subsidy of 2 to 4 cents;
- a person earning \$40,000 receives 17 cents;
- a person earning \$80,000 receives 34 cents;
- a person earning \$100,000 receives 19 cents.

This distribution represents a misallocation of resources toward high-income earners who are less likely to have to rely on the pension and more likely to save for retirement, regardless of tax subsidies being in place. Around a third of the total value (\$1.7 billion)

goes to the highest tenth of income earners, and half (\$2.5 billion) goes to the highest sixth of income earners.

- The ACOSS plan to restructure taxation on superannuation contributions would provide additional revenue of \$1 billion in 2003-04

ACOSS taxation reform measures

The following taxation reform measures have been identified by ACOSS in their Budget Priorities Statement 2001-02 as desirable on both efficiency and equity grounds, as well as for their role in increasing revenues. A brief summary of a number of the proposals is given below and more detail can be found in the ACOSS policy document (ACOSS 2001a).

Fringe benefits tax

The concessional treatment of company cars that is currently weighted heavily to high-income earners must be restructured.

Exemptions on employer provided childcare services offer an unfair advantage to high-income earners who have most to gain through salary sacrificing and are most likely to have facilities available. This must be removed.

Introduce measures to facilitate simplification of FBT.

- Revenue: \$500 million 2003/04

Employee shares and options

Tax concessions associated with schemes targeted toward senior employees are wasteful, increase the gap between high and low-income earners, and contribute to an increasing tax avoidance industry in employee benefits.

- Restructuring would provide additional revenue of around \$600 million in 2003/04

Work-related deductions

Work-related deductions in the personal income tax system are skewed to the benefit of medium and high-income earners. One-third of deductions are claimed by the 12 per cent of taxpayers with incomes over \$50,000.

The current deduction system is unfairly targeted towards expenses that higher income earners are in a better position to claim. For example:

- Professionals can claim for conferences held in overseas locations, while low paid employees generally attend training courses conducted locally.

- Professionals can claim for additional self education expenses associated with their current work, but labourers or clerical workers attending night classes to improve their career prospects cannot normally claim a deduction.
- Self-employed professionals can claim large deductions for home offices that provide substantial opportunities for tax avoidance.

Work-related deductions must be rationalised to improve fairness and stem revenue loss from contrived claims.

- Revenue: \$500 million 2003-04

Artificial income splitting

Income splitting used for tax minimisation purposes rather than legitimate business reasons undermines the fairness of the tax system that is based on individual income. This technique is used predominantly by high-income professionals and small business people, and not available to the majority of wage-earners.

A consistent set of rules must be legislated to eliminate the taxation advantages exploited by spouses and business partners.

- Revenue: \$500 million 2003-04

Medicare Levy Surcharge

The Medicare levy surcharge must apply to all individuals and couples regardless of whether they hold private health insurance.

- Revenue: \$750 million 2003-04

Environmental tax reform

Environmental protection is a further area with considerable scope for revision of subsidies and taxation contributions to create improved employment and social outcomes.

Current energy and resource allocation policies in Australia rely heavily on market forces to achieve the most efficient pricing outcomes (Next Energy 2001). However, this method fails to adequately take into account all external, environmental, health and social costs, effectively resulting in massive subsidies to particular industries that are both inefficient and environmentally damaging.

In the long run there is a need to achieve prices that reflect full costs, and are not financially subsidised by particular groups, or by damage to the environment and human health (ACF 1993). However, there is a need to ensure systems are designed to protect low-income earners from sudden price increases and regressive effects.

The IMF and the OECD have both recently affirmed support for the use of taxes and charges that promote favourable environmental and social outcomes. However Australia currently lags behind most other OECD countries in the development of such instruments (Hamilton et. al. 2002).

Evidence suggests that an approach of taxing environmental ‘bads’ like waste and removing taxes on ‘goods’ like work can lead to positive employment and environmental outcomes as well as generating revenue. Overseas studies have demonstrated that environmental tax reform can achieve the following objectives:

- assist in environmental protection
- provide a steady stream of revenue
- boost employment
- enhance competitiveness
- stimulate growth
- be designed to avoid regressive effects (ACF 2000).

Policy changes in following areas are examples of changes that have been identified as having the potential to provide improved economic, social, and environment outcomes:

- A carbon tax of \$12 per tonne of carbon emitted is estimated to raise \$1 billion per year, with relatively small impacts on the cost to consumers (ACF 1993).
- The current subsidy to road transport is estimated at \$20 billion per annum. The government could consider implementing changes to road-user charges for heavy vehicles, and investigate graduated stamp duty and registration fees that reward fuel-efficient vehicles (Hamilton et. al. 2002).
- The elimination of electricity price subsidies to aluminium smelters and other subsidised users is estimated to generate \$250 million per annum.

A Green Tax and Environmental Subsidies Inquiry, as suggested by the Australian Conservation Foundation, will be an appropriate step to further explore current subsidies and potential revenue sources. This kind of inquiry can identify measures that reduce pollution as well as increasing productivity and employment growth.

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