

# AUSTRALIA'S WELFARE HABIT

and how to kick it



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and how to kick it

**PETER SAUNDERS**

DUFFY & SNELGROVE  
Sydney

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Since 2001, Peter Saunders has been Social Research Director at The Centre for Independent Studies, Australia's leading independent policy think-tank based in Sydney. He holds an Adjunct Professorship at the Australian Graduate School of Management and is Professor Emeritus of the University of Sussex in England, where he taught sociology for nearly 25 years. He has held visiting academic posts at universities in Australia, New Zealand, Germany and the United States, and between 1999 and 2000 was Research Manager at the Australian Institute of Family Studies in Melbourne. He has published extensively in the areas of social policy, political sociology and social inequality, and his work has been translated into several languages including French, German, Italian, Portuguese and Korean. He regularly comments on social policy issues on television, radio and in the press.



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Peter Saunders  
St Leonards, NSW  
June 2004



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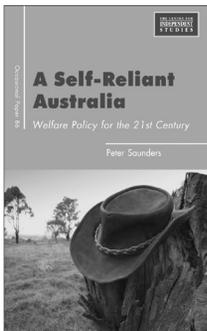


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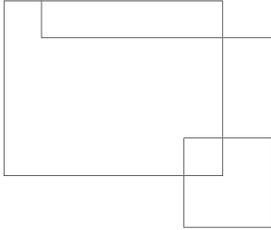
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# **Welfare Isn't Working**

Chapter 1





‘Welfare policy . . . has become a sacred cow—full of warm rhetoric, good intentions and noble traditions. The only problem is that it’s not getting results.’

Mark Latham, Australian Labor Party Leader<sup>1</sup>

Over the last 40 years, Australia has become addicted to welfare. Like most addictions, it started small. Back in the 1960s, most families below retirement age were pretty much self-reliant. A Child Endowment was paid to parents with dependent children to help with the costs of raising them, but this was the only financial aid most households needed or expected from the government before entering retirement.<sup>2</sup> Even though most families were living on just one full-time wage (for it was still the norm for men to go out to work while women stayed at home to raise the children), they managed fairly comfortably without having to rely on government handouts. In 1965, only 3% of working-age adults depended on welfare payments as their main or sole source of income, and most of them were invalid pensioners or widows. Fewer than 5% received any income support at all.

In the last 40 years, all this has changed dramatically. Today, one in six working-age adults depend on welfare payments as their main or sole source of income, and close to three in ten are in receipt of some sort of payment. Welfare dependency has increased more than 500%.<sup>3</sup>

This welfare habit is causing huge damage, both to welfare recipients themselves, and to the wider community. Adults who are capable of looking after themselves but who rely instead on long-term welfare are likely to find it difficult to sustain a meaningful sense of self-worth. This is because social life is grounded in a norm of reciprocity—the principle of give-and-take. In all societies, long-term dependency on others is associated with powerlessness, low social status and weak self-esteem.<sup>4</sup> It is a commonplace observation in social anthropology that those who constantly accept help from other people but who can offer little in return end up unhappy and unfulfilled at the bottom of social hierarchies. In some cultures they are pitied, in others they are scorned, but they are never respected.<sup>5</sup>

Long-term welfare recipients can also cause harm to their children’s prospects of living a full and worthwhile life. Research following thousands of young Australians who turned 16 in early 1996 compared what happened to those raised by welfare-dependent families with

what happened to those raised by families receiving no government payments other than family allowance.<sup>6</sup> It found that by age 19, those raised in welfare-dependent households were three times more likely to become homeless, four times more likely to become teenage parents, and five times more likely to end up on benefits. The welfare habit is to a significant degree intergenerationally transmitted.

Australia's growing addiction to welfare has become cripplingly expensive. Back in the 1960s we could afford what we were spending, for there were comparatively few welfare recipients. In those days there were 22 people in employment to support every one person of working-age living on benefits. Today, this dependency ratio has collapsed to just five to one. With so many more people dependent on welfare, there are proportionately far fewer to pay for their upkeep.

This trend is clearly unsustainable. The more welfare spending increases, the more those who are still working have to be taxed in order to raise money; but the more tax people have to pay, the less inclined they are to keep working (particularly if they are in relatively low-paid and uninteresting jobs). Welfare thus begets more welfare. We have locked ourselves into a vicious spiral. This cannot go on indefinitely; we are chasing our tails.

Sooner or later we are going to have to kick this welfare habit. The longer it is left, the harder it will be. It won't be an easy addiction to break as large numbers of people have now become habituated to receipt of welfare, and Australia's welfare lobby has grown strong and vociferous over the last 40 years in its constant demands for more to be spent. There are, however, two things going for us. It is clear what sorts of policies will help restore self-reliance, and there is strong popular support in Australia for the kinds of measures that need to be taken. All that is needed is a government prepared to get on with the task.

### **The Emergence of Mass Dependency**

If the bad news is that many more people are living on welfare than ever before, the good news is that Australians are becoming much wealthier. The puzzle, therefore, is to explain why so many more people apparently need the government to support them.

For most of the last 40 years, economic growth drove up living standards, not just for the prosperous few, but for everybody. *The Bulletin* tells us that in Australia, 'Real wages have more than doubled since the mid-1960s and are rising by nearly a third in real terms each decade.'<sup>7</sup> This is an extraordinary achievement.

Part of the reason why Australians have grown richer is that the economy opened up to greater competition in the 1980s and 1990s at the same time as unnecessary and inefficient government regulation was reduced. Between 1973 and 1983, the economy grew at an average of 2% per year. This modest rate of growth was enough to raise real average living standards by a quarter. As the effect of the Hawke/Keating economic reforms kicked in, growth rates accelerated. Between 1983 and 1993, the economy grew at 3.5% per year, raising real living standards by 40%. Then, between 1993 and 2003, the economy surged at 4% average annual growth, increasing our national wealth by half.<sup>8</sup> Australians are now more than twice as prosperous as they were 30 years ago.

It might have been expected that such a sustained rise in living standards over an extended period of time would reinforce a culture of self-reliance throughout the Australian population. The more prosperous households become, the less need they have for the government to support and look after them. But this has not happened.

Earlier generations survived with little government help. For the first half of the 20th century, working-age Australians were expected to look after themselves and to care for their families from their own resources. In the early years of Federation, the Commonwealth government was involved in providing means-tested pensions for those who retired and in setting up machinery for adjudicating wages to ensure that male, adult workers were paid enough to maintain their families. However, there were few welfare benefits for working-age adults until Commonwealth widows' pensions, family allowances and unemployment benefits were introduced during World War II.<sup>9</sup> It was not until the 1950s that the Commonwealth began to contribute to people's medical fees (before that, families were expected to cover their health care needs through insurance or membership of voluntary Friendly Societies),<sup>10</sup> and although various pensions and benefits were extended or made more generous through the 1950s and 1960s, dependency on government welfare services and cash payments did not start to rise significantly until the 1970s.

Since then, welfare spending has soared. Successive governments kept themselves busy creating new welfare programmes and expanding or reforming existing ones, and because programmes rarely get shut down once they have been created, the budget has grown bigger and bigger. Liberal governments have raised welfare spending just as much as Labor governments have and between 1996 and 2004, the greatest single change the Howard government made to the pattern

of expenditure inherited from Labor was to increase its spending on social welfare payments from 40.5% to 44.3% of the total budget.<sup>11</sup>

Despite rapid and sustained economic growth, government welfare expenditure in the last four decades has risen even faster, and more and more of the country's wealth is being diverted into welfare. Today, Federal, State and local governments between them spend more than \$75 billion (over 10% of our GDP) on social security and welfare provisions.<sup>12</sup>

Spending has been spiralling upwards in almost every area of the welfare state. Government spending on welfare services for children, elderly people and the disabled doubled in real terms throughout the 1990s. Commonwealth health expenditure rose by more than 4% per annum during the last decade, faster than in almost any other developed country, and now totals \$32 billion.<sup>13</sup> The age pension, which is still paid to more than four in every five people aged 65 or over, now absorbs \$19 billion per year (3% of the country's GDP), and this is expected to swell to 5% of GDP in coming decades as the population ages.<sup>14</sup> Yet nowhere has spending increased faster than on income support payments to working-age adults.

In the space of just 50 years, we have shifted from a household economy based in self-reliance to one characterised by widespread and ever-increasing welfare dependency.

### **The Price of Economic Rationalism?**

One explanation for increased welfare dependency despite constant growth in the national income is if the distribution of incomes becomes much more unequal. If those at the bottom receive a much smaller 'share' of an increasingly large 'cake', they need more welfare support despite people around them becoming wealthier.

This idea has been much favoured by commentators on the political left who claim that Australia's traditional commitment to egalitarianism was jettisoned after the 1970s as a result of the drive to reform the economy (so-called 'economic rationalism'). They maintain that lower import tariffs drove down wages for lesser skilled workers who had to compete with workers in third world countries; that tax rates were lowered to favour higher income earners; and that the rolling back of the 'award system' (which used to determine the wages and conditions for the majority of the workforce) allowed the incomes of those at the bottom to drift downwards. The result, they say, has been an increasingly polarised society where a majority of the population shares in the fruits of growing prosperity while a significant minority gets left behind and has to make do on welfare.

In order to evaluate these claims, it is important to understand that while 'original incomes' (that is, earnings before tax and welfare benefits are taken into account) grew more unequal over this period, this was mainly due to a substantial increase in the incomes of people at the top of the distribution rather than any deterioration in the situation of those at the bottom. Between 1975 and the early 1980s, high and low earners alike slightly improved their original incomes, but in the second half of the 1980s, original earnings for all groups began to fall, and they fell furthest and fastest at the bottom end of the distribution. Everybody's earnings picked up again in the early 1990s, and from 1996 to 2002 there was sustained and strong income growth at all points in the income distribution. Average weekly earnings rose in real terms by more than 10% in these six years, and even workers on the minimum wage saw their real earnings go up by 6%.<sup>15</sup>

The net result of this fluctuation is that middle and higher income groups enjoyed quite substantial real increases in their original incomes over the last 30 years while those at the bottom also gained, but much more modestly. Everybody benefited from economic growth, but those at the top gained most.

The widening earnings gap was to some extent moderated by the increase in tax and welfare spending that took place over this period. Higher earners lost more of their earnings in taxes (between 1996 and 2002, the share of total income tax paid by the top quarter of income earners rose from 61% to 64%),<sup>16</sup> and poorer households came to rely more on welfare payments. Analysing average real 'disposable incomes' (the money people receive after tax and cash transfers have taken place), the Australian Bureau of Statistics (ABS) estimates that there was an 8% rise for the bottom group between 1994-95 and 2000-01 compared with an 11% rise for middle income groups and a 14% rise for high income groups.<sup>17</sup> Other surveys suggest that the divergence may not even have been this great. ABS expenditure surveys, for example, find virtually no change in patterns of inequality of living standards between 1984 and 1999.<sup>18</sup> Fred Argy, a prominent academic and self-described 'egalitarian', recently concluded from his review of the income data that, 'The poor as a whole (those in the lowest two income deciles) have shared in the benefits of economic growth.'<sup>19</sup>

The increased inequality in original incomes was therefore flattened out to a large extent by the tax and welfare systems. But recognising this does not warrant the conclusion that rising income inequality was the cause of the increase in welfare dependency. Since the mid-1970s, welfare dependency increased when original incomes were rising as well as when they were falling, and when the gap between higher and

lower income earners was getting larger as well as when it remained roughly constant. During the Howard years, furthermore, welfare expenditure increased as a proportion of all government spending by nearly 4%. Yet this was at a time when all groups were making substantial gains in original incomes and when the gap between higher and lower earners remained relatively constant.

Clearly, something other than increasing 'relative need' or rising levels of income inequality has been pushing welfare spending up. Everybody has shared in the fruits of economic growth and the explosion in welfare spending has had little to do with any real increase in levels of material deprivation in the population.

### **The Great Disruption**

A much stronger explanation for the escalating rate of welfare dependency is that, although we have grown wealthier over the last 40 years, we are also living in a very different society. Between the 1960s and today, most western countries experienced what Francis Fukuyama has termed the 'Great Disruption',<sup>20</sup> a period of rapid economic and social change and dislocation. The huge increase in welfare spending is partly a reflection of these upheavals.

As recently as the 1960s, men expected to work until they were 65 and women expected to devote most of their lives to making a home and raising children. Divorce was rare and single parenthood was usually the result of widowhood rather than separation or ex-nuptial births. There was relatively full employment, and jobs were plentiful for people with few qualifications or skills. Few people went to university and working life for most young adults began at 15.

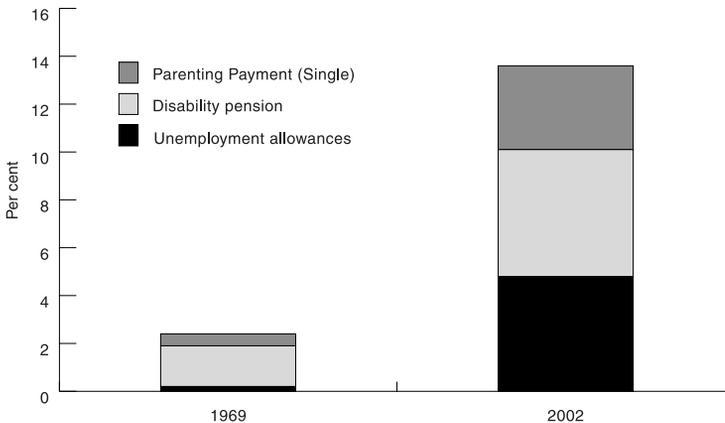
Much of the rise in dependency on welfare payments since the 1960s reflects the way all this has changed. Two developments have been particularly important.<sup>21</sup>

Firstly, new technologies have reduced the demand for male muscle power. The number of jobs generated by the Australian economy has grown quite strongly since the 1960s, and the proportion of the working-age population in employment has risen from less than 60% in 1966 to more than 70% in 2002. However, most of these new jobs have gone to women while there has been a fall in workforce participation levels among older men with few skills. This has shown up, not only in higher male unemployment rates (particularly 'long-term' unemployment where people are out of work for more than a year), but also in a substantial increase in the number of low-skilled men in their 50s and 60s who define themselves as 'disabled' and drop out of the labour force altogether.

Secondly, changes in family life and sexual mores resulted in a huge increase in rates of single parenthood. Ex-nuptial births increased from 5% to more than 30% of all live births in the last 40 years. In many cases, these children are raised initially by cohabiting parents, however cohabiting couples have a much higher break-up rate than do married parents. Even among married couples, the divorce rate has quadrupled since 1960. The result of all this is that almost 30% of children under 15 are growing up in the absence of at least one of their parents (normally the father). Because few single parents can raise young children and hold down a full-time job paying enough to meet their family's needs, many end up claiming welfare, and some of them stay living on welfare for a long time. There are about 400,000 families in Australia with no adult in employment, and two-thirds of them are single parent families.

### Figure 1.1 Welfare Dependency, 1969 & 2002

Proportion of working-age population receiving unemployment, disability and single parent allowances



Sources: ABS, *Australian Social Trends 2001: Income Support Among People of Working Age*; ABS *Yearbook Australia*, Cat.1301.0 (2003).

Figure 1.1 shows the effect these two sets of changes have had on the demand for government financial aid. It is clear that the key drivers of increased welfare dependency have been the explosion in unemployment allowances and disability support pensions paid to those (mainly men) without jobs, and the massive rise in parenting payments to single parents (mainly women) who live in a household with no 'breadwinner'.

Any serious attempt to wean Australia off its welfare habit will clearly have to focus on reducing long-term unemployment rates, stemming the growth in the number of able-bodied people claiming disability pensions, and getting single parents who do not have full-time caring responsibilities back into the labour force. Such a programme of reform will need to involve radical changes to the tax system (to encourage more people to work), to labour market regulation (to generate more jobs for them to do), as well as to the eligibility rules for accessing welfare benefits. Later chapters will outline these policies in more detail.

### **Weak Government**

Although technological developments and family changes have pushed up welfare dependency rates, other developments over the last 40 years might have been expected to work in the opposite direction. For example, not only have real wages increased throughout this period, thereby raising the capacity for household self-reliance, but rates of female workforce participation also rose markedly, so that increasing numbers of households now have two or more incomes from which to pay their bills. Furthermore, fertility rates have declined, and families now have fewer mouths to feed from their bigger combined incomes (although an extended period of education has increased the time for which each child is likely to be dependent on the parents' income). Health levels have also improved as workplaces are now safer, environmental standards have risen, and nutritional and lifestyle factors have improved so the number of people declared unfit for work should be declining rather than rising.

Given this mix of factors, it is not obvious that net rates of welfare dependency have gone up rather than down over the last 40 years. Some changes have pointed in one direction, some in another. Yet the overall trend in welfare spending and rates of dependency shows a dramatic and inexorable rise throughout this period. Clearly some additional explanation is required, over and above the effects of the 'Great Disruption'.

The missing factor lies in the way governments have responded to the social upheavals of recent decades. Swayed by pressure groups, influenced by social affairs academics and intellectuals, stampeded by the media and enticed by the prospect of buying votes and popularity, successive Federal governments have for 40 years failed to resist the urge to spend more money whenever a new 'social problem' has arisen or a new 'need' has been identified.

Welfare groups and politicians who call for more spending nearly always claim that it would be barely noticeable, just a few cents each week on people's taxes. Most taxpayers, they say, would be happy to pay just a bit more in order to help their fellow Australians in need and to solve this or that pressing social issue.

The political cost of resisting such demands can be severe. Pressure groups mount vociferous campaigns, the media expose 'hard cases' which demand intervention, and political opponents take the moral high ground, portraying themselves as 'caring' and 'compassionate'. By contrast, the political pay-off from giving in to such demands is substantial. Nobody ever complains when the government gives them more cash or services, and the financial cost is spread so thinly across the rest of the population that a taxpayer backlash is extremely unlikely. Gradually, governments increase their spending and their tax-take, directing their largesse first at one group, then at another, buying the support of electors with their own money.

As government spending rises, so the level of expectation is continually inflated among client groups in the population. Groups who were paid off last time come back for more and those who had never thought of approaching the government for help start to think about doing so, for nobody wants to miss out. Each new problem triggers a new round of demands for government expenditure, and each new demand becomes even more insistent as potential recipients remember how earlier campaigns succeeded. Seeking the line of least resistance, competing political parties continually bid up their promises, fuelling future demands even as they buy off existing ones.

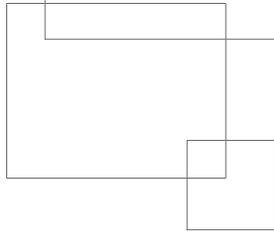
The result is that the culture of self-reliance has eroded over time and is replaced by an unedifying new culture based on what economists call political 'rent-seeking'.<sup>22</sup> The more governments increase welfare spending, the more they inadvertently change the way people think about the virtue and wisdom of self-reliance. Where previous generations expected to solve their own problems, later generations have learned how to pressure the government into taking responsibility. Where one generation considered it shameful to live off handouts and tended to stigmatise the small number of undeserving cases who did so, the next generation comes to regard welfare dependency as an acceptable and perfectly normal lifestyle choice.

Gradually, the balance between self-reliant taxpayers and dependent welfare claimants has shifted from a sustainable situation in the mid-1960s where only 3% of the working-age population depended on welfare, to an unsustainable one today, where the proportion has blown out to 16% or 17%.

The more we spend on welfare, the more these demands will keep increasing. The more we tax workers to meet these demands, the more we shall destroy the will to work. This trend towards fewer payers and more claimants has been feeding off itself for too long. Something has to change.

# **How Many People Need Help?**

Chapter 2





'In 1971, Australia had a minimal welfare state and dependency had not increased significantly over the previous decades . . . The last two decades, however, have seen some enormous changes to this picture.'

Michael Jones, author of 'The Australian Welfare State', 1996'

**T**he standard response of ordinary, decent people to the suggestion that the welfare state should be dismantled, or at least severely pruned, is that we cannot do it. What would happen to all the disadvantaged people in society who currently need help? Wouldn't removing the welfare state lead to more crime (as people are 'forced' to steal to survive), to more family break-ups (as poverty and despair increases the pressure on poorer households), and to greater social fragmentation and polarisation (as the gap widens between the prosperous and the disadvantaged)?

These are serious concerns, and they are shared by most social policy intellectuals in Australia. They were taught as students that the welfare state is a necessary corrective to the capitalist market system, that capitalism generates poverty while the welfare state reduces it, and that the free market encourages individualism and selfishness while the welfare state nurtures cooperation and a communal sense of fellow-feeling between citizens. Most social policy experts take it as given that an expensive and generous welfare state is needed to 'civilise' capitalism, and they are convinced that, despite our extraordinary prosperity as a society, millions of people still need government help if they are to live decent lives at an acceptable standard of material comfort.

Chapter 6 will consider the claim that the welfare state is needed to blur social divisions and to deliver social harmony and cooperation. This chapter focuses on the rather different claim that poverty would blight the lives of millions of families were it not for the existence of the welfare state. This seems plausible given that millions of Australians currently receive welfare payments in one form or another, and that millions more also make use of government welfare services such as Medicare, pre-school child care or services for the elderly. It seems logical that without these payments and services, misery and destitution would follow. But is it true?

## **The Politics of Poverty**

Historically, the welfare state has grounded its rationale and its popular legitimacy in concerns to overcome mass poverty and

deprivation. Modern welfare states were first established in response to concerns about widespread poverty, and the belief that poverty is a major and recurring problem has driven increased levels of spending and provision ever since.

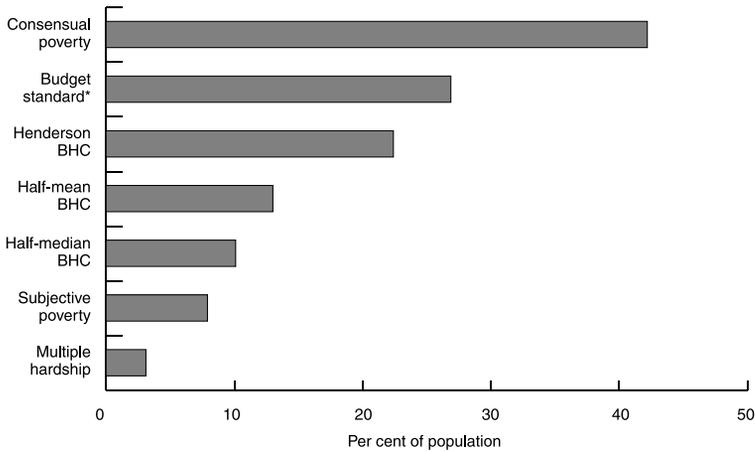
In Britain at the turn of the 20th century, Charles Booth's survey of London's poor and Seebohm Rowntree's pioneering study in York were instrumental in influencing early welfare interventions such as the introduction of free school meals in 1906, old age pensions in 1908 and the move to a limited system of state health and unemployment insurance in 1911. Half a century later, the so-called 'rediscovery of poverty' by academics working in newly-established and flourishing university social science faculties in the United States (Michael Harrington), the United Kingdom (Peter Townsend) and Australia (Ronald Henderson) had a similar impact on the governments of the 1960s. It led to the 'War on Poverty' and the 'Great Society' programme in America, to reforms of health, education, social services and age pensions in Britain, and to the Whitlam government's health and welfare reforms in Australia. Today, poverty research is again being used to drive policy change, only this time, welfare activists are hoping to use statistics on poverty trends to defend high levels of welfare spending in the face of attempts by governments to reduce them.

Poverty statistics have become critical weapons in political battles over the future of social policy. In Britain, where unemployment is at its lowest for 30 years and the economy has been booming, the Rowntree Foundation claims that more than one-quarter of adults are living in poverty, that poverty rates are rising, and that one in six Britons seriously believe they are living at a standard below the UN's definition of absolute poverty.<sup>2</sup> Intent on pressuring governments to maintain or even expand their social spending programmes, welfare lobbyists in Australia have likewise been publishing wildly exaggerated poverty estimates using inaccurate data and utilising definitions and measures which generate inflated estimates. In 2004, they managed to get a Senate Inquiry to endorse their view that somewhere between 2 and 3.5 million Australians are living in poverty.<sup>3</sup>

The Australian Council of Social Service (ACOSS), the peak organisation representing welfare organisations and a key mouthpiece for the welfare lobby,<sup>4</sup> claims that poverty affects around 22% of the population. If this were true, we would have a major problem on our hands that would require urgent and radical remedies. But this estimate rests on income survey data that the Australian Bureau of Statistics and the Commonwealth Department of Family and Community Services have both warned are too inaccurate to be trusted.<sup>5</sup> It also uses a widely

discredited definition of a 'poverty line' income that has increased in real terms at twice the rate of inflation since the early 1990s.<sup>6</sup> In short, the estimate is worthless.

**Figure 2.1 Seven Different Measures of Poverty Rates**



'BHC' = before housing costs

\* estimated at an average of 1.2 times Henderson

Sources: Ann Harding, Rachel Lloyd and Harry Greenwell, *Financial Disadvantage in Australia 1990 to 2000* (Smith Family 2001); Peter Saunders, *The Ends and Means of Welfare* (Cambridge University Press, 2002); Peter Saunders 'A new poverty line?' *SPRC Newsletter* 69 (May 1998); Rob Bray, 'Hardship in Australia', *Occasional Paper* 4 (Dept of Family & Community Services, 2001).

'Poverty' is a highly emotional word that can evoke strong sympathies and reactions from the public. Welfare activists know this, and the word is therefore used in all sorts of ways and applied to many different situations. Figure 2.1 summarises the current state of published poverty estimates in Australia. It reports estimates ranging from a low of around 3% of the population (the number of households who report they have had to sell or pawn something, seek help from a charity, or miss a meal due to shortage of money) to over 40% (a figure derived by asking a cross-section of the population how much money they think they need to live on, averaging the results, and then calculating how many households receive less than this average figure).

None of these estimates is inherently 'right' or 'wrong' (although some are certainly more plausible than others), for 'poverty' is an inherently politicised and essentially contested concept.<sup>7</sup> There is no 'true' rate of poverty, nor any authoritative definition of what the term means. This ambiguity allows absurd claims to surface about the size of

the poverty problem which shock voters and demoralise governments into spending even more on welfare payments and services. No matter how wealthy our society becomes, and how much the living standards at the lower end of the income distribution improve year by year, the welfare lobby keeps insisting that a huge, costly welfare state is needed to care for millions of people who would otherwise be destitute.

### **Nothing Succeeds Like Failure**

There is an obvious paradox in this strategy. Some 100 years ago, when Booth and Rowntree in Britain claimed to find widespread poverty in the population, there was very little government aid and assistance. It was therefore perfectly logical for reformers to appeal to these research findings to support their arguments for the introduction of old age pensions or provision of unemployment insurance. Today, however, when researchers and their activist allies point to 'evidence' such as the ACOSS estimate that nearly one-quarter of Australians are living in poverty, they do so in a context of an extensive and long-established government welfare system which was supposed to have eradicated the problem. If high levels of welfare spending actually worked, poverty should have all but disappeared by now rather than ballooning out to smother a quarter of the population.

One of the ironies of contemporary Australian debate over poverty and welfare is that the most ardent defenders of the existing welfare system are among the first to argue that it has been grossly ineffective in achieving what it was set up to do. On the one hand, they insist that a mass welfare state is needed to prevent poverty but on the other, they claim that the mass welfare state has failed to prevent poverty from rising, and that therefore even more needs to be done. As welfare spending has escalated over the last 40 or 50 years, so the welfare lobby's estimates of the number of people in poverty have escalated too. The more we spend, the worse the outcomes appear to become.

The explanation for this paradox is that those who want to defend and expand the welfare system need to demonstrate the continuing plight of 'the poor' in order to justify their demands for more spending. This means they have to argue both that welfare works, and that it doesn't. Defending the welfare state by claiming that poverty is still widespread, they are caught on the horns of a logical dilemma of their own making. In this area of public policy, nothing succeeds like failure.

### **Getting Poverty Into Perspective**

In reality, even social policy activists and intellectuals know that the world has changed dramatically since welfare states first started

emerging in western countries in the late 19th and early 20th centuries. The mass deprivation that brought the welfare state into being has disappeared, in Australia as in other western nations.

This is not to say that all poverty and deprivation has disappeared. Significant proportions of the population may still experience periods of relative hardship as they go through life—as students, when they start a family, when they buy their first home, when they are between jobs, and so on—and a small number of people will always be incapable of holding down a job and will need help. The first group, however, the ‘transitional poor’, could in most cases cover their own short-term needs out of earnings at other times in the life cycle if the welfare state did not exist, and the second group—let us call them the ‘long-term indigent’—are nowhere near so numerous as to require a welfare state of the size and scale to which we have become accustomed.

People who temporarily find their incomes have dropped below some ‘poverty line’ figure prominently in poverty surveys. Yet in most cases, the periods of relative hardship that they experience do not last for long, and many who find the going tough at one time are on a trajectory which soon leads to a more comfortable lifestyle later on. Throughout the western world, longitudinal income surveys consistently find that between half and two-thirds of those who appear under any given ‘poverty line’ in one year are no longer there just a year or two later. In Australia, the National Life Course survey of people aged 18 to 54 found that only 29% of those in the bottom income quintile in 1996-97 were still there three years later, and that 23% had moved all the way up to the top quintile in that time.<sup>8</sup> The new Housing, Income and Labour Dynamics in Australia (HILDA) longitudinal survey reports that only 40% of those in the lowest decile of incomes in 2001 were still there in 2002, and that more than half of those who had improved their situation were no longer even in the bottom quarter.<sup>9</sup>

Clearly, many of those identified in surveys are the ‘transitional poor’ who are between periods of relative affluence and struggling only at certain short points in the life cycle. The policy implications of this are crucial because income shortfalls in these transitional periods could in principle be covered by savings and investments built up in more prosperous periods. With today’s higher living standards, it should be possible for many more people to save for their retirement, to borrow to pay for higher education, to insure themselves to provide an income during periods of sickness or unemployment, and to fund such provisions from earnings during the more affluent periods of their lives. Our grandparents could probably never have afforded

such expenditures, but we could, if only we were not being taxed so much by the government to provide these things on our behalf. The implications of this will be explored further in Chapter 14.

Yet there is still the question of what to do about the small number of 'long-term indigent' who will always need help. Some people suffer from a physical or mental disability that prevents them from working. Some have an acquired incapacity such as a lifetime of chronic substance abuse that may put them beyond reform or cure, and some may exhibit serious personality disorders which render them effectively unemployable. So what kind of welfare state (if any) do we need to support them?

Radical libertarians argue the government does not need to provide for such people, for in the absence of state welfare, genuinely needy and deserving cases would be supported informally (for example by a combination of family and neighbourhood mutual aid, charitable support and philanthropy), just as they were in the past. They argue that governments have eroded and destroyed the habit of caring for those less fortunate than ourselves by displacing private and informal arrangements with tax-driven bureaucratic programmes. If the welfare state were wound up, genuine, voluntary activity would take its place.<sup>10</sup>

There is no way of knowing whether informal care really would increase if state provision for the genuinely deserving poor were withdrawn, however this argument can be short circuited because it is highly unlikely that any democratically elected government would ever be willing to find out. It is inconceivable that any modern government would stand aside and allow any of its citizens to go without basic means of subsistence, no matter what the circumstances. Like it or not, governments have taken on the responsibility for ensuring that nobody falls below a subsistence standard of living, and it would be extremely difficult for them to back out of this. There will be no return to the 19th century minimal state.

### **A 5% Welfare State**

Some state provision will always have to be made for the proportion of the working-age population who cannot support themselves by working. The key question is how many people fall into this category?

It is impossible to give an accurate answer to this question, but there are grounds for suggesting it is between 3 and 5%.

One basis for this estimate is derived from looking at the level of welfare dependency in the relatively recent past, when the income

support system was more tightly targeted on supporting those who really were incapable of working. The proportion of the working-age population receiving income support payments in 1965 was just 3.2%, and this figure remained below 5% right through to the Whitlam reforms of the mid-1970s.<sup>11</sup> Given we were only half as well off then as we are today, it should in principle be possible to return to this sort of figure, notwithstanding the changes that have occurred in family life (more single parents) and in the labour market (fewer low-skilled jobs) since then.

A different way of estimating the minimum feasible size of the long-term dependent population is to look at the number of people and households who currently live in chronic, long-term 'poverty'. Those who spend years living on welfare represent the hard core of the welfare-dependent population, and they will be the most difficult to shift into self-reliance. Again, an estimate of somewhere between 3 and 5% of the population seems appropriate.

In Britain, the Rowntree poverty survey found that 2.5% of adults (one in 40) report that they have experienced long-term poverty and that they are currently 'deprived' on three or more lifestyle indicators. Similarly in Australia, Rob Bray finds that 3.1% of households report experience of 'multiple hardship' (two or more of: missing a meal, going without heating, seeking help from a charity, or selling or pawning something to raise cash) over a period of 12 months.<sup>12</sup>

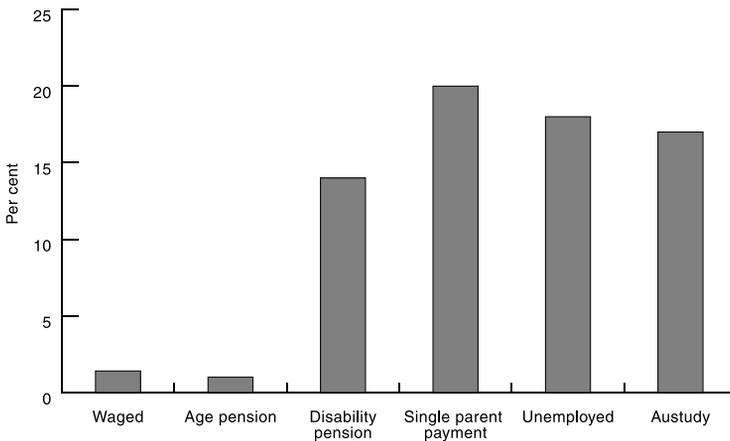
It could be argued that it is only the existence of the welfare state that keeps these rates of chronic, long-term poverty so low. Cut back on welfare and the numbers in need will increase. However, unpacking the statistics demonstrates that chronic deprivation is concentrated in households already on welfare and is rare in households where somebody is working full-time. Receipt of welfare benefits obviously does help households with no other source of income to keep their heads above water, but paid employment would achieve this much more effectively. If welfare were less readily available (as was the case 40 years ago) many more of these households might enjoy an earned income and be much better off than they are now.

There is widespread agreement in the literature that, no matter how it is defined, the principal cause of 'poverty' is joblessness. Rob Bray, for example, estimates that 3% of households overall suffer multiple hardship, but among employed households the proportion drops to around 1%. The overall 3% figure is only as high as it is because multiple deprivation levels among those on welfare payments (but not those on age pensions) get as high as 20% (see Figure 2.2). The same story emerges if a more generous definition of deprivation is adopted.

Recent work commissioned by The Smith Family claimed one in eight households are below the 'poverty line', but the report found only 3% of waged households were in 'poverty' as compared with 31% of those relying on welfare.<sup>13</sup>

**Figure 2.2 Poverty and Principal Source of Household Income, 1998**

Percentage of households suffering 'multiple hardship'



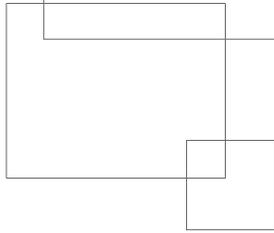
*Source:* Based on Rob Bray, 'Hardship in Australia', Occasional Paper 4 (Dept of Family & Community Services, 2001). Table 15.

Unlike the situation 100 years ago, it is not the welfare system, but regular full-time employment that has become almost a guarantee against poverty.<sup>14</sup>

There will always be some people who for one reason or another are incapable of supporting themselves on a long-term basis. But their numbers are not so large as to require a welfare system on anything like the current scale to support them. The most effective way to reduce poverty is to ensure that (wherever appropriate) every household contains at least one adult who has a paid job. We shall consider later how this objective might be achieved.

# **Are Welfare Benefits Too Low?**

Chapter 3





‘Welfare would be the perfect policy if poverty was caused only by lack of money. But poverty is never simply a matter of limited income.’

David Ellwood (US academic)<sup>1</sup>

If chronic poverty and deprivation are concentrated in households which depend on welfare payments for their income, doesn't this indicate that the payments are inadequate to enable them to sustain a decent standard of life? Rather than reducing welfare, shouldn't it be increased?

This is the interpretation of the poverty data offered by organisations like ACOSS which insist that an effective anti-poverty strategy requires that we raise the value of benefits. ACOSS has long demanded that as a first step in tackling poverty, the value of unemployment allowances should be raised at least to match that of pensions, and this was reflected in the recommendations made by the recent Senate inquiry into poverty.

There are, however, three key problems with this argument. First, current benefit levels are in almost all cases above the generous definition of the 'poverty line' favoured by ACOSS. This suggests that welfare claimants are already entitled to an income sufficient to maintain them at a standard substantially above subsistence level.

Secondly, most welfare recipients seem to manage on what they get even when they receive only the lowest levels of payment. Indeed, people who receive more generous benefits are just as prone to 'poverty' and 'hardship' as those on lower ones. This suggests that the problem of poverty today has as much to do with how people manage and spend their money (behavioural factors) as with how much of it they receive.

Thirdly, increased benefits would reduce the income gap between those who work and those who do not. This would reduce work incentives, increase the number of people on welfare, and increase rather than decrease the number of people at risk of 'poverty'. Raising benefits, in other words, would be self-defeating.

Let us consider each of these points in turn.

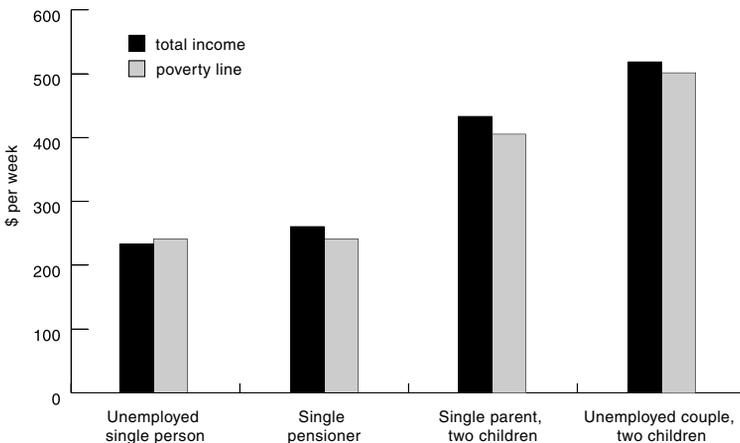
### **The Value of Benefits and the 'Poverty Line'**

ACOSS claims that nearly one-quarter of Australians live in poverty, resting this claim on a measure called the Henderson poverty line. The Henderson poverty line is an arbitrary income level defined in the early 1970s as the minimum required to sustain a basic standard

of life. It is adjusted for households of different size, and over the last 30 years it has been indexed to take account of rising living standards, making it increasingly generous in terms of spending power. Today, somebody living on the Henderson poverty line could buy 37% more goods and services than they could have done when the line was first devised in 1973.<sup>2</sup> This increasing generosity of the measure explains why more people have come to be defined as 'poor', and hence most serious poverty researchers have now abandoned the Henderson poverty line in favour of alternative systems of estimation. ACOSS, however, continues to use it because it generates the kind of poverty estimates the welfare lobby feeds on.

Every quarter, the Melbourne Institute carries out the adjustment and publishes figures comparing the value of the Henderson poverty line with the value of welfare benefits payable to various types of households (Figure 3.1). What is extraordinary about these quarterly updates is that, despite the growing generosity of the Henderson line and the exaggerated estimates of the number of people in poverty that

**Figure 3.1 Welfare Payments Compared With the Henderson Poverty Line, 2003**



*Source:* Based on Melbourne Institute of Applied Economic and Social Research, *Poverty Lines: Australia* (March Quarter 2003). The value of the Henderson poverty line is slightly higher for employed households than for non-employed ones (this reflects the additional expenses incurred in going to work). ACOSS prefers to use this higher line when estimating poverty rates among those on unemployment benefits as this slightly increases the gap shown above for an unemployed single person. However, it should also be remembered that the estimated incomes shown above take no account of the value of concessions available to the unemployed and pensioners.

it generates, the value of the benefits to which welfare claimants are entitled (the allowance or pension, plus partner's allowance, Family Tax Benefit and rent assistance) is constantly *above* the poverty line in nearly every case. In other words, even when poverty is measured as ACOSS wants it measured, it turns out that virtually no household reliant on welfare benefits need find itself in poverty.

This raises an obvious puzzle. Surveys tell us that more than one in five Australians receive an income below the Henderson poverty line, and all researchers agree that poverty is concentrated among those working-age households which are reliant mainly or wholly on welfare benefits. Yet the value of these welfare benefits is sufficiently high to put nearly all these households above the poverty line (the only exception is single people on unemployment allowance where the benefit is slightly below the Henderson line). How can this be?

The answer lies in the fact that survey data on people's incomes are highly unreliable, particularly at the lower end.<sup>3</sup> Chapter 2 showed that many welfare recipients under-report their incomes when responding to surveys, and even the Australian Bureau of Statistics (which collects the income data) now warns readers to disregard the results for the bottom decile of reported incomes since they are grossly inaccurate.<sup>4</sup> The ACOSS estimate of 22% of the population in poverty is therefore constructed on faulty statistics that should not have been used. It is a meaningless figure.

This is not to deny that there may well be people on welfare who really are suffering poverty and financial hardship. If this is the case, it is not because they cannot get enough income on which to live, for welfare benefits are adequate, even when judged against ACOSS's preferred poverty measure. Their problem has more to do with how they are using the money.

## **Behavioural Poverty**

If welfare payments were too low to enable people to sustain a decent living standard, most if not all of the people dependent on these payments should exhibit signs of deprivation and financial stress. But it turns out that the great majority get by quite adequately.

Figure 2.2 showed that while serious multiple hardship affects about 3% of the population, levels of multiple hardship among recipients of the three main types of working-age Income Support (unemployment assistance, disability pension and single parent payment) are as high as 20%. But this still means that four in every five recipients are managing on the money they get. Furthermore, Figure 2.2 shows that hardship levels are extremely low among people dependent on the age

pension, yet they get no more money than people claiming parenting and disability payments where hardship levels are comparatively much higher.<sup>5</sup> Obviously welfare recipients differ in their personal circumstances (for example, some might receive additional financial help from their families while others do not). Costs of living also vary between different parts of the country, so an adequate level of benefit in one place may be less adequate in another.

Yet even taking account of variations like these, the most likely explanation for why a large majority of people in receipt of welfare payments manage to avoid hardship while a minority cannot cope has more to do with what people do with their money. As Bray suggests, ‘There are behavioural issues to be considered.’<sup>6</sup>

The evidence for this is compelling. For example, less than 1% of older couples living on benefits experience multiple hardship compared with 10% of young single welfare dependents. Analysing their spending patterns, Bray finds that young singles choose to prioritise socialising and partying, even if it means they have no money left for food at the end of the week (meaning they fall into the ‘hardship’ category). Older people, however, have other priorities, which means they pay their bills, heat their homes and stock their refrigerators before they spend money socialising.

The academics, activists and pundits who make up Australia’s social policy establishment tend to be dismissive of attempts to explain poverty and deprivation with reference to the way people behave. They see poverty as a ‘structural’ rather than an ‘individual’ phenomenon, arguing that a capitalist market system will always create poverty regardless of how the poor behave. Seen in this way, it is a mistake to blame the poor for their own situation, and attempts to open up discussion of the behavioural influences on poverty and hardship are ruled out as distasteful and misguided. Behaviourist explanations, it is argued, deflect attention from the ‘real problem’ that is ‘social inequity’ and lack of opportunity.<sup>7</sup>

This perspective on poverty and welfare is not wholly wrong, for some poor people are more victims than agents of their own fate. They cannot find work no matter how hard they try. They make honest mistakes, which lead them down life paths from which it is extremely difficult to escape, or they are subject to unfortunate family circumstances beyond their control. Some people on benefits do try hard to get off welfare, and some people really cannot manage on the money they have coming in each week. But while some poor people do not have the opportunity or the wherewithal to improve their situation, others waste the opportunities available to them or fail to

make use of their own wit and capabilities to improve themselves. Some simply settle for a life on welfare, preferring it to working. Just because some welfare recipients are victims does not mean they all are.

In a pioneering piece of American research, Robert Havemen and Andrew Bershader estimated how much poverty was 'voluntary' (the result of a failure to work when suitable employment was available) and how much was involuntary (caused by lack of earnings capacity and restricted employment opportunities). Their results suggest that less than half of all American poverty between the mid-1970s and the early 1990s was involuntary (that is, 'structural').<sup>8</sup> Clearly, not all the poor are victims, yet our social policy intellectuals persistently refuse to recognise that behavioural factors can be primary causes of poverty. This not only flies in the face of evidence on behavioural poverty, but it also blights all attempts to generate a sensible policy debate around what might be done to counter it.<sup>9</sup>

Shortly before becoming Labor leader, for example, Mark Latham proposed a 'matched savings' policy designed to encourage poor people to save and build up assets. His proposal was ridiculed by critics in his own party who denied that poor people had any capacity for saving because all their money was already accounted for. Latham responded by suggesting that 'in everyone's household budget there's room for improvement' and that people could 'revise their budgets, cutting out wasteful spending'. Challenged to identify items of wasteful spending, he pointed to 'cigarettes, alcohol, gambling'.<sup>10</sup> Union leaders immediately accused Latham of 'paternalism' and the welfare lobby confidently asserted, 'If somebody's on welfare, it's not an issue of changing their behaviour or that they're wasting their money. It's just that they cannot find spare cash.'<sup>11</sup>

Considerable evidence suggests however, that Latham's critics were wrong, and that even the poorest households could release some cash by reducing wasteful (and often self-destructive) behaviour such as gambling and smoking.

Bray finds a 'clear and unambiguous' association between tobacco expenditure and financial stress, and a recent Smith Family report finds that households in the lowest quintile of disposable income devote 2.5% of their spending to tobacco, compared with only 1.1% for those in the highest quintile.<sup>12</sup> If people choose to spend substantial sums on cigarettes even though it leaves them short of money for other things, that is their choice to make, but it does not then make sense to complain that benefits are too low to be able to buy food, to pay the rent or build up a savings account.

There is also evidence that gambling can be a significant cause of financial hardship among households on low incomes. A 1997 Melbourne study found that more than half of all casino patrons were unemployed and that more than one-third of 'problem gamblers' were on welfare.<sup>13</sup> In New South Wales, Sydney's most disadvantaged suburbs contain most of the state's poker machines. In Fairfield, which ranks last on the metropolitan area's socioeconomic index with 8% unemployment and a median per capita weekly income of \$282, residents in 2003 were spending an average of \$37 per week, or 6.4% of their gross income, gambling on the pokies.<sup>14</sup>

Nor are the behavioural causes of poverty limited to how people spend their money. The way they choose to lead their lives is equally important because some lifestyle choices are much less likely to result in economic self-reliance than others. Young people who stay at school to complete their qualifications, for example, are much more likely to avoid poverty than those who truant and leave school early. Women who start a family at a young age with no partner to support them are much more likely to end up depending on welfare than women who delay parenthood until they are married (or at least, until they are living with somebody who is not going to abandon them and their child).<sup>15</sup> These are all choices people make. Some people have more going for them than others, but nobody is forced to leave school early, have a baby without a committed partner, or walk out of a job they do not particularly like. People who are serious about looking for work, who are willing to accept a job even if it is not the ideal one, and who work hard and prove themselves reliable and trustworthy, vastly improve the odds that they will avoid a life of poverty or long-term reliance on welfare payments.

As Jim Cox puts it after reviewing some of the Australian evidence on pathways into poverty, 'The best advice you could give to someone to prevent them from becoming a member of the low income population is to receive an education, work in a full-time job and to marry and remain married.'<sup>16</sup> Others have come to much the same conclusion in the United States.<sup>17</sup>

Fifty years ago, all this would have seemed like common sense,<sup>18</sup> but today our social affairs intellectuals consider it contentious and derogatory. Having swept aside the dusty old moralities of earlier generations during the period of the Great Disruption, they are loathe to admit that the lifestyle choices they have championed have contributed to the huge increase in long-term welfare dependency among those less capable, competent and privileged than they are.<sup>19</sup> The social policy intelligentsia is generally blind to the links between

poverty and factors like early sexual activity, the erosion of marriage and the decline of the work ethic. When they do acknowledge the existence of strong and compelling correlations between lifestyle choices and socioeconomic hardship, they often attempt to reverse the direction of causation. They argue, for example, that poverty causes family breakdown rather than family breakdown causing poverty, or that single parents are poor because welfare benefits are inadequate, rather than recognising that having a child without a committed partner is almost certain to lead to a life on welfare.<sup>20</sup>

Economic hardship is concentrated among working-age people living on welfare, but this does not mean welfare benefits are inadequate. Shortage of money is more a symptom than a cause of the problem. Most people who are reliant on welfare manage on the money they receive. Those who do not will not be helped by increasing their payments because the cause of their problems goes much deeper than mere shortage of cash.<sup>21</sup>

### **Welfare Disincentives**

If we were to accede to the welfare lobby's persistent demands to make benefits more generous, the paradoxical result would probably be to increase 'poverty' or 'hardship' rather than reduce it. This is because higher benefits would further weaken the incentive for people on welfare to get a job while simultaneously increasing the tax burden on self-reliant workers.<sup>22</sup>

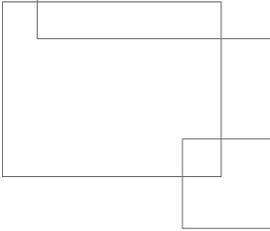
Welfare spending has risen to a point where damaging levels of tax on wage and salary earners are being levied in order to pay for it. This has created a vicious circle—tax goes up to pay the welfare bills, work incentives are eroded, more households opt for welfare rather than work, and the welfare bill grows even faster.

Rather than treating the symptom—the relatively low living standards of some of those living on welfare—we should focus on the cause, that is, lack of full-time employment. Rather than looking for ways to increase the value (and hence the attractiveness) of benefits, the aim must be to get as many people as possible off welfare and into paid employment.<sup>23</sup> To see how to do this, we need to look to America.



# Learning From America

Chapter 4





'All Americans, without regard to party, know that our welfare system is broken, that it teaches the wrong values, rewards the wrong choices, hurts those it was meant to help . . . Real welfare reform requires work, imposes time limits, cracks down on deadbeat parents by enforcing child support, provides child care'

President Clinton (speech in 1996)<sup>1</sup>

**W**ith apologies to John Lennon: 'Imagine'. Imagine a country where, after rising continually for more than three decades, the number of people on welfare suddenly falls by 60% in just five years. Imagine further that most of the people who used to be on welfare end up in paid employment, and that they feel happier and more satisfied with their lives as a result. Imagine too that child poverty rates drop to their lowest level for more than 30 years as a result of this dramatic turnaround, and that the huge savings on welfare payments are diverted into more positive uses, including a substantial increase in child care funding and the provision of one-to-one counselling for people who have difficulty finding work.

Such a country exists. It is the United States of America. What is odd, though, is that most of our social policy intellectuals insist there is nothing to be learned from what the Americans have done.

## **The Social Revolution in America**

Ever since the big expansion of welfare spending in the 1960s and 1970s, the majority of social affairs commentators in most western countries have taken rising rates of welfare dependency for granted. Like rising crime rates and rising levels of personal taxation, the inexorable increase in the number of working-age people on welfare has been sustained over such a long period that generations of policy experts have grown up thinking it is a 'normal' and irreversible feature of contemporary life. Analysts have become resigned to the idea that the number of people requiring income support will keep going up.

And then the Americans shook us out of our complacency. In 1996, the Congress passed a bill which, in the words of President Clinton, aimed to 'abolish welfare as we know it'. And that is exactly what it did.

The 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) set each state targets for the proportion of welfare claimants who were to be involved in 'work activities'<sup>2</sup>—from 25% in 1997 to 50% in 2002. These targets were

to be enforced by cuts in state federal grants, and although these rules were not directly mandated, they helped contribute to a huge deflation in the welfare rolls. The Act insisted that receipt of welfare should be made conditional on claimants undertaking work, vocational training or community service,<sup>2</sup> and it scrapped the existing work exemption for sole parents with children under three years of age, leaving individual states to determine the conditions under which sole parents claiming welfare should be required to undertake paid work. Finally, the Act stipulated that no claimant should be allowed to receive federally-funded welfare for more than two years without going to work (known as a work-trigger time limit), or for more than five years over a whole lifetime (although up to 20% of a state's caseload could be exempted from this). Although individual states were left free to use their own funds to extend these time limits (or to exempt people from them altogether), states were also allowed to tighten the limits if they so desired, and many did so.<sup>3</sup>

Critics inside and outside America were horrified. They forecast chaos and misery. They said there would not be enough jobs for all the people currently on welfare, and that women and children would starve as they reached their time limit and were thrown off welfare. The Children's Defense Fund forecast that child poverty would go up by 12%. The Urban Institute predicted that 2.6 million more people would end up in poverty. Peter Edelman, one of Clinton's advisers, resigned saying that the new law would result in 'more malnutrition and more crime, increased infant mortality and increased drug and alcohol abuse'. Senator Daniel Patrick Moynihan called the welfare reform a 'brutal act of social policy' and warned that those responsible 'will take this disgrace to their graves'.<sup>4</sup>

But as things turned out, the critics were wrong. Not only did the welfare rolls fall quite dramatically, but most former claimants found jobs, the poverty statistics got better, not worse, and there was no evidence of increased individual or social pathology (indeed, crime rates plummeted). The 1996 reform is now recognised by many critics and supporters as a remarkably successful policy initiative, and the welfare debate in the United States today is about how to build on it, not how to reverse it.<sup>5</sup>

### **What Did Welfare Reform Aim to Do?**

To understand what has happened in the United States, it is important firstly to recognise the aims and limitations of the 1996 reform. Although it introduced dramatic changes, it was limited to just one part of the American income support system.

The Act changed the system of federal welfare support for poor families with dependent children (most of them single parents). It scrapped a welfare programme called Aid to Families with Dependent Children (AFDC) which had been operating since the 1930s (when most recipients were widows raising children), and replaced it with a new programme called Temporary Assistance to Needy Families (TANF).<sup>6</sup> As the name implied, this new system scrapped open-ended assistance and made payments conditional, limited and temporary.

This reform did not affect other groups of claimants such as the unemployed or the disabled because in America they are covered, not by 'welfare', but by 'social security'. Americans use the term 'welfare' very narrowly to refer only to cash aid for poor families (the AFDC/TANF programmes) plus food stamps provided for low income families.<sup>7</sup> Both TANF and food stamps are funded out of general taxation. They are non-contributory benefits, and both are means-tested. In the United States, however, most income support (what the Americans call 'social security') consists of benefits funded through contributions rather than out of general taxation. Non-contributory welfare makes up only a small fraction of the whole.<sup>8</sup>

The Australian income support system does not have any comparable distinction, for all payments here are means-tested and non-contributory. Welfare in Australia includes payments to the unemployed, the disabled, retired pensioners, students and families with dependent children. By contrast, in America (as in most of western Europe), workers establish eligibility for a range of payments by paying social security taxes. Retirement pensions, disability payments, family benefits, survivors' benefits and health insurance (Medicare) are all part of this contributory social security system.<sup>9</sup>

Most but by no means all American workers are covered by social security. In addition, insurance against unemployment and sickness is often funded by employers and covers between 35 to 40% of the workforce. Unlike most of Europe, however, the back up provision for those who have not established eligibility through paid contributions is very patchy. There is a 'supplemental' social security system providing payments for elderly and disabled people who are not covered by the main system. Medicaid provides supplemental health cover for 36 million low-income people (including those on welfare), and housing assistance (in the form of public rental housing, rent and mortgage subsidies or vouchers) is available for over 5 million households.<sup>10</sup> However, there is no federal 'dole' for adults without dependent children (different states are left to make different ad hoc arrangements), and there is no universal entitlement to health care.

The US social security system shares many of the same problems we are experiencing in Australia. There has been a huge increase in the number of Americans claiming disability support, just as there has here, and US legislators are extremely worried about projections showing an expected rise in the number of people relying on the age pension which is even greater than the figures anticipated in Australia. But the 1996 welfare reform touched none of these social security benefits and was limited solely to the system of payments made from general taxation to support poor parents (normally single parents) and their children.

The 1996 Act aimed to do three main things: reduce the level of welfare dependency among single parents, increase their employment rates, and discourage young lower-class women from putting themselves at risk of welfare dependency by having children outside of marriage. It unambiguously achieved the first two objectives, but has thus far been less successful on the third.<sup>11</sup>

### **What Did Welfare Reform Achieve?**

The number of people on welfare plummeted as a result of the new legislation. Nationally, the number of welfare recipients fell 59% between March 1994 and July 2001, and although the numbers then rose again slightly (by 2.3%) in the next six months as the economy faltered, the total caseload as at September 2002 was still massively down (from 4.3 million families in August 1996 to 2.02 million), and the number of children living on welfare was halved in six years.<sup>12</sup> Some states achieved even more remarkable results—in Wisconsin, where almost every welfare claimant is expected to work, caseloads fell by 88% between 1994 and 2000.<sup>13</sup>

Sceptics often point out that not all the reduction in the welfare rolls since the mid-1990s can be attributed to the 1996 reforms. One of the most reliable estimates suggests that between 30 and 45% of the reduction was directly caused by the welfare reforms while the rest was due to favourable economic conditions (15 to 25%) and to enhanced work incentives aimed at low paid workers in the form of tax credits and a higher minimum wage (30 to 50%).<sup>14</sup>

Although the favourable economy was undoubtedly a factor, there are a number of reasons for thinking that welfare reform had a substantial independent effect on welfare numbers. Firstly, previous economic booms had little impact on the numbers on welfare despite the increased number of jobs on offer. Twenty million new jobs were created in the Reagan years, for example, yet welfare caseloads increased 13%. Another 7 million jobs were generated in the late 1980s and

early 1990s but welfare caseloads went up a further 17%.<sup>15</sup> Secondly, the varying economic performance of individual states correlates very weakly with changes in their welfare caseloads, so a much stronger predictor is the stringency with which they applied welfare reforms.<sup>16</sup> Thirdly, other countries like Australia and the United Kingdom also had buoyant economies through the 1990s, but they did not manage to reduce welfare numbers in the way that the United States did.<sup>17</sup> And fourthly, the weakening in the US economy since 2001 has not led to any major increase in welfare rolls despite the fall-back in the availability of jobs, which suggests that the new welfare system keeps numbers down irrespective of what is happening in the economy.<sup>18</sup>

The first of the 1996 Act's objectives—to reduce the numbers on welfare—was therefore unambiguously successful. There is more argument over the second objective, however, because driving people off welfare is not necessarily the same thing as getting them into work. So what happened to the millions of people who left the US welfare rolls after 1996?

The national statistics show that rates of workforce participation by single mothers grew significantly following the reform. In 1992, 68% of single mothers did some sort of paid work during the year, but only 46% worked for nine months or longer. By 2002, these proportions had risen to 82% and 61% respectively,<sup>19</sup> and much of the increase occurred among the least employable women. Employment of those who had dropped out of high school, for example, rose by two-thirds; employment of young single mothers doubled.<sup>20</sup> These are impressive results when we remember that the proportion of married mothers in the labour force remained constant during this period.

Follow-up studies report that most former claimants leaving welfare as a result of the reform found jobs. In 1999, Federal government estimates suggested that as many as 87% of those leaving welfare found employment,<sup>21</sup> although other research suggests that only 60 to 70% of leavers are working at any one time, with only 50 to 60% working regularly.<sup>22</sup> Between 60 and 80% of those who are in work are in full-time jobs, but turnover rates are quite high. One study followed former claimants over a five year period and found that only 30% were employed for more than three-quarters of that time.<sup>23</sup> Nationally it is estimated that between 19 and 30% of former recipients end up back on welfare.<sup>24</sup>

Given that most of those leaving welfare are less qualified and educated than the rest of the workforce, it is not surprising that they tend to gravitate to relatively low-paid jobs. One study found that the median earnings for a family with three children three years after

leaving the welfare system were still below the official US poverty line, and it is estimated that only one-third of leavers are in jobs offering health insurance and sick leave.<sup>25</sup> However, Pamela Loprest finds that the median hourly wage achieved by former recipients is 'substantially more' than the national minimum wage, and the longer former recipients are in work, the higher their wages become.<sup>26</sup>

Although many of those leaving welfare often enter low-paid and/or casual employment, they are nevertheless better off than they were before. Single mothers who moved off welfare improved their incomes by an average of 63% when compared with those remaining on welfare. While 29% of welfare-reliant mothers say it is 'very difficult' to live on the income they receive, this was true of only 10% of former welfare recipients now living from wages.<sup>27</sup>

Nationally, poverty rates fell from 13.7% in 1996 to 11.3% in 2000 (although the economic downturn subsequently pushed the figure back up slightly to 11.7% in late 2002).<sup>28</sup> States which reduced their welfare rolls the most tended to record the biggest falls in poverty.<sup>29</sup> By 2002, the poverty rate among black children and single parents was at its lowest in recorded US history and 5.4 million less people (including 2.8 million children) were in poverty compared with six years earlier.<sup>30</sup>

The number of female-headed households living below the poverty line fell substantially as a result of welfare reform. In 1996, the poverty rate for female-headed households was 42%; in 2001 it was 34%.<sup>31</sup> A Michigan survey found that 38% of ex-welfare mothers now in work were still below the poverty line, but this compared with 83% of those who remained reliant on welfare.<sup>32</sup> The longer they are off welfare, the less chance there is that they will be in poverty. Following a 1996 cohort of mothers coming off welfare, one study found that their poverty rate fell consistently each year, dropping by 50% over four years and gradually converging towards the average poverty rate for mothers who had never been on welfare.<sup>33</sup>

Not only did their material living standards improve, but also follow-up surveys found that most former claimants were pleased to be off welfare and reported that their lives were better for it.<sup>34</sup> Surveys report between 60% and 80% saying that their quality of life is either better or unchanged as a result of the reform,<sup>35</sup> and a Wisconsin study finds increased self-esteem, greater optimism about the future, and a more organised and structured lifestyle among those who have exited welfare.<sup>36</sup> The children of former welfare claimants also seem to have benefited. Although the quality of child care is not always high, there are few signs that young children have suffered adverse effects as a

result of their mothers being required to work, and the educational performance of young children appears to improve when their mothers move from welfare to employment (although there is some evidence that teenage children may do worse at school when their mothers are working all day). There is no sign of any significant change in the incidence of child neglect and maltreatment.<sup>37</sup>

What of the minority of former welfare clients who leave the rolls and do not find work?

The first question to ask is whether they *wanted* to find paid employment, as most people who are willing to work still get helped. Despite the introduction of time limits, many states use their own funds to support those who have run out of eligibility but who demonstrate a willingness to comply with work conditions. By the end of 2001, 231,000 families had reached their time limit, but only 93,000 had been taken off TANF, and of these, 29,000 had been put on some alternative, state-financed payment.<sup>38</sup>

Many of those who left welfare without going into paid employment were people who did not wish to comply with the tighter work conditions, or who were removed from the rolls when they failed to comply with them (one estimate suggests that 38% of those leaving welfare were terminated for failure to meet the new requirements).<sup>39</sup> Most of these people had other sources of financial support such as government support (social security entitlements, supplemental security, food stamps, government housing) or informal support from families, friends or new partners.<sup>40</sup> However, some former claimants—perhaps as many as 20%—do not appear to be receiving other government benefits and do not have a working spouse, and it is not clear how they are getting by. There are anecdotal reports that ‘food pantries’ offering free meals to the poor have experienced increased demand from people who have lost welfare entitlements.<sup>41</sup>

Basically, the 1996 reform shifted federal money from propping up people who do not work into supporting poor people who do. We saw earlier that federal funding for TANF is given to states as a block grant which can be spent on a variety of purposes. As caseloads have declined, states have been able to divert large parts of their block grant into more positive channels. One clear example of this switch in priorities has been child care, where federally-funded child care spending by states was able to be increased from \$2.1 billion in 1997 to \$7.4 billion in 2000.<sup>42</sup> States have also been able to fund individualised support and counselling services for difficult-to-place clients still looking for work,<sup>43</sup> and money has also gone into improved education and training, expanded services for victims of domestic

violence, and support for Individual Development Accounts (IDAs) which provide financial incentives for low-income families to save and build up assets (IDAs are discussed further in Chapter 14).

The net result of the 1996 reform has been a big drop in the number of people on welfare coupled with a significant rise in the number of former claimants who now work.<sup>44</sup> Welfare reform thus achieved most of what it set out to do, and its success in promoting self-reliance has probably been far greater than even the reformers themselves dared hope back in 1996. As for the critics, they have had to swallow hard and admit they were wrong.<sup>45</sup> America set out to do what many had not thought possible, and by and large it has worked.

### **Ignoring the Lessons of America**

In Australia, most social policy academics, journalists, professionals and activists have remained resolutely unimpressed by the social policy revolution that has taken place across the Pacific. Many, indeed, seem quite appalled by it and warn against trying to emulate it. As Chapter 5 will show, their advice is that Australia should go in the opposite direction and copy the Europeans, even though most European governments are desperately trying to reverse the cycle of mounting dependency and escalating welfare expenditure in which they find themselves.

Some Australian commentators are so ideologically opposed to the US reforms that they misrepresent or wilfully ignore the evidence about what has happened there:

- The US poverty rate fell from 13.7% to 11.7% in the six years following 1996; the proportion of female-headed households living in poverty fell by 8% over the same period; and the proportion of black children in poverty is now the lowest since records began. But Dr. Philip Mendes, a Senior Lecturer in Social Policy at Monash University, still claims in a 2003 text aimed at social policy students and published by the University of New South Wales Press, 'US welfare reform has moved large numbers of families including children into increased poverty.'<sup>46</sup>
- The enforcement of work requirements had a major effect on rates of welfare dependency in the US, and the buoyant economy accounted for no more than one-quarter of the reduction in the size of the welfare rolls. But offering what he called his 'expert opinion' to a government inquiry in 1999, Dr. Paul Henman, Research Fellow in Sociology at Macquarie University, asserted, 'The apparent success of such Workfare policies in the United

States results from a combination of a booming economy and extremely low wages.' The policies themselves he dismissed as 'ineffectual'.<sup>47</sup>

Horatio Nelson with his telescope clamped to his blind eye could not have been more resistant to evidence than these academic 'experts'.

Not all reactions are so blinkered. Some Australian commentators accept that welfare reform in the United States was successful in reducing dependency without increasing poverty, but argue that these same policies would not work in an Australian context. Quite properly, they urge us to take account of the culturally specific features of different countries when trying to learn from their different policy experiences. They warn that Australia is not America, and that there are limits on what we can be taken from the American experience.

Such warnings are valid and Australia cannot simply do exactly what the Americans did and hope for the same results. Our national values are not the same as theirs, and to be successful, any welfare reform needs to run with rather than against the grain of public sentiment.<sup>48</sup> The labour markets in both countries are also very different, and as Chapter 13 suggests, without further reform it is doubtful whether the Australian economy could generate enough jobs of the right type to soak up the million-plus people who might exit from welfare payments.<sup>49</sup> And, of course, the two welfare systems are very different. Not only are our benefit levels much more generous than in the United States,<sup>50</sup> but Australia (together with New Zealand) is unique in having developed a system of welfare benefits which is entirely non-contributory (that is, funded out of general taxation). However, because America successfully changed the one part of their system which is funded in much the same way as ours, their experience should hold some relevance for reform of the income support system here.

As Chapter 7 demonstrates, Australia has much in common, culturally, politically and economically, with the United States and the United Kingdom (certainly much more than it does with most of continental Europe, although this has never stopped our social policy intellectuals from seeking to import policies from countries like Sweden or France). There is a long history of the so-called 'Anglosphere' countries borrowing and learning from each other across many areas of public policy, including welfare. Policies have always been tailored to specific local conditions, but Australia is not so unlike America that their experience has nothing to teach us.

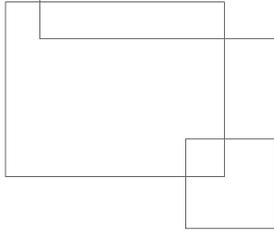
The key lesson from the US experience is that the solution to poverty lies not in giving people welfare but in getting them into

work.<sup>51</sup> This requires sticks as well as carrots, for incentives alone are not enough to shift those recipients who are on welfare because they prefer it to the alternative of working. Such people can only be deterred from dependency by enforcing work requirements and imposing time limits.

The startling success of recent American social policy confirms the commonsense suspicion that changing the costs and benefits attached to different courses of action can have major effects on the way people behave. If people in work are allowed to keep more of what they earn, they will be more willing to enter and remain in employment rather than if large chunks of their wages are confiscated in taxes. In America it was the combined effect of welfare reform (work requirements and time limits) and tax reform (reduced taxation on low-income earners) that was so effective in reducing the welfare rolls and getting many former claimants into the labour force.<sup>52</sup>

# **Dreaming of Sweden**

Chapter 5





'Australian policy makers need to avoid ideologically following down the US path of welfare reform and consider what can be learned from the European experiences with a much greater emphasis on social equity and social cohesion.'

Dr Bruce Duncan (Catholic theologian, ethicist and Redemptorist priest)<sup>1</sup>

**W**hile the Americans set out to abolish welfare, Australian politicians have been proceeding much more cautiously. Starting from a more extensive, generous and undemanding system of welfare support than the United States had, we have not gone anywhere near as far down the path of reform. Nevertheless, bit by bit, we are edging in a similar direction.

### **Recent Australian Welfare Reforms**

Whereas American attention has focused mainly on reducing welfare dependency among single parents, reforms in Australia have been directed mainly at the unemployed.

Figure 1.1 (p. 9) showed that the proportion of the working-age population living on unemployment assistance has increased alarmingly since the 1960s, but that there has also been a huge increase in the number of people relying on Parenting Payment Single and on the Disability Support Pension for their income. Recipients of these two payments have, however, remained largely unaffected by welfare reform up until now. There have been some changes affecting Parenting Payment claimants, but even when activity obligations were introduced for the first time in 2002, they were very undemanding.<sup>2</sup> While attempts have been made to tighten eligibility for Disability Support Pension, there has been no move so far to impose participation conditions on DSP recipients even though many are known to be capable of working.<sup>3</sup>

The welfare reform process started in Australia in 1988 under the Hawke government when a voluntary training, job placement and child care service, Jobs, Education and Training (JET), was introduced for single parents seeking to return to the labour market. At the same time, a separate unemployment benefit, Newstart, was introduced for the long-term unemployed who were required to participate in 'intensive assistance' in return for their payment.<sup>4</sup>

These innovations were followed in 1994 by the Keating government's Working Nation programme, the core of which was the

Job Compact which guaranteed claimants who had been out of work for 18 months or more a job placement for six to 12 months, backed up by appropriate training. Most of these placements were intended to be in the private sector, where employers were offered wage subsidies to take on unemployed workers, and the unemployed were expected to accept any reasonable job offer or be penalised by reductions in their benefits (an arrangement which the government referred to as 'reciprocal obligation').

When the Liberal/National Coalition came to power in 1996, Labor's Working Nation programme was scrapped on the grounds that it was expensive and largely ineffective in securing people permanent jobs.<sup>5</sup> In its place, the new government introduced a policy of 'mutual obligation' which required young unemployed people to undertake a recognised activity in return for their payments. Prescribed activities included participation in Intensive Assistance, part-time employment, voluntary work, education, vocational training and literacy and numeracy classes. In addition, work on local community projects (Work for the Dole) was introduced as a further option.

Since 1997, this mutual obligation policy has gradually been extended. In 1998, it was expanded to include all young people unemployed for six months or more. In 1999, the age limit for participation was raised to 35. In 2002, the age limit was further stretched so that anybody under 40 who had been unemployed for six months or more was included. The 2001 Australians Working Together package extended mutual obligation for the first time to jobless parents living on Parenting Payment, although most of them had to do nothing more than attend one meeting per year to discuss their future job plans.

There have been other reforms too. The Commonwealth Employment Service was replaced in 1998 by Job Network made up of commercial and non-profit agencies which contracted with a new benefits agency, Centrelink, to run job search, job matching and Intensive Assistance services for unemployed claimants. There has also been a major review of welfare policy chaired by the Chief Executive of Mission Australia, Patrick McLure, which recommended scrapping the distinctions between different categories of payments and extending mutual obligation in one form or another to all claimants who are capable of participating in some broadly-defined 'socially useful' activity. Some of McLure's recommendations have been implemented, but the core proposal remains on the table for further discussion.<sup>6</sup>

## The Social Policy Establishment and Welfare Reform

One reason why progress on welfare reform has been relatively slow in Australia is that most social affairs academics, professionals, journalists and activists have at best been lukewarm about the whole idea, and at worst sought to undermine it. They make up a 'social policy establishment' which generally speaks with one voice on welfare reform and which resists most serious moves to cut the level of welfare dependency. Their influence on public debate, and hence on the pace of change, has been considerable, and although they rarely get the policies they favour, their vociferous campaigns can make it difficult to change anything. As one minister responsible for welfare reform told the National Press Club when announcing another delay in implementing the government's plans in 2003: 'It's not an easy business reforming welfare.'<sup>7</sup>

Whenever an idea is floated or a proposal is tabled that is designed to reduce the number of claimants by moving more people into paid employment, a barrage of criticism is immediately discharged from universities, welfare pressure groups and the social affairs commentators in the media, causing reforming politicians with an eye on the flickering opinion polls to run for cover. Since the McLure Reference Group reported in July 2000, there has been one modest round of reform (the Australians Working Together package of 2001), but the major changes that have long been anticipated are repeatedly delayed. By late 2003, political commentators were openly speculating that the government was 'balking at change' out of a 'fear that reform is too unpopular'.<sup>8</sup>

The social policy establishment favours more spending on welfare, not less. Their aim is to increase the level of benefits rather than cut the number of recipients. They think participation in activities linked to the receipt of benefits should be voluntary rather than compulsory, and disapprove of penalties for those who refuse to undertake the activities required of them. They consider it acceptable for welfare claimants to be offered education or training, but believe it is wrong to require people to work, particularly in low-skilled or low-paid jobs. This whole way of thinking is diametrically opposed to almost everything that happened in the United States.

A strong presumption in favour of higher levels of social expenditure and higher taxes underpins this orthodox thinking about welfare, despite evidence that lower taxes encourage more people to work while higher benefits encourage more to seek or remain on welfare.

Julian Disney, former President of the International Council of Social Welfare and now director of the 'Social Justice project' at

UNSW, calls for a ‘substantial increase in tax’. Peter Saunders, director of the Social Policy Research Centre at UNSW agrees that, ‘Higher taxes will be necessary.’ Philip Mendes of Monash University identifies a ‘need for additional taxation’, and Belinda Probert at RMIT University calls for ‘considerably higher levels of taxation’. Mike Keating, former Cabinet Secretary in Paul Keating’s Labor government and now an academic at ANU, thinks ‘taxation underpins an inclusive society’, arguing that we ‘could tolerate a significant increase in the ratio of taxation to GDP without great difficulty’. Terry McCarthy and John Wicks of the St Vincent de Paul Society assert that ‘equitable tax raising combined with effective public expenditure is not simply a benefit, but in Australia’s current situation a necessity’.<sup>9</sup>

Australia’s social policy establishment supports high taxation as a matter of principle. Many are egalitarians who appear just as keen to reduce the incomes of high earners as they are to increase the incomes of low ones. Advocacy of higher taxes on people who are working is linked to support for higher benefits for those who are not, thereby creating a double-whammy which would simultaneously weaken rewards for working *and* strengthen incentives to stay on welfare. Disney, for example, wants higher taxes to fund increased unemployment benefits. The Brotherhood of St Laurence wants increased welfare benefits all round, and the Australian Council of Social Service wants all benefits raised to the level of the age pension. No one seems worried about the incentive effects of their proposals; Saunders even finds it regrettable that recent policy change has been directed at reducing welfare reciprocity rather than ‘promoting’ it.<sup>10</sup>

The social policy establishment is firm in its opposition to compulsory work activity for welfare claimants. Even though the American experience demonstrates that compulsion in some form is required to shift claimants off welfare into work, most of our ‘experts’ are sceptical about linking benefits to required activities and are strongly opposed to making participation in linked activities compulsory. They support some of Labor’s early initiatives (such as the JET scheme), because welfare claimants could choose whether or not to participate in them, but the Coalition government’s ‘mutual obligation’ policy, requiring the unemployed to undertake some activity in return for their benefits, has provoked persistent opposition.

Critics of mutual obligation deny that welfare recipients owe anything to those who finance their benefits. They say that recipients repay their obligation in other ways and should therefore not be forced into government-defined activities; that the government is unfairly exploiting the vulnerability of claimants by forcing them into activities

they would not freely choose to undertake; that government is failing to meet *its* obligations to claimants by failing to create jobs for them to do; that mutual obligation is socially divisive and unfairly stigmatises welfare recipients; that mutual obligation is only legitimate if it improves the wellbeing of claimants themselves; or that compulsion alienates claimants and therefore does more harm than good.<sup>11</sup>

This opposition to mutual obligation is highly-charged and often couched in emotional language. Some critics suggest that rather than owing an obligation to others, welfare recipients are owed a debt of gratitude by people who have jobs. According to one government adviser, for example, mutual obligation is 'exploitative', and taxpayers should feel 'gratefully obliged' to welfare claimants for having 'sacrificed' their employment so that others may have jobs.<sup>12</sup> Similarly, an ethical philosopher at the University of Melbourne, thinks 'you should thank a dole bludger' if you have a decent job.<sup>13</sup> A Sydney University prize winning essay suggests mutual obligation is 'unjust' because it is 'abusing human rights',<sup>14</sup> and two Queensland academics claim that it breaches the International Covenant on Civil and Political Rights which states that 'No one shall be required to perform forced or compulsory labour.'<sup>15</sup>

This sort of discourse attracts little comment from within orthodox social policy circles, yet these claims would strike most outsiders as preposterous. It is difficult to see how a relationship can be deemed 'exploitative' when one party offers financial assistance to another but links the offer to certain conditions. On this reasoning, children would be 'exploited' every time parents link receipt of pocket money to performance of household tasks. It is similarly difficult to take seriously the claim that it is an abuse of human rights to require that people seeking money should be asked to do something in return for it. Following this logic, the human rights of employees are abused every time an employer requires them to do something in return for their wages. Hyperbole like this only flourishes where rhetoric has been allowed to masquerade as analysis, emotion has displaced logic and evidence, and intellectual orthodoxy has stifled critical thinking and debate.

In place of mutual obligation, the social policy establishment favours a welfare system where benefits can be claimed as a right, with few or no conditions attached. According to one eminent former government adviser, for example, 'Welfare support should be available as an unconditional right when need can be clearly demonstrated.'<sup>16</sup>

An unconditional welfare system would mean that if you need money, you should get it, irrespective of what you may have done to

put yourself in this position, or what you are prepared to do to get out of it. Anna Yeatman of Macquarie University makes this clear when she advocates the right to an income ‘whether we work or not’.<sup>17</sup> This is a right that says you must support me, even though I choose to do nothing. Peter Saunders of the Social Policy Research Centre goes further by suggesting ‘a basic universal benefit subject only to proof of citizenship’ which would provide a subsistence income to anybody who asked for it, ‘allowing those with weakest attachment to the world of work to opt out’. Under this proposal, nobody would have to work if they did not want to and we would deliberately ‘encourage some people to withdraw from the labour force altogether’.<sup>18</sup>

Philip Mendes, another academic, takes these principles to their logical end point. He wants welfare put in the hands of ‘user-controlled cooperatives’ so that the people receiving taxpayers’ money can decide the terms and conditions under which it is given.<sup>19</sup> Not only would you have an obligation to support me if I chose not to work, but my fellow recipients and I would decide what should happen to the money.

British Labour MP, Frank Field, has pointed out that, ‘For most of the last 400 years the receipt of welfare has been dependent on fulfilling a series of conditions. Only since the 1960s did an opposing idea gain ground until it was held to be the only proper view.’ It was the ‘Great Disruption’ that spawned what Field calls the ‘damaging belief that no matter how badly a person behaves, their right to welfare is inviolate’.<sup>20</sup> Forty years later, this ‘damaging belief’ has become orthodox thinking among our social policy establishment. It is wildly out of step with the way most ordinary Australians think about these matters, but within establishment circles it is no longer even questioned, and it informs their reaction to every attempt to reform our welfare system.

### **In Search of an Alternative**

Interviewed on ABC *Life Matters* in 2003, the President of the St Vincent de Paul Society’s Social Justice Committee, Terry McCarthy, urged that Australian social policy should ‘. . . follow the line of the European social democratic countries, the same way as we used to do’. Prompted by the interviewer, McCarthy went on:

As opposed to the Americanisation of the Australian culture and the Australian economy whereby our concerns for the common good and our concerns for everybody to be able to contribute to and benefit from the community, rather than the pursuit of the individual, because if you go down the American route you’ll have to accept that you’re going to have to have a health system that

can only be afforded by the wealthy, you're going to put up with incarceration rates, crime rates, violence, you're going to put up with an education system which is only dependent on how much money you've got, and you're going to put up with homelessness and poverty to levels which to this point have never been accepted in this country.<sup>21</sup>

Never mind that US welfare reform had nothing to do with their health and education policies, that reform reduced poverty rather than increasing it or that American crime rates have been plummeting to a point where they are now much lower than those in Australia.<sup>22</sup> For McCarthy and most other members of our social policy establishment, the American experience has been an unmitigated disaster, and Australia should look instead to Europe.

Australia's social policy establishment has long been focused on Europe, especially on Scandinavia, as the source for an alternative reform agenda.<sup>23</sup> But just as they seem blind to what has been achieved across the Pacific, so too they seem impervious to the problems that have beset the continental European welfare states. We are urged to reject American policies that have been remarkably successful and to embrace European ones that even the Europeans themselves now know are unsustainable.

### **The Fading Appeal of the European Welfare States**

Not all European welfare states are the same. Leaving health care to one side, the welfare systems operating in the United Kingdom or Ireland arguably have more in common with those of North America than with those in Scandinavia. Even on the continental mainland, there are major differences between the Nordic welfare states and those in France, Germany or Italy.

One influential attempt to pinpoint the basic differences between these different systems identifies three distinct 'regime' types:

- In 'liberal welfare states', the main concern is to direct support to where it is needed while ensuring the will to work is not eroded. This is done by strict entitlement rules and an emphasis on means-testing designed to limit welfare to the poorest sections of the population while encouraging others into private health and retirement pension schemes. The core liberal regimes are Australia, the United States and Canada, with New Zealand, Ireland and the United Kingdom also sharing some of the characteristics of this type.
- The 'conservative-corporatist' welfare regimes—Austria, Germany, France and Italy—are more universal in their coverage (there

is little private insurance, for example), although entitlements vary according to people's contributions and status. Eligibility is established through paid employment, and different occupational groups offer access to different kinds of health and pension schemes. Benefits are structured around a traditional family model in which women are assumed to play mainly a domestic role in child-rearing.

- The 'social-democratic' welfare regimes are found mainly in the Scandinavian countries. All employees belong to the same state insurance scheme, and generous levels of benefits (close to the level of earnings) are financed by high levels of taxation (although contributions and benefits are graduated according to earnings). There is a presumption that women participate fully in the labour force, and the system has traditionally been underpinned by a commitment to maintaining full employment. Esping-Andersen refers to these welfare states as 'decommodifying regimes', by which he means they make it easy for citizens to 'opt out of work when they themselves consider it necessary'.<sup>24</sup>

It is this emphasis on 'decommodification'—uncoupling the right to an income from performance of paid employment—which has attracted the Australian social policy establishment to the Scandinavian welfare model. When intellectuals like Argy and Saunders argue for unconditional welfare and a basic citizens' income, what they are trying to achieve is a 'decommodified' welfare state.

In reality, the Scandinavian countries are rather less 'decommodified' than is sometimes imagined. Our social policy intellectuals would struggle to find support in Scandinavia for their belief that unemployed people should be able to claim welfare with no conditions attached, still less for their proposal that anybody who does not want to work should be supported. As the OECD points out, the Scandinavian states are 'noted for the strictness of their criteria for receiving unemployment benefits. The duty to work has always been a core principle in Swedish policy'.<sup>25</sup>

While social insurance covers retirement pensions, sickness and unemployment payments in Sweden, an underlying social assistance safety net is administered by local councils. Covering more than 10% of working-age households in 1994, this system makes Australia's mutual obligation requirements look weak in comparison. Sweden guarantees every citizen a right to assistance, but the law also specifies that help should be given in a manner likely 'to strengthen the independence of the individual'. Claimants are means-tested and can be required

to sell a car or even a house as a condition of receiving help.<sup>26</sup> The unemployed are expected to take any available job and sole parents are required to seek work within 15 months of the birth of a child. Some municipalities in Sweden and in Denmark have even begun to implement policies explicitly modelled on the US experience.<sup>27</sup>

The national social insurance system has also been changing. In 1970, GDP per head in Sweden was the third highest in the OECD, but as the size of the government sector grew to absorb two-thirds of GDP, the country fell back to 17th in the OECD rankings. Unemployment rose from below 2% in 1990 to over 9% three years later.<sup>28</sup> Government tax revenues were eroded at the same time as welfare costs mushroomed, and the government responded by cutting welfare services. Waiting periods for new claimants were introduced, claimants were encouraged to seek work and retraining, tighter qualifying conditions on benefits were imposed, a portion of the age pension was linked to individual contributions and, most importantly, the generous 'replacement rates' which had enabled unemployed, sick and retired workers to maintain an income very close to the full-time working wage were lowered.

The Swedish Prime Minister reassured his citizens in 1999 that, 'Sweden will consolidate its position as a leading welfare nation',<sup>29</sup> but the changes introduced since 1990 represent what one commentator has termed 'an assault' on the distinctive 'decommodifying' character of the Scandinavian social-democratic welfare state.<sup>30</sup> Although there is still a strong commitment to universalism, there is also today a willingness to embrace private funding and market competition.<sup>31</sup>

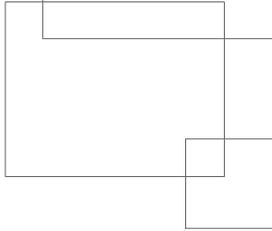
It is a similar story in what Esping-Andersen (1990) refers to as the 'conservative-corporatist' welfare regimes of continental Europe. In Germany, payroll taxes that fund workers' pensions, health and unemployment payments have risen to 40% of wages as a result of escalating numbers of claimants. This has hit the competitiveness of German companies triggering a spiral of job losses followed by even higher welfare costs.<sup>32</sup> As in Scandinavia, strong unions and conservative public opinion have made it difficult for politicians to cut back on welfare entitlements, but in 2003 the Federal government managed to introduce tighter time limits on unemployment benefits (reduced from 32 to 12 months) and reduced the value of assistance when time limits expire. Labour market regulations were also weakened in an attempt to stimulate more jobs and a €15 billion package of tax cuts designed to restore work incentives was introduced.<sup>33</sup>

Of course, the European welfare systems are still very different from the American one, but as in America, European governments

have increasingly come to recognise that generous, rights-based, unconditional welfare payments not only destroy self-reliance and encourage dependency, but are also economically unsustainable and self-defeating. The same factors that led the Americans to reform welfare in 1996 are leading the Europeans ever so hesitantly down the reform path today.

# **The Caring State?**

Chapter 6





‘Only someone who has not actually been on the receiving end of the welfare state would dare call it an instance of civic altruism at work.’

Michael Ignatieff (Professor of Human Rights, Harvard)<sup>1</sup>

**G**iven the evidence of American success and European failure, why is our social policy establishment so keen to disparage the former and embrace the latter?

The answer can be found in the contrasting views many of us share about North America and western Europe. There is a widespread perception that America is a fragmented society which lacks social solidarity while continental Europe is more cohesive and ‘civilised’. According to many social policy intellectuals, this difference can be explained (at least in part) by their different social policy traditions.

While European social policy has been collectivistic and inclusive, seeking to bind everybody together into a cradle-to-grave state-funded system of care and support, the Americans are thought to have been much more individualistic and exclusive, leaving people to sink or swim and putting in place only the flimsiest of safety nets for those who fail. The result (it is said) is social harmony in the former (where welfare promotes a sense of fellow-feeling and common identity) with conflict, tension and violence in the latter (where an over-emphasis on the free market drives everyone to look after their own selfish interests). Europeans are from Venus, Americans are from Mars.

Seen in this way, even if the continental European welfare states have become bogged down in spiralling rates of welfare dependency and stagnating economies, at least they enjoy peace and stability. Our social policy intellectuals think this is not a bad price to pay. Indeed, they suspect that it may even prove to be economically more efficient to organise a society in this way, for what the Europeans spend on welfare benefits and services, the Americans will end up spending on prisons and riot shields.<sup>2</sup>

### **Civilising Capitalism?**

The belief that the welfare state promotes social harmony and cohesion has a long political pedigree. Spooked by the growing threat of socialist revolution in Europe, it was Otto von Bismark in Germany in 1884 who first introduced state social insurance arguing that the government should ‘show a little more Christian solicitude for the working man’. The appeal of the revolutionaries would pall, Bismark said, ‘as soon as working men see that the government and legislative bodies are earnestly concerned for their welfare’.<sup>3</sup> In the decades that

followed (and particularly in the troubled years after World War I), European governments quite consciously pursued policies like social housing and social insurance as tools for building consensus and maintaining social order,<sup>4</sup> and following World War II, the British sociologist T. H. Marshall published a celebrated essay explaining how the welfare state strengthens social cohesion by blurring traditional class divisions and creating a new, universal status of ‘citizenship’.<sup>5</sup> Marshall’s thesis has influenced the thinking of generations of social policy intellectuals ever since.

Marshall noted that in England before the 18th century, only members of the dominant social classes had enjoyed full citizenship rights. Everybody else was ‘excluded’ from full participation in their society, and this mass exclusion was a major potential source of social and political instability. Gradually, over the next 300 years, the masses were brought in from the cold.

The process began with the recognition of equal civil and legal rights in the 18th century, followed in the 19th century by the gradual extension of equal political rights (notably universal suffrage). Finally, in the 20th century, European governments began to recognise what Marshall called universal ‘social rights’—the right of all adult citizens to claim access to things like housing, health care and a minimum level of income irrespective of their wealth or status.

By identifying ‘social rights’ as the third and final component of modern citizenship, Marshall was saying that state provision of welfare services is a key factor in taming class conflict and ‘civilising’ capitalism. This idea subsequently evolved into the notion that high levels of welfare spending indicate that a country is more ‘developed’ and ‘civilised’ (and hence that the European social democracies are more ‘civilised’ than the United States with its minimal welfare state). Assar Lindbeck, the Swedish intellectual and former Chairman of the Economics Nobel Prize Committee, gave expression to this Eurocentric sentiment when he suggested that the comprehensive European-style welfare state represents a ‘triumph of modern civilisation’.<sup>6</sup>

### **Resisting the Barbarians**

The belief that continental European welfare states are less riven by conflict than the United States because they are more civilised is now firmly embedded in the thinking of western social policy intellectuals. This is why our own policy experts still look for inspiration to Europe rather than America. They think any reduction in the size and scope of the welfare state must make a country less civilised and less humane,<sup>7</sup> and they complain that economic efficiency (‘economic rationalism’ in

Australian parlance) has been pursued in recent decades at the expense of less tangible but infinitely more important values such as 'fairness' and 'compassion'.

All the evidence in Chapters 4 and 5, showing how American welfare reform has succeeded in getting people into work thereby reducing poverty and how European welfare states are mired in a vicious circle of rising dependency and declining economic vitality, thus falls on deaf ears, because social policy intellectuals are preoccupied with much weightier matters. In their minds, they are defending civilisation against the threat of barbarism.

But where is the evidence to support their concerns? The causal link between high welfare spending and strong social solidarity is more often asserted than demonstrated. Many in the social policy establishment believe the welfare state generates social cohesion, and that cutting it will increase conflict, crime and social malaise, but when we investigate this claim, two things become apparent.

Firstly, in those countries (like Scandinavia) where high welfare spending does seem to have coincided with a relatively high level of social cohesion, it is by no means obvious that the former led to the latter. It is just as plausible to suggest that high welfare spending and a high level of cohesion in the Nordic nations were both historically the product of a common third factor, namely, the extraordinary cultural homogeneity (and markedly high levels of nationalist sentiment) that characterised these countries until very recently. If so, this means that attempting to buy Scandinavian-style social unity with Scandinavian levels of social expenditure in much more heterogeneous and pluralistic countries like America and Australia would be a complete waste of money and could even be counterproductive.

Secondly, there is clear evidence from the 'liberal' welfare regimes of Australia, Britain and the United States that increased welfare spending has not led to enhanced levels of social cohesion, and that reduced welfare spending has not triggered any decline. Indeed, quite the reverse appears to have happened; as welfare spending has risen, it has coincided with increased levels of conflict rather than with greater solidarity. Increased welfare has, for example, gone hand in hand with a massive rise in the incidence of crime and other social pathologies, not with a fall as orthodox theory would predict.

### **The Welfare State in Homogenous Cultures**

Some years ago, a French academic by the name of Michel Albert published a book which analysed the divergence between what he called the 'neo-American model' and the 'Rhine model' of western

capitalism.<sup>8</sup> He claimed that the ‘neo-American model’ (which included Australia, New Zealand, Britain and Canada as well as the United States) emphasises individual success, competition and short-term financial rewards while the ‘Rhine model’ (in which he included most of the continental countries of the European Union together with Japan) is more focused on collective success, cooperation, and longer-term planning.

Albert believes the great virtue of the Rhine model is that it is more socially cohesive. He tells us that American cities are full of homeless people, that American public schooling delivers low standards of education, and that drug abuse is rife in the American inner cities. Like most Frenchmen, he believes that Europe (especially France) is civilised, and that America is barbaric. America, he says, is ‘an increasingly fragmented and uncaring society of dysfunctional families and spreading poverty’.<sup>9</sup>

Albert contrasts this American ‘fragmentation’ with the much stronger social and moral fabric that he thinks exists in the Rhine model countries. In Europe, economic inequalities are flattened out by high taxation on higher earners, while a strong welfare state boosts the living standards of the less fortunate. Albert believes this gives rise to a greater sense of social cohesion in these countries. Most intellectuals in Australia would agree with him.

Albert does admit that the relative ‘disorganisation’ of the neo-American model countries has some positive aspects. He recognises that these countries are more open, pluralistic and tolerant of individual diversity. These nations have been more receptive to immigration than most of the continental European nations for example, and mixed-race marriages are much more common in the Anglosphere countries than they are in places such as Germany or Japan. While recognising these differences, Albert fails to draw the obvious conclusion, which is that the relatively more closed and homogenous cultures of Rhine model nations are precisely what produced their stronger welfare states.

Welfare systems express the cultures of the countries in which they arise. In a relatively homogenous, conformist and collectivist culture, a comprehensive welfare state is likely to develop as one expression of a sense of social unity which already exists among the citizens. The ‘social cohesion’ which makes the Scandinavian nations so attractive to Albert and to many other social analysts is almost certainly a product of their longstanding cultural homogeneity and closure. These are collectivistic (and nationalistic) cultures which until recently were predominantly agrarian folk societies. Citizens in these countries readily identify with one another and recognise in the

state a symbol of their shared identity because they share the same ethnicity, the same religious beliefs and the same national history. The development of the welfare state grew out of this, expressing the strong sense of unity embedded in the idea of the *Folkhemmet*, the 'people's home'.

All of this stands in sharp contrast to the Anglosphere countries. As shall be seen in Chapter 7, these are much more individualistic cultures with a less-developed collective identity. Their welfare systems were not the realisation of some deeply embedded spirit of national unity, but rather emerged as 'an erratic and pragmatic response of government and people to the practical individual and community problems of an industrialised society'.<sup>10</sup> The welfare state in these cultures was rarely conceived in heroic terms and was always limited in scope lest it threaten the core values of individual responsibility and voluntary self-help which are central to the spirit of liberalism.

Given that the Nordic welfare state model grew out of cultural homogeneity and closure, it is not surprising that this system has come under increasing pressure as these countries have started to open their borders to outsiders. Increased levels of immigration have been eroding popular support for welfare in the Scandinavian nations. In Sweden, there is growing resistance to high taxation being used to support people from outside of the common monoculture, and in Denmark, popular trust in government is threatened by growing ethnic diversity. Significantly, in both Denmark and Norway, populist nationalist parties have based their electoral appeal on defence of the national welfare state coupled with opposition to further immigration.<sup>11</sup>

### **The Donor-Recipient Relationship**

In Scandinavia, high welfare spending did not cause social cohesion; it is a product of it. Likewise in the more individualistic Anglosphere countries, there is little evidence that high welfare spending ever led to enhanced social integration. There are, however, reasons for believing that it may have done the reverse.

The welfare state in the Anglosphere countries exhibits little of the altruism and spirit of belonging that our social policy intellectuals like to read into it. The exchange between donors and recipients which is said to create a sense of trust and mutual recognition more commonly results in mutual mistrust, hostility and a heightened awareness of narrow self-interest on the part of both parties.

The experience of those who receive aid from government welfare agencies generally takes one of two forms. The first, more common

in the past than it is today, is a feeling of shame.<sup>12</sup> In cultures that emphasise values of independence and self-reliance, putting oneself in the hands of state welfare agencies has traditionally been a stigmatising and disempowering experience. State agencies have periodically tried to disguise this by relabelling recipients (over the last few years in Australia, for example, people who were once welfare ‘claimants’ became ‘clients’ in the 1970s and then emerged as ‘customers’ in the 1990s), but nobody is fooled by such Orwellian contrivances.<sup>13</sup> Calling recipients ‘customers’ does nothing to alter the reality of an unequal relationship mediated through an impersonal and bureaucratic mode of organisation.

The other characteristic response of welfare recipients is an increasingly assertive and aggressive demand for their ‘right’ to increased support. This response has become more common over the last 20 or 30 years as the sheer number of people joining the welfare rolls has eroded the more traditional sense of shame and stigma. Welfare pressure groups too have sought to encourage this assertiveness by emphasising the language of ‘rights’ and by encouraging claimants to think of themselves as ‘victims’ of an unfair ‘system’. But again, no amount of rhetoric can in the end turn a relationship built on dependency into real empowerment. The demand that others do something for you is still based in weakness, no matter how stridently it may be expressed.<sup>14</sup>

Neither the shame-faced acceptance of handouts nor the assertive demand for them generates the sort of sentiments in recipients that might produce and strengthen social bonds. Nor does the experience of contributing to the welfare system seem to foster values of altruism or mutuality among donors. It more often creates suspicion rather than trust. The rhetoric of ‘bludgers’ and ‘scroungers’, which social policy intellectuals like to dismiss as the product of media scare campaigns, is better understood as an expression of frustration and anger by people of modest means who believe (rightly or wrongly) that others are taking advantage of them. Some become angry and resentful at being forced to pay taxes to support others who could and should be supporting themselves, while others decide to get back as much of their own money as they can by milking the system for all they can get. Either way, these sentiments precisely oppose what defenders of the welfare state claim it generates.

The social policy orthodoxy insists the welfare state is an altruistic system that encourages people to care for each other, yet in reality it is more likely to generate self-interest, hostility and suspicion from recipients and donors alike.

## Building Social Cohesion From the Bottom Up

The argument that the modern welfare state fosters social cohesion rests on a fundamental misunderstanding of where social cohesion comes from. As sociologists like Peter Berger have long argued, and as 'third way' political revisionists like Mark Latham and Peter Botsman also now recognise, cohesion develops from the bottom-up, not the top-down.<sup>15</sup>

A sense of common identity and mutual empathy cannot be expected to develop as a result of state bureaucracies reallocating tax revenues from one group of citizens to another. Social cohesion cannot be created by bureaucrats or planned by social policy experts (although governments still seem to think it can).<sup>16</sup> The real source of social cohesion or 'social capital' comes not from government largesse but from the self-activity of the 'little platoons' of civil society. It emerges when families, workmates, neighbours or friends come together in formal or informal organisations and networks to share common interests and to solve their shared problems.

Far from the welfare state strengthening these social bonds, it has weakened them by taking over responsibilities from smaller agencies of civil society and leaving them with nothing to do. The clearest example of this has been in the organisation of health care. Introduction of state-run health insurance before World War I effectively destroyed the friendly society medical clubs in Great Britain, just as the New Deal dealt a heavy blow to the fraternal lodges in the United States in the inter-war period, and government funding of doctors undermined the friendly societies in Australia after World War II.<sup>17</sup> But these mutualist and cooperative movements were a major source of community strength and what would today be called 'social capital'. The best advice for any government seeking to build social cohesion is to stop doing so much and (as far as possible) to get out of the way so that people can do things for themselves.

## Does the Welfare State Keep Criminals at Bay?

The clearest evidence that high welfare spending does not buy social harmony comes from the crime statistics. Sociologists commonly measure social cohesion and social pathology by tracking trends in indicators like crime rates, rates of substance abuse, suicide rates or rates of depression and mental illness.<sup>18</sup> Many of these indicators have been increasing alarmingly over the last 30 or 40 years, at the same time as welfare expenditures were growing most vigorously.

In Australia, most indicators of social pathology worsened markedly from the 1960s onwards. The incidence of serious crime,

for example, has risen more than six-fold in the past 40 years, even when government welfare spending was rising fastest and income inequalities were actually falling right up until the early 1980s.<sup>19</sup> It is much the same story in New Zealand and the United Kingdom; in all three countries, greater equality and higher welfare spending went hand in hand with *more* crime and social fragmentation, not less.<sup>20</sup> There is simply no evidence to support the claim that welfare promotes cohesion or reduces conflict and division.

There is also evidence that many of those who commit crime are in receipt of welfare. In New Zealand, for example, it has been found that 4,600 of the country's 6,000 prison inmates were on benefits before they were locked up.<sup>21</sup> As an insurance against crime and disorder, welfare has not worked.

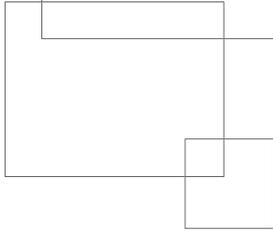
Just as increased welfare did not reduce crime, so reduced welfare does not increase it. As American states were cutting back on welfare throughout the 1990s, their crime rates plummeted. Between 1989 and 2000, the proportion of Americans reporting they had been victims of assault fell by more than one-third and the proportion reporting they had been burgled was halved. The number of robbery victims dropped three-fold, and there was more than a four-fold drop in the number reporting stolen cars.<sup>22</sup> These remarkable results made a mockery of those critics of welfare reform who warned that it would trigger a new crime wave.

American crime rates (other than homicides)<sup>23</sup> are today substantially lower than Australian rates, even though the distribution of income and wealth is more unequal in the United States than in Australia and welfare is much tighter. Australia overtook the US in 1991, when 29% of Australians reported they had been victims of crime compared with 26% of Americans, and since then, the gap between the two countries has been growing wider. Out of all industrialised countries, evidence from the International Crime Victim Survey shows that Australia crime rates are amongst the highest.<sup>24</sup>

Given this evidence, it is difficult to see how higher welfare spending could still be offered as a serious policy route to a stronger, safer and more 'civilised' society. The social policy establishment, however, seems unaware or indifferent to statistics like these. It continues to hold to the old Marxist nostrum that economic inequality generates social divisiveness, and that welfare buys harmony and consensus. Yet evidence nearly all points the other way.

# Principles of Reform

Chapter 7





‘All governments need a clear understanding of the values that are important to Australians. And I think governments must identify national priorities so that they can develop coherent long-term programmes based on these values’

Prime Minister John Howard, 2002 speech<sup>1</sup>

**W**elfare groups and social policy intellectuals often argue for increased welfare provision as a principle, forgetting that welfare is really just a tool intended to bring about desirable social objectives. Chapter 6 showed that welfare itself does not unify or strengthen a society, and a high level of welfare spending is not a badge of a civilised society (even though this is how it is often portrayed). The welfare state is not to be defended or expanded for its own sake.

It follows that any debate about the future of welfare should start by identifying what welfare policy is meant to achieve. In a modern, pluralistic society like Australia there will never be uniformity of opinion in discussion of specific policy options, but nevertheless it should be possible to identify some broad values on which most Australians can agree and which might guide our thinking about what social policy should do.

### **What is Welfare For?**

In a 2002 speech, Prime Minister John Howard argued that governments should base their policies in the ‘values that are important to Australians’.<sup>2</sup> He identified four such values: a belief in self-reliance, commitment to equality of opportunity (which he equated with a ‘fair go’), a willingness to help others (‘mateship’ and ‘community’) and what he called ‘having a go’ (by which he meant a willingness to work hard, take risks and stand up for one’s beliefs).

The particular items on Howard’s list (and the words he used to express them) can, of course, be challenged and different commentators might identify other values that should be added to the list. They might disagree on what each of these values means for practical policy-making—and there will always be arguments about which values should take priority<sup>3</sup>—but it is doubtful whether many Australians would reject any of the four broad principles that the Prime Minister identified.

Looked at more closely, John Howard’s list boils down to two core ideas—on the one hand, a belief that people should help and support one another, and on the other, a belief that individuals should take

responsibility for their own lives. We want people to be helped, but we also want them to help themselves.

The problem, however, is that these two core beliefs, if not contradictory, are certainly in tension with one another. Nowhere is this tension more evident than in social policy. The welfare state is there to care for people who need help, but the more effective it is in offering help, the more it seems to undermine and erode people's willingness or ability to look after themselves.

The erosion of self-reliance by welfare happens in two ways. Firstly, extended exposure to welfare can generate a sense of 'learned helplessness' among claimants and their immediate family members. The longer people are in receipt of benefits, the more they become habituated to it, and the greater the likelihood that their children will follow in their footsteps. Secondly, as more people begin living on welfare, the more 'normal' this lifestyle appears, and so it is more likely that others in a similar situation will also become claimants. As more people end up receiving help, the more acceptable it becomes to seek it.<sup>4</sup>

Unwise and unsustainable lifestyle choices—dropping out of school early, having a child without a committed partner to help, spending money on immediate gratification rather than saving, developing a drug habit that renders one almost unemployable—become viable once the welfare state steps in to pick up the pieces. The dire warnings of impending calamity that used to be issued by earlier generations of parents or teachers sound empty when there is plenty of evidence from the local neighbourhood that it is quite possible to get by without having to work, save or even exercise much self-control.

In the process of helping people in need (the first core Australian value), we invariably end up undermining self-reliance (the second core value). This is the inherent dilemma of the welfare state. This explains why the expansion of state welfare over the last 40 years has barely kept pace with the expansion in the number of people needing help. Welfare dependency has been feeding off itself.

Harvard politics professor David Ellwood, who advised the Clinton administration on welfare reform, explored this dilemma in his influential 1988 book, *Poor Support: Poverty in the American Family*. He argued that no social policy will work if it becomes too detached from the core values of the society in which it is operating, but he also recognised that these core values often clash. Welfare policy stirs up 'conflict, frustration and tension' precisely because it evokes within us two contradictory sentiments. By offering support for people worse off than ourselves, it expresses the value of compassion, but by allowing

or even encouraging one group of adults to rely on the support of others over a long period of time, it offends our commitment to the ideals of personal responsibility and individual autonomy. As Ellwood put it: 'Welfare brings some of our most precious values—involving autonomy, responsibility, work, family, community and compassion—into conflict. We want to help those who are not making it, but in so doing we seem to cheapen the efforts of those who are struggling hard to get by.'<sup>5</sup>

Ellwood suggested that if welfare was to reflect the values held by most ordinary Americans, then it needed reforming to give more emphasis to the importance of individual autonomy and self-reliance. It should be reshaped to make it consistent with the expectations that most Americans (rich and poor alike) have about what people should be doing for themselves—their responsibilities—as well as what should reasonably be done for them—their rights.

Ellwood's approach is directly applicable to social policy debates in Australia, because here too, welfare has been dominated by the question of how to give poor people more money to the neglect of the equally important question of how to prevent them from becoming needy in the first place. Chapter 5 showed that when welfare lobby groups and social policy intellectuals demand that something should be done to tackle 'poverty', 'deprivation' or 'social exclusion', this invariably translates into a demand that welfare benefits should be raised, more should be spent on government services, and taxes should be increased. The question of personal responsibility is routinely pushed to one side, and many activists and commentators think it is morally wrong to require claimants to do anything in return for their benefits. Any attempt to distinguish those who 'deserve' help from those who do not is resisted on the grounds that everybody who makes a claim has a legitimate right to expect support.<sup>6</sup>

Of course, Australia is not America, and the values which Ellwood identified as core to the US may not have the same resonance here. But John Howard was right when he claimed in his 2002 speech that, 'Australians do believe in self-reliance.' There is clear and compelling evidence that just like Americans, Australians believe in the importance of individual responsibilities just as much as in the principle of supporting those less fortunate. The question is how do we put these two principles together?

### **The Belief in Individual Responsibility**

When Ellwood compiled his list of core American values as a prelude to thinking through the reform of the American welfare system, it

was no surprise that ‘autonomy of the individual’ was the first value he identified. American culture is commonly associated with a belief in self-reliance, so Ellwood’s choice was uncontentious. Yet John Howard also included ‘self-reliant individuals’ at the top of his list of Australian values which would strike some, particularly social policy commentators, as much more contentious. Comparative evidence, however, suggests that Howard was right. Although Australian intellectuals discuss it much less, the values of individual autonomy and self-reliance are no less central to Australian culture than to America.

The best evidence for this can be found in a remarkable social-psychology survey of popular attitudes conducted across 50 different countries including the United States and Australia.<sup>7</sup> Geert Hofstede assessed subjects in these different countries on five different dimensions, one of which was their commitment to individualism (which was measured by determining the extent to which they based their identity on their own personal achievements as against the character of the groups to which they belonged). The mean individualism score across all the countries was 50, with a standard deviation of 25. In Europe, the mean was 68 with a standard deviation of 16 (indicating a higher-than-average level of individualism and some degree of consensus) but in the Anglosphere countries, the average scores were even higher. The United States had the highest mean score of all the countries with 91, but Australia was close behind in second place with a score of 90, and Britain ranked third with 89.

These scores indicate that Australia, Britain and the United States are the most individualistic nations in the world. On this dimension at least, they not only share much in common, but they also form a distinctive grouping among developed, capitalist, democratic countries. They have more in common with each other than they do with, say, the continental European nations.

This conclusion is consistent with evidence reviewed in earlier chapters. In Chapter 5, for example, Esping-Andersen grouped the English-speaking countries together as sharing a distinctively ‘liberal’ form of ‘welfare regime’ (which he contrasted with the ‘corporatist’ and ‘social democratic’ regimes found in continental Europe). And in Chapter 6, this same cluster of English-speaking countries was identified by Albert as sharing a distinctive ‘neo-American’ rather than ‘Rhine’ style of capitalism.

Other indicators, too, point to strong cultural similarities between Australia, the United States and the United Kingdom, and to the contrasts between this group of countries and the continental

Europeans. Until recently, for example, all the continental European social democracies required young people to undertake compulsory national service, but none of the Anglosphere countries have peacetime conscription. Similarly, every continental European nation has a compulsory National ID card which all citizens must carry, but none of the Anglo countries do (attempts by governments in both Australia and the UK to move in this direction have been met with stiff resistance).

Differences like these point to the very different way in which these two sets of countries view the relationship between the individual citizen and the state. This is reflected most clearly in their contrasting legal traditions. In continental Europe, individual rights are prescribed and the law says what individuals are allowed to do. By contrast, in the Anglo common law tradition, individuals are free to do what they want, provided it is not proscribed in law.

All of this is strongly indicative of the fact that Australia shares a deep-rooted cultural commitment to individualism with the United States, deriving from their common English settler origin. When Ellwood identified respect for the 'autonomy of the individual' as a core American value, he could just as easily have been referring to Australia.

### **Individual Responsibility and Australian Social Policy**

This deep commitment to individualism is reflected in public attitudes about welfare. Whenever the Australian public has been surveyed to gauge its opinions and attitudes to welfare policy, the results have shown strong support for any move designed to reduce dependency on the state and to reinforce self-reliance.

When Work for the Dole was first introduced for young people in 1997, for example, a Morgan Poll found 72% approval for making it compulsory.<sup>8</sup> A 1996 survey of so-called 'middle Australians' found that 58% of them thought unemployed people should be expected to take *any* available job rather than staying on benefits.<sup>9</sup> A 1999 representative survey found that at least three-quarters of the population supported compulsory activities like retraining, community work and Work for the Dole for young and long-term unemployed claimants. Between one-third and two-thirds favoured extending these requirements to unemployed people over 50, parents with pre-school-age children and people with disabilities.<sup>10</sup> In 2003, the Australian Survey of Social Attitudes found that 75% of the population think people receiving welfare benefits should be more obligated to find work, and only 14% think it is now too hard to qualify for welfare benefits.<sup>11</sup>

Later chapters will show that most Australians also favour strong financial penalties against welfare claimants who do not undertake the activities required of them, that they want the eligibility rules for welfare tightened and that they want taxes reduced. Many of the policies favoured by the social policy intellectuals—higher benefits, unconditional welfare, voluntary participation in work-based activities—run counter to the deeply-embedded instincts of the Australian public.

### **The Belief in a ‘Fair Go’**

If the Australian public is committed to the principle of self-reliance and personal responsibility, it is also clearly committed to giving people a ‘fair go’. But what exactly does this mean, and does it necessarily contradict the belief in individual self-reliance?

The social policy establishment thinks that it does. In their view, reforms that seek to reduce the number of people reliant on welfare payments, or to enhance the rewards to those who work by reducing their taxes, are ‘unfair’ (and therefore ‘un-Australian’) because they widen the so-called ‘income gap’ between ‘rich’ and ‘poor’.<sup>12</sup> The assumption is repeatedly made that a ‘fair go’ translates into egalitarian policies designed to flatten out income differences:

I sense a deep frustration among ordinary Australians that they are losing the Australian ethos . . . We are at real risk of being ‘two Australias’ . . . An Australia that has the very rich and then the rest of us. The Howard government simply doesn’t believe in a fair go. (Wayne Swan, ALP Community Services Spokesperson)<sup>13</sup>

If it means anything, welfare is about a fair go for everyone . . . Howard, Abbott and co will [find it hard] to show that the Australia we are defending is still the nation of a fair go for all. (Ross Fitzgerald, Professor of history and politics, Griffith University)<sup>14</sup>

Historically, Australia has never before experienced such affluence . . . Why can’t we share this wealth around . . . it’s time to remember our proud tradition of egalitarianism and a fair go. (Cec Shevels, Chairman, Hunter Council of Social Services)<sup>15</sup>

The most commonly claimed characteristic of Australian society is its emphasis on the ‘fair go’ egalitarian spirit. The sentiment remains strong and the perceptions enduring, but the statistics tell a story of deep poverty amid growing affluence. (Peter Saunders, Director of the Social Policy Research Centre)<sup>16</sup>

Is not egalitarianism part of the great Australian tradition of the 'fair go'? . . . there is ample evidence that inequality is growing, and most people are uneasy about this . . . they feel it is morally wrong (perhaps they learned something at Sunday school about camels and eyes of needles). (Pamela Bone, associate editor of *The Age*)<sup>17</sup>

These social activists and commentators equate popular support for 'fairness' with their own enthusiasm for radical income redistribution. They assume that fairness is a distributional issue (the more equal the shares, the fairer the society). As the Director of the Social Policy Research Centre puts it, a 'widening gap in economic fortunes . . . disturbs prevailing notions of fairness—particularly in the context of a "fair go" society'.<sup>18</sup> The social policy orthodoxy sees fairness as equal outcomes.

But this is not necessarily what most ordinary Australians mean by a 'fair go'. Fairness is not so much about distribution as about opportunities, and it is understood that inequality of outcomes need not be unfair provided everybody is able to compete on an equal basis for the rewards that are on offer. Fairness requires that the contest for social and economic rewards should be open, which means those who make the most effort or who demonstrate the most talent will be rewarded. Unequal outcomes can be perfectly 'fair' provided they are merited.

This alternative conception of fairness is grounded, not in egalitarianism, but in the principles of 'meritocracy'.<sup>19</sup> While egalitarians think everybody should receive more-or-less the same rewards no matter what they do to deserve them,<sup>20</sup> meritocrats want hard working and talented people to be rewarded and are not unduly concerned if lazier people end up with less. Meritocrats look to strengthen the link between behaviour and outcomes while egalitarians seek to sever this link.

This meritocratic principle of fairness has been completely overlooked or ignored by social policy intellectuals who equate the popular belief in fairness with their political agenda for radical income redistribution. Meritocracy is anathema to them, for they want to 'level down' those who succeed (by increasing their taxes) while 'levelling up' those who fail (by giving them ever higher welfare support with no conditions attached).<sup>21</sup> They want to ensure that, win or lose, everybody leaves with more or less the same prizes.

### **Fairness is Not Equality**

The Australian commitment to the ideal of a 'fair go' originated in the mid-19th century in the belief that everybody should have

opportunities to gain wealth and to make what they can of their lives irrespective of how they started out.<sup>22</sup> This was an essentially meritocratic ideal, not an egalitarian one. In the course of the 20th century, however, progressive intellectuals and socialist labour leaders argued that it was not enough to clear away the obstacles to fair competition. They wanted the government to ensure the conditions existed in which all citizens could ‘develop their full capacity’,<sup>23</sup> and this meant state intervention was needed on a considerable scale.

Early examples of this more egalitarian and politicised conception of ‘fairness’ included the development of the compulsory conciliation and arbitration system (to ensure that workers received ‘fair’ wages and conditions), and the introduction of government pensions (to ensure that everyone was protected in old age even if they failed to save). Policies like these drew the state into fixing distributional outcomes between competing individuals. They marked a clear shift from the 19th century commitment to allowing hard working and talented people to prosper from their own efforts, to a more egalitarian concern with adjusting and balancing people’s incomes through political and legal interventions designed to ensure that nobody received a lot more than anybody else.

This creeping egalitarianism was an integral component of the growth of 20th century Australian nationalism. The egalitarian redefinition of a ‘fair go’ formed part of a wider political strategy aimed at strengthening internal cohesion by emphasising barriers against ‘outsiders’.<sup>24</sup> The White Australia policy, for example, sought to protect Australian workers from ‘unfair’ wage competition from immigrants, and high import tariffs were erected to protect Australian producers against ‘unfair’ price competition from overseas producers. As Peter Saunders recognises: ‘The ‘fair go’ ideal . . . was built around the central egalitarian idea of sameness, as reflected in a social and cultural homogeneity that found expression in exclusionary trends such as the White Australia policy and the disenfranchisement of Indigenous Australians.’<sup>25</sup>

Australian policy has become much less exclusionary and more pluralistic in the last 40 years, but the legacy of egalitarianism remains. Commentators still refer to egalitarianism as a distinctively Australian value, and they back this up with survey evidence showing that large numbers of Australians favour greater equalisation of income and wealth distribution.<sup>26</sup>

Most of these opinion and attitude surveys are commissioned and conducted by intellectuals committed to the egalitarian conception of fairness, and their questions reflect this. People are asked if they

support greater equality of income or wealth, and researchers generally report that most do. But these surveys rarely if ever attempt to gauge public support for the alternative, meritocratic ideal of fairness which emphasises that people who work hard should be rewarded, and that those who choose idleness should not expect to benefit from the effort of their neighbours.

When the public expresses its opinion on this meritocratic conception of fairness, there is widespread support for it. Indeed, asked to choose between this and the egalitarian ideal, public support for egalitarianism collapses dramatically. Thus, in the second of two ACNielsen surveys of public opinion conducted on behalf of The Centre for Independent Studies in 2003,<sup>27</sup> there was very strong (85%) support for the meritocratic definition of fairness—only 7% of respondents thought meritocracy was unfair—but only one-third of respondents supported the egalitarian definition equating fairness with reduced income inequality. Indeed, more people thought egalitarianism was unfair than thought it was fair.

**Table 7.1: Support for meritocratic and egalitarian definitions of a 'fair society'**

	Meritocratic (%)	Egalitarian (%)
Strongly agree	36	11
Tend to agree	49	23
Neither	8	11
Tend to disagree	6	37
Strongly disagree	1	18

Meritocratic: 'In a fair society, people's incomes should depend on how hard they work and how talented they are'

Egalitarian: 'In a fair society, nobody should get an income a lot bigger or a lot smaller than anybody else gets'.

N=467

Source: Second CIS/ACNielsen opinion survey, August 2003.

The assumption that a 'fair go' translates into popular support for greater income equality, is badly shaken by these results. Egalitarian intellectuals, in appealing to the Australian belief in a 'fair go' to justify income redistribution are misrepresenting what most people mean by 'fairness'. It is true that most Australians think it is important that social policy should be 'fair', and it is also true that surveys show significant popular support for the abstract ideal of greater equality, but when people choose their definition of a 'fair' society, it becomes

clear that the meritocratic principle of distribution is much stronger than the egalitarian one. The key question for most of us is not how much money people have, but what they did to deserve it.

### What Lessons For Welfare Reform?

Most Australians are willing to support those who cannot be expected to support themselves but they expect those who can look after themselves to do so. A welfare system that seeks popular legitimacy will therefore need to support those who cannot reasonably be expected to achieve self-reliance while requiring others to work.<sup>28</sup> The problem in the present system is that this second principle is under-recognised.

In his 1988 book on American social policy, David Ellwood argued that the welfare system at the time (AFDC) was out of step with core American values, and that there was confusion over what it was trying to achieve. Nobody seemed to know whether the system should be generous, punitive or both. It offered help to those in need by giving them money, but it undermined self-reliance and offended popular morality by appearing to reward idleness. This problem was exacerbated by the fact that people were often penalised when they moved from welfare into low-paid jobs and lost benefits like free health care while incurring taxes. The system seemed to be sending out all the wrong signals.

Ellwood thought there were three key problems that needed rectifying. Firstly, because it concentrated on giving people money rather than helping them achieve self-reliance, the welfare system was tackling symptoms without addressing root causes. Secondly, by means-testing claimants, the system rewarded those who were least self-reliant and penalised those who went out and found work (because as soon as people started earning they lost eligibility for benefits like free health cover, and this often left them worse off than before). Thirdly, by offering aid without time limits, welfare encouraged long-term dependency. All three features of the system needed radical surgery. ‘Welfare’, Ellwood said, in words later echoed by President Clinton, ‘needs to be replaced, not reformed’.<sup>29</sup>

Ellwood’s insights are directly relevant to Australia today. Here, working-age welfare dependency is concentrated in three main groups in the population (see Figure 1.1, p. 9): the **unemployed** (where the number of claimants has grown from under 1% to 6% in 30 years); those claiming **disability support pension** (up from 2% to 5% of working-age adults since 1980), and people living wholly or mainly on the **single parent payment** (around 6% of all women of working age).<sup>30</sup> As its name implies, this ‘income support’ system

focuses mainly on dispensing money rather than moving people into work. Despite the introduction of mutual obligation requirements for certain categories of unemployed claimants, four-fifths of working-age people in receipt of benefits still get unconditional cash payments.<sup>31</sup> All three benefits are also heavily means-tested, which creates serious work disincentives and some working families can end up losing three-quarters or more of the extra money they earn as they move off welfare and increase their earnings. Moreover, these benefits are effectively open-ended; single parents can remain on welfare until their youngest child leaves school, most people on the disability pension stay on benefits until they reach retirement age, and there is no time limit on unemployment assistance.

The only principle currently recognised by this welfare system is need. You receive cash if you can establish eligibility by proving you are needy, and for as long as you can demonstrate this, you keep receiving the money.

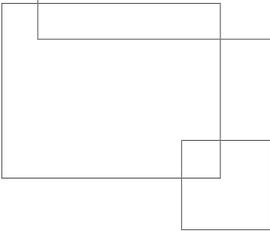
Ellwood proposed moving away from the idea that welfare should offer a guaranteed income to anybody who needs it. Instead, he proposed we should 'ensure that everyone who behaves responsibly will avoid poverty and welfare'.<sup>32</sup> In other words, he wanted a shift of emphasis from supporting those on welfare to rewarding those who try to achieve self-reliance through work.

Realistically, there will always be some people who cannot be expected to look after themselves. Chapter 2 estimated their numbers between 3 and 5% of the working-age population. However, many of those on welfare could be working and supporting themselves and reforms that aim to make these claimants self-reliant need not undermine our commitment to help those who still need our support. Despite the protestations of the social policy establishment, it is possible to devise a system which looks after the relatively small number of people who need help while directing others into work and self-sufficiency. Such a system would not only better reflect what most Australians want social policy to do, but it would also help claimants themselves, supporting them in overcoming their problems rather than treating them with the benign neglect that characterises the current Income Support system.



# **Reforming Unemployment Benefits**

Chapter 8





‘The combination of help and hassle promotes employment as neither voluntary benefits nor a denial of aid can do’

Lawrence Mead (Professor of Politics, New York University)<sup>1</sup>

**M**ost people who lose a job find another fairly quickly—half of those registering as unemployed in 1999-2000 found a job within eight weeks.<sup>2</sup> Short periods of unemployment can be disruptive to people’s lives, but in a dynamic economy where new jobs are being created and old ones are disappearing, there will always be some people in the process of retraining, relocating, or simply searching for a job.<sup>3</sup> We should not therefore be overly alarmed when we encounter people who have been out of work for short periods.

Unemployment becomes a more serious problem when it stretches to six months, a year or even longer. The longer the period of unemployment, the weaker the motivation becomes to find a job. People start to rationalise their continued failure to find or keep paid work, concluding that they are ‘too old’, or they ‘cannot find suitable child care’, or employers are ‘discriminating’ against them, or the jobs ‘do not pay enough’, or they are ‘under-qualified’ (or ‘over-qualified’), or the available jobs are ‘dead-end’ and demeaning, or they lack the ‘experience’ required by employers, or they are the ‘victim’ of a drug habit or some other ‘barrier’ that stops them from working. This expectation of failure then becomes self-fulfilling. As Lawrence Mead explains: ‘Disadvantaged people without jobs find no end to reasons why working is impossible for them . . . They avoid personal responsibility and blame circumstances beyond their control . . . a mentality is at work that refuses to believe that opportunity exists, even when it does.’<sup>4</sup>

Not only do unemployed people start to give up; so too do the agencies that are supposed to help them find work. In Australia there is evidence that some Job Network providers have been ‘parking’ their long-term clients on perpetual benefits and focusing their energies and resources on newer claimants.<sup>5</sup>

The danger is that a stratum of long-term unemployed people becomes almost permanently detached from the world of work and settles into a routine of life on welfare. One of the most important challenges facing the welfare system is to prevent this from happening. The statistics suggest we are failing this challenge.

### How Big Is the Problem?

Long-term unemployment is usually defined as a period of unemployment lasting for more than one year. There are two different ways of measuring it. The first method is by survey, asking people about their recent employment history. This finds between a quarter and one-fifth of unemployed people who claim that it has been at least a year since they last had a job or started to look for one.<sup>6</sup> An alternative approach is to analyse the income support records. This generates a much bleaker picture with more than half of those claiming unemployment allowances on benefits for more than one year (from either Newstart, which is paid to unemployed claimants aged 21 or over, or 'Youth Allowance Other', paid to those under 21).<sup>7</sup> While the Labour Force survey data report the average time people spend unemployed is less than one year, the income support records suggest it is more than two.

This divergence in the estimates is partly due to differing criteria of measurement. The Labour Force Survey dates somebody's current spell of unemployment from when they last held a job for two weeks or more (or from when they started to look for work), but the official records date it from when they first started receiving benefits and disregard any temporary period of work lasting for fewer than 13 weeks. Furthermore, some benefit recipients have jobs, which means they turn up in the administrative records but not in unemployment surveys; conversely, some unemployed people do not receive benefits (for example, if their partner is employed), in which case they do not figure in the official records but they do turn up in the surveys. The two populations overlap, but they are not the same.<sup>8</sup>

Taking these two different sources together, it seems that up to one-quarter of unemployed Australians have been without *any* paid work for at least a year, and that as many as one half have been claiming unemployment allowances for at least a year, possibly interspersed with short periods of paid work during this period.<sup>9</sup>

### Do the Long-term Unemployed Really Want to Work?

No matter which set of figures is used, these are disturbingly high estimates.<sup>10</sup> Why are so many people spending such a long time on unemployment benefits?

The social policy establishment believes it is because there are no jobs available for them. They insist that the great majority of long-term unemployed claimants *want* to get off welfare, but that it is impossible for them to do because of the shortage of jobs. The evidence given for this claim is that the number of notified job vacancies at any one time

is much smaller than the number of people registered as unemployed with about seven unemployed people for every job.<sup>11</sup>

While accepting that some long-term unemployed people are committed to finding work but cannot do so, the claim that most or all are jobless because there are no jobs for them is unconvincing. For a start, there are more jobs available than the number of notified vacancies would suggest. The vacancy statistics take no account of jobs advertised internally or those where no active recruitment occurs, and one-third of job seekers get jobs through networks and contacts which never appear in the statistics as vacancies.<sup>12</sup>

Secondly, new vacancies are being created all the time as a result of rapid turnover of people and jobs. Jobs stay vacant on average for between five and 15 days, so although an unemployed job seeker may at any one time be competing with seven or eight other people for each job, a completely new set of vacancies will arise every fortnight. Even if we assume that 16 people are chasing every vacancy (to allow for new labour force entrants, such as school leavers and women returning to the workforce, as well as the unemployed), people could still expect to get a job on average within six months.<sup>13</sup>

Thirdly, unemployment has remained high even at times when more vacancies have become available. The Productivity Commission finds that unemployment rates in Australia have varied by as much as 100% over periods with similar vacancy rates, which strongly indicates that some unemployed people fail to respond to labour market opportunities when they do open up.<sup>14</sup>

Finally, the argument that there are no jobs seems destined to collapse over time with growing evidence of labour shortages. The ABS has predicted a dramatic fall in the number of new working-aged people entering the labour market each year from 170,000 today to just 12,500 in 20 years time, and the head of Westpac, David Morgan, says mothers, older workers and disabled people will all be in increasing demand from employers. The claims of welfare lobbyists that the economy cannot generate jobs for these people are beginning to look silly.<sup>15</sup>

The social policy establishment backs up its argument that long-term unemployment has nothing to do with failure of the unemployed to seek work by suggesting that with welfare benefits much lower than wages, nobody would freely choose to live on welfare if decent jobs were available.<sup>16</sup> Again, however, the argument is unconvincing. Not only does it overlook the problem of high 'effective marginal tax rates', which can mean that some households receive little more in net wage income than they would get if they were reliant on welfare,<sup>17</sup> but it also

assumes without evidence that people on welfare value their free time less than those on a higher income. Fred Argy, for example, thinks it is ‘inconceivable that any appreciable proportion of workers would willingly choose to remain unemployed as a way of life’, yet what is inconceivable to a middle class intellectual in a stimulating line of work may not be inconceivable to those with few skills and rather less attractive job options.<sup>18</sup>

The welfare lobby’s claims that virtually all unemployed people want to work and few—if any—opt willingly for a life on welfare, have rarely been tested empirically. They assertions are defended with emotion and rhetoric, but little evidence is provided to back them up.<sup>19</sup> There is, however, rather a lot of direct and indirect evidence pointing the other way.

A 2002 research report based on interviews with 3,500 jobseekers<sup>20</sup> found that only 16% of them were optimistic about finding a job and willing to take anything suitable (so-called ‘drivers’). A further 8% were ‘strugglers’ (people who were motivated but who lacked confidence) and nearly one-fifth were what the former Employment Minister Tony Abbott once referred to as ‘job snobs’ (people who want to find work but who are picky about what they will accept). More than one-quarter of jobseekers said they were willing to work but were doing nothing about it (13% were ‘drifting’ and 15% had effectively given up looking). The rest either had no desire to get off welfare (16%), or claimed to be incapable of working (13%). According to this study, therefore, no more than 43% of jobseekers can be considered ‘motivated’ (and this includes the ‘job snobs’ who will only take certain kinds of work). At least half are not seriously looking for work.

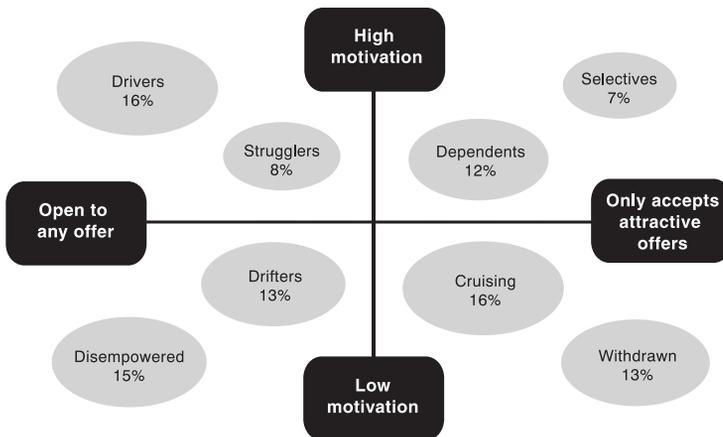
This is not the only research pointing to weak work motivation as a factor in long-term welfare dependency. Although surveys report that most unemployed Australians believe there are jobs available for them (only three in ten deny it), many nevertheless say they are unwilling to consider jobs paying less than they earned in their previous position, and two-thirds are unwilling to move to another location in their own State or Territory to take a suitable job.<sup>21</sup>

We can also look at how people on unemployment benefits react when they are asked to work or to prepare themselves for work. The OECD reports that merely requiring unemployed claimants to attend an initial interview results in a reduction in the welfare rolls of between 5 and 10%.<sup>22</sup> When more is asked of claimants, the number who disappear increases even faster—one-third of those referred to Work for the Dole, for example, fail to commence it.<sup>23</sup> The Productivity

Commission reports that imposition of requirements like job search training has a bigger effect in prompting people to leave welfare than it does in equipping them to make successful job applications:

Many job seekers who are referred to JST [Job Search Training] or IA [Intensive Assistance] do not actually commence with these programs. For example, 132,400 persons were referred to JST in 1999 but only 50,300 (or 38 per cent) commenced with that program. Similarly only 68 per cent of those referred to IA commenced . . . [C]ompulsory participation in programs can generate a *compliance* (or *motivation* or *deterrence*) effect whereby—to avoid having to participate in the program—some job seekers increase their job search activity and find employment, or those inappropriately claiming income support stop doing so because of their lack of availability for participation.<sup>24</sup>

**Figure 8.1 Orientation to Job Search of People on Unemployment Allowances, 2002**



Source: Colmar Brunton Social Research, *Job Seeker Attitudinal Segmentation: An Australian Model* (report for the Dept of Employment & Workplace Relations, 2002); and Labour Market Policy Group, *Job Seeker Attitudinal Segmentation* (Dept of Employment & Workplace Relations, May 2002).

Considering the sizeable numbers of people who disappear when they are told to turn up for activities like Job Search Training or Work for the Dole, it is reasonable to assume that some never had any intention of looking for work. Others who may already be working and claiming

benefits fraudulently disappear from the rolls because they cannot carve out the time to undertake the activities required of them while also holding down a job elsewhere.

It is difficult to estimate the extent of fraud in the welfare system, for many cases probably go unnoticed or unprosecuted.<sup>25</sup> The welfare lobby insists that fraud is not a serious problem,<sup>26</sup> but in 2001-02 there were nearly 3,000 convictions for welfare fraud (involving \$28 million of payments), and 9% of Centrelink entitlement reviews (nearly quarter of a million cases) resulted in payments being cancelled or reduced.<sup>27</sup> A 2004 campaign to target fraudulent claims was expected to yield over \$200 million in savings by encouraging 100,000 claimants to notify changes in their eligibility.<sup>28</sup>

Most tellingly, perhaps, the declaration of earnings from employment runs at 30 to 40% higher among unemployed claimants who are required to undertake a mutual obligation activity (which makes it more difficult for them to participate in work elsewhere without declaring it) than among other claimants. This suggests that a lot of people are earning money 'on the side' and are not telling Centrelink about it.<sup>29</sup>

All of this casts considerable doubt on the welfare lobby's repeated claims that virtually all unemployed people are genuinely committed to finding work and that what stops them is lack of opportunity. Some of those who have been out of work for a long time genuinely cannot find a job, but there is clear evidence that some people are unemployed by choice, and that others already have jobs and are defrauding the system. These claimants may tell researchers they want a job, but they actually do little to find one.<sup>30</sup>

This is precisely the rationale for introducing time limits.

### **The Case For Time Limits**

Most western countries have insurance-based social security systems to provide people with an income when they are unemployed or sick. Workers pay contributions into an insurance fund when they are working and draw from it when they are out of work.

In Germany, for example, unemployed workers who have paid full contributions receive 60% of their previous net earnings for between 180 and 960 days, after which they revert to unemployment assistance at a lower rate. Similarly in France, unemployed people who are insured receive between 57 and 75% of their previous wage for a period of between four and 30 months, after which they go onto the less generous, means-tested 'solidarity program'. And in the Netherlands, those with full contributions receive 70% of their

previous salary for between six and 60 months before going on to a follow-up benefit worth only 70% of the minimum wage.<sup>31</sup> Only Belgium offers unlimited insurance-based benefits while all other western European countries time-limit benefits and switch claimants to a tax-funded dole when their time expires.

The United States also operates an insurance-based, time-limited unemployment assistance system, but it is much less generous than most European systems. Unemployed Americans who are insured can claim no more than 26 successive weeks of benefits (or 39 weeks during periods of high unemployment). Not only is this time limit much tighter than in Europe, but also there is no universal dole for when time limits expire—people then have to rely on state and local 'general relief' programmes (which vary in different states) along with federal food stamps.<sup>32</sup>

Across much of the OECD, therefore, there is a cut-off point built into unemployment payments system. When somebody becomes unemployed, the clock starts ticking, and when the time limit expires, they switch from an entitlement to a means-tested benefit and payments fall accordingly. There is then an incentive to find a job before eligibility for higher payment expires.<sup>33</sup>

In contrast, Australia and New Zealand finance unemployment benefits out of general taxation, and there are no time limits because there is only one form of unemployment assistance.<sup>34</sup> When people register as unemployed, they go straight onto Newstart or Youth Allowance, and that is where they remain, indefinitely, until they find a job or exit to a Disability or Age pension. True, younger claimants may be required to undertake part-time and limited-duration activities after six months have elapsed and there is evidence that the prospect of having to start Work for the Dole encourages many of those who have been on benefits to find a job instead.<sup>35</sup> However, Work for the Dole is limited to younger claimants, and it can be avoided by undertaking some alternative 'mutual obligation' activity (in 1999, only 4% of jobseekers aged under 35 participated).<sup>36</sup> For many claimants, passing time has little significance as regards the level of payments received or the conditions attached to them. Indeed, the longer you spend on unemployment benefits, the less pressure you are likely to experience to do something about it.<sup>37</sup>

An open-ended payments system like ours sets claimants no targets and introduces no sense of urgency as weeks turn into months or years. The OECD has urged member countries to introduce time limits of six to eight months on the unconditional receipt of unemployment benefits,<sup>38</sup> for, as the Americans recognised in 1996, time limits make

clear to claimants and service providers that assistance should be seen as temporary and returning to work sooner rather than later is the expectation.

### **How Might Time Limits Work?**

If time limits were introduced into our system, what happens to those who reach their limit without having secured a job?

One of the original architects of time limits in the States, David Ellwood, has always argued that some ‘last resort’ work provision has to be made for time limits to be credible, because nobody really believes that the government will simply cut off the cash and let people starve. By and large he has been proved right, and as shown in Chapter 4 there is much fudging going on in the reformed US system as states suspend people before they reach their limit, extend them beyond the limit, or transfer them onto other programmes when they reach the limit. In his 1988 book, Ellwood proposed that those who exhaust their eligibility should be offered government-sponsored jobs,<sup>39</sup> and reflecting on the 1996 reforms, he is essentially making the same point today: ‘It is hard to see how a time-limited work-oriented reform strategy can work without some form of long-term aid or last-resort subsidised jobs in cases where people cannot find work.’<sup>40</sup>

Following Ellwood’s logic, if unemployment assistance in Australia were time-limited, some kind of work-based benefits system would have to be made available for those whose time limits expire. This could be achieved by limiting access to unemployment payments to a total period of, say, six months in any five year period, and requiring claimants who run out of eligibility to work for their benefits. This would ensure that nobody who is capable of working would remain jobless for more than six months.<sup>41</sup>

The system of payments and support services covering the first six months of a claim period could continue to operate much as it does now, with claimants receiving their payments from Centrelink and getting help with searching for work from a Job Network provider of their choice. Under the existing system, jobseekers are required to make a minimum number of job applications every week and to record these in a diary. Those who are still without work after three months may be referred to ‘job search training’ where they receive help with writing application letters, compiling resumes, and so on. Those who are thought to need retraining or other forms of ‘intensive assistance’ to prepare them for re-entry to the labour force can be directed into appropriate schemes. There is no reason for any of this to change, although wherever possible, new claimants should be directed into

work rather than, say, into training, as there is mounting evidence that non-work-based mutual obligation activities achieve disappointingly little in terms of getting claimants into jobs.<sup>42</sup> As American observers have noted, 'The best job-training program is a job.'<sup>43</sup>

It is important that the temporary nature of the payment should be emphasised to claimants during this six month period (perhaps the payment could be renamed 'Temporary Assistance for Jobseekers', TAJ, in the same way as welfare in the US was renamed 'Temporary Assistance for Needy Families'). Most claimants would find work and exit payments fairly quickly, just as they do now, but as time passes, those remaining on benefits should be directed to apply for a wider range of jobs, including work at lower rates of pay than their previous employment, jobs in other sectors of the economy, jobs involving 'unsocial hours', and positions involving relocation or commuting where this is a reasonable expectation.<sup>44</sup> At six months, benefits should cease.

Currently, claimants under 50 years of age who have been unemployed for six months are required to undertake one of a number of part-time 'mutual obligation' activities while continuing to search for work. Work for the Dole is one activity they can choose, but there are many others including part-time community work, part-time casual work, education, training, and environmental work. These normally last for six months and take up perhaps two days a week.<sup>45</sup> If people are still unemployed when they complete their mutual obligation activity, they are simply recycled back into the system and then start another activity six months further down the line (a system of churning that possibly does more harm than good).<sup>46</sup>

Many people who have been unemployed for an extended period find the requirements imposed by the current system—the jobseeker diary, the weekly applications targets, the training and intensive assistance, the periodic cycling through part-time mutual obligation activities—pointless and ritualistic. Claimants are made to jump through hoops, but neither they nor their Job Network providers really believe this will do much good in finding them a job. Recent research by the Brotherhood of St Laurence and the St Vincent de Paul Society reports that 'a substantial minority' of claimants find mutual obligation 'complex, confusing and highly stressful', that most complain that keeping a Jobseeker Diary is 'depressing', that the compulsory Preparing for Work Agreement is widely regarded as a 'formality', and that job search requirements are 'experienced only as an annoyance, not an aid'.<sup>47</sup> Many claimants are clearly dispirited by the whole experience, and the continued round of obligations is seen as a waste of everybody's time and energy.

The authors of this report think the answer is to scale back compulsion and to ‘rethink . . . the number and range of requirements’ imposed on the long-term unemployed.<sup>48</sup> But this would be moving in exactly the wrong direction, accommodating job search failure rather than overcoming it. Rather than loosening the requirements, it makes more sense to step up the level of expectations earlier to stop people spending endless years on welfare in the first place. After six months on benefits, claimants need to get back into a full-time job.

One way of ensuring that nobody who is capable of working remains on unemployment assistance beyond six months would be for all claimants who fail to find employment within this period to transfer to a full-time work programme similar to the current Work for the Dole (WFD) scheme.<sup>49</sup> They could then remain on this programme until they find an alternative means of livelihood.

The exact organisation of this revised Work for the Dole safety net need not be determined here. It might be sensible to set up several different sets of arrangements and to learn from ‘best practice’. One format could be based on the existing WFD model (where non-profit groups bid for funding to employ people to work on projects deemed useful for the community, such as environmental improvement, or provision of services for elderly or disabled people). Another might learn from the Danish ‘Farum model’, where municipalities function as labour exchanges offering community service jobs in exchange for welfare.<sup>50</sup>

Transferring to full-time WFD (or something similar) after six months on benefits would help younger people gain work experience and allow older workers to re-establish the routines and discipline of a working life. It would help some claimants gain the ‘work experience’ they need to find another job—currently about one-third of those coming off WFD find employment or go into education<sup>51</sup>—and it would reduce the number of people who stay on unemployment benefits for long periods by encouraging claimants to search more energetically for work in the initial six month period on benefits.

David Ellwood recommends that back-up jobs for those who exceed their time limits should be paid at the minimum wage,<sup>52</sup> but this would be ill-advised in the Australian context where the federal award minimum is much higher than the US minimum wage. If claimants were offered open-ended minimum wage jobs, some would stop looking elsewhere for work, and many of these state-funded job placements would become semi-permanent. This would not only drive up the costs of the scheme, but it would also destroy many low-paid private sector jobs. Employers looking to recruit unskilled labour

would have to pay substantially above the minimum wage in order to compete with the guaranteed government minimum wage jobs. It is essential that any WFD back up remains as a *temporary* safety net and that people do not come to see participation as an alternative to finding employment in the real economy. To maintain the incentive to find employment, the work performed should not be rewarded much above welfare benefit rates.

### **What Would Be the Effect of Time Limits?**

Time limits would aim to reduce long-term unemployment by strengthening what the Productivity Commission calls the 'compliance effect'. In other words, the prospect of reverting to WFD at the end of six months would increase the sense of urgency among those looking for work and would drive out those whose commitment to finding a job is not serious.

Time limits would probably have their biggest effect on those unemployed claimants who in Figure 8.1 were identified as 'drifters' (who would find their minds focused by a looming deadline), 'cruisers' (for full-time WFD would not suit their preferred lifestyle choice) and 'selectives' and 'dependents' (who would become more willing to take a less-than-perfect position rather than work full-time for welfare wages). These groups alone account for nearly half of all those currently on the unemployment rolls. Those who have become 'withdrawn' or 'disempowered' might respond less positively, but time limits would at least ensure that fewer people lingered on benefits long enough to become withdrawn or disempowered in the future.

It was seen earlier that about one-third of the claimants who are currently referred to WFD do not turn up. If a work programme similar to WFD were put in place for all claimants who had been unemployed for six months, and if full-time and continuing participation was required in return for a dole-level wage, the long-term unemployment rate as recorded by the Department of Family and Community Services could fall by more than 100,000.<sup>53</sup> Such a scheme would incur some increase in total administration costs—the total additional cost of extending WFD to all those on benefits beyond six months could be around half a billion dollars.<sup>54</sup> However, the savings from people leaving welfare should outweigh these additional costs, and the total net saving could be in excess of \$1 billion per year.<sup>55</sup>

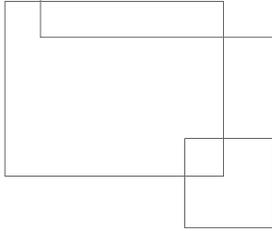
The financial savings are not, however, the only (or even the main) reason for the reform. If the American experience is anything to go by, such a change would improve the incomes and the quality of life of most of those leaving welfare by increasing their self-reliance and their

sense of self-worth. Reducing long-term unemployment is worthwhile in itself; any savings are a bonus.

Reform to the existing system along the lines outlined here would be popular with the Australian electorate. In the second survey conducted by ACNielsen on behalf of CIS in 2003, respondents were asked their views on the following proposal: 'It has been suggested that unemployment benefits should be limited to a period of six months, after which people would be expected to participate full-time in a "Work for the Dole" scheme until they find a job.' Some 70% agreed with the proposal (36.5% said it was a 'very good idea' and 33.5% thought it was a 'good idea'). Only 22% disagreed with it. Support was spread fairly evenly across all income groups and ages. This is, therefore, not only a change that would reduce long-term unemployment and save money; it should also win votes.

# **Reforming Parenting Payments**

Chapter 9





‘The provision of non-activity-tested payments enables some people to receive income support for long periods . . . the social security system might, under the guise of allowing women choice, be helping to entrench some in poverty and disadvantage.’

Jocelyn Pech and Helen Innes of the Department of Family & Community Services, Canberra<sup>1</sup>

One in ten of Australia’s lone parents claim no government benefits at all. Another one in five rely on benefits for less than 20% of their total income. At the other extreme, however, one-third of lone parents have no income other than their welfare payment, and another 20% rely on welfare as their principal source of income.<sup>2</sup>

Lone parents are entitled to claim a welfare benefit called Parenting Payment Single (PPS), which is paid in part or in full according to their other earnings. There is also a Parenting Payment Partnered (PPP), which is paid to one parent in a low-income couple (in most cases the other parent is also living on a welfare benefit). Both PPS and PPP are means-tested, and parents qualify if they are caring for at least one child under the age of sixteen.

Although its value increases with the number of children a claimant has, Parenting Payment is not primarily intended to cover the costs of raising children. It is a payment for caring for children, not a benefit to help pay for their upkeep. Single parents get Family Tax Benefit (Part B) on top of Parenting Payment to help with the costs of raising their children, and both single and coupled parents can also claim Family Tax Benefit (Part A), which is paid to all low and middle income families on a sliding scale. The Parenting Payment is therefore aimed mainly at covering the living costs of the recipient. It is a welfare benefit for parents, not children.

Some people claim Parenting Payment to supplement their own earnings. As at early 2004, a single parent with one child earning less than \$33,658 per year could qualify for a PPS top-up, and a parent in a couple could also get a part payment provided the two partners together earned no more than \$31,051 per annum.<sup>3</sup> Most claimants, however, have virtually no income of their own, and they receive the full Parenting Payment. Three-quarters of those on PPS and two-thirds of those on PPP receive the full rate, which means there is virtually no earned income coming into the household.<sup>4</sup>

The full rate of Parenting Payment is higher than the value of unemployment allowances, and claimants are subject to a much less rigorous set of mutual obligation requirements. The latest changes, introduced in the Australians Working Together package, require only that parents of children under 11 turn up at Centrelink for one interview per year, and that those with children in high school undertake some sort of activity—not necessarily paid work—for an average of just six hours per week.

### **A Legacy of Patriarchy**

For many single parents (and for some married or cohabiting couples) welfare dependency has become a semi-permanent condition. This is because Australia is one of only three western democratic countries which are willing to allow parents to live on welfare for as long as they have a child below the school-leaving age.<sup>5</sup>

Chapter 4 showed that in the United States, lone parents were traditionally exempt from work requirements until their youngest child turned six. In 1988, this age cut-off was reduced to three, and since 1996 states have been free to determine their own rules (in Wisconsin, for example, unconditional cash benefits for single mothers were reduced to expire 12 weeks after giving birth).<sup>6</sup>

America is not alone in expecting single parents to work. Germany and the Netherlands have both extended labour force participation requirements for single parents to those with primary school age children, and in France, participation is assumed to occur once the youngest child turns three.<sup>7</sup> In Denmark, Sweden and Norway, it is expected that sole parents will be available for, and will actively seek, paid employment once a child reaches three years of age.<sup>8</sup>

Australia's unusually generous policy towards single parents appears to be a legacy of the old 'widows-and-orphans' welfare system which evolved at a time when married women did not work, and when single parenthood was almost entirely caused by the early death of a male breadwinner. In that long-gone society, it made sense to support women who were raising children on their own right through to when their last child left school and found a job because nobody expected these women to go out to work.

Today, however, two-thirds of Australian women aged 15 to 64 are in the labour force.<sup>9</sup> In contrast with 40 or 50 years ago, it is normal today for women to work to help support themselves and their families. In this context, offering single parents 15 years or more of unconditional welfare up to the point where their youngest child leaves school makes no sociological sense.

## The Case For Reform

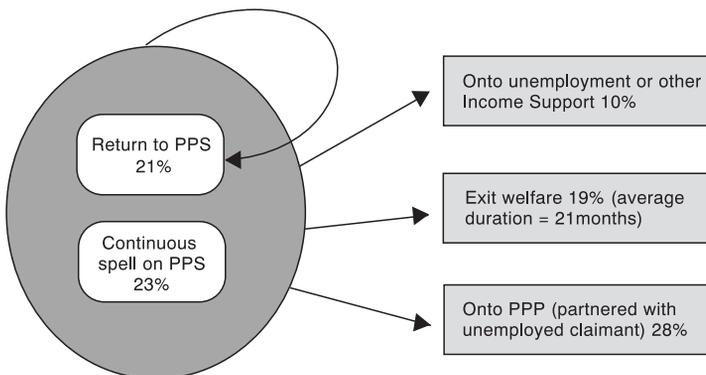
Until recently, commentators did not seem particularly alarmed by the possibility that sole parents were losing work skills and aptitudes as a result of long-term reliance on welfare payments because it was believed that the average duration of any PPS claim was only two years. It seemed that Parenting Payment was being used by most lone parents as a temporary, stop-gap provision, and that most were returning to some kind of self-reliance within a fairly short period.

We now know that this is not the case. Longitudinal research has found that many of the lone parents who leave PPS are not leaving welfare, but are simply exchanging one kind of benefit for another.<sup>10</sup> Analysing what happened to PPS claimants over a five year period, Bob Gregory found that only one in five went from welfare into financial self-reliance (either as a result of finding a job, or finding a new partner who was employed and who earned enough to support them) and did not return to benefit dependency. As for the rest, nearly a quarter spent the whole five years on PPS, one in five had repeated spells on PPS, and about 40% transferred from PPS onto another welfare benefit (commonly this was Parenting Payment Partnered, for large numbers of single mothers start cohabiting with an unemployed male and simply shift from claiming PPS to claiming PPP).

Of those who left PPS during this five year period, 43% were back on income support of some kind within one month, and three-quarters were back within six months. Adding up all the periods spent on various welfare payments, Gregory estimates that the average PPS

### Figure 9.1 Parenting Payment Single, January 1995

What happened over the next 66 months to sole mothers on Parenting Payment



Source: Based on Bob Gregory, Keynote Address to Australian Institute of Family Studies Conference (Melbourne, 2003).

recipient probably spends around 12 years on welfare, not two as had previously been thought.

It is neither 'fair' nor 'sensible' to pay sole parents (or parents whose unemployed partners are at home all day) to stay at home for twelve years or more. It is not fair because other parents have to pay more tax to support those who opt for this lifestyle choice. With their children being looked after at school all day, there is no reason why parents should not be earning their own money, just as others have to do. It is not sensible because these parents (and their children) would probably be better off in the long run if they went out to work rather than staying on benefits.

It is sometimes argued by social welfare activists that single parents have just as much right as partnered parents to choose to stay at home and look after their children if they want to.<sup>11</sup> This is true but only insofar as the exercise of that right does not involve additional and unreasonable demands being made on other people. Rights are not unconditional, especially when they impinge on others.

If a married or cohabiting couple decides that one will stay home throughout the children's school years while the other works to earn enough money to support the household, this decision only affects the immediate family.<sup>12</sup> The non-working partner is exercising a legitimate right not to work, and the couple is accepting the financial costs of that decision. But if a sole parent (or an unemployed couple) makes the same decision with no means to finance it, and then relies on welfare payments for the next 15 years, this choice imposes obligations on other people who have to work and pay higher taxes in order to finance it. In this case, the parent exercises a 'right' to stay home only by imposing a sizeable financial obligation on others.

Most mothers with children under the age of 15 are nowadays in some form of paid employment (nearly a quarter work full-time, and a third work part-time).<sup>13</sup> Once their youngest child reaches school age, it is now normal in Australia for mothers to return to work part or full-time. Some of these working mothers would probably prefer to stay at home, and many full-timers would rather work part-time so that they can combine parenting with a career.<sup>14</sup> Half of all mothers with children like the idea of working part-time, but only 7% would opt to do so full-time, and only one-fifth of those in full-time jobs say this is their ideal.<sup>15</sup> It is clear, therefore, that many parents who are working do so because they see this as necessary if they are to maintain a reasonable standard of living for themselves and their families.

All these working parents pay taxes which are used to pay welfare benefits for those lone mothers (and a few lone fathers) who exercise

their 'right' to remain on welfare. As we shall see, most members of the public think this is unfair, and there is widespread support for changing the system so that sole parents go out to work and help support themselves and their family once their children start school.

Not only are current arrangements unfair but they are also counterproductive. There is mounting evidence of the importance of the first three years of life in developing and enhancing children's emotional and intellectual development. Good parenting is crucial to this. The jury is still out on whether good-quality child care can ever adequately substitute for the attention of a loving parent during these crucial first three years, but nobody doubts that strong parental attachment is a major factor in successful early child development.<sup>16</sup>

Given this, the sort of work requirements being imposed on sole parents in some American states may well be ill-advised. But by the time a child turns five, most of the cognitive 'hard-wiring' has been laid down, the emotional foundations should be in place and the child is increasingly finding stimulation in the environment beyond the immediate home. The child is then required to attend school where for much of the day neither parent can play any direct role in the child's activities. It is at this time that many couples decide it is appropriate for the principal carer to return to the labour force, often part-time, and there is no evidence that this does the child any significant harm.

For a single parent (or a parent whose partner is on benefits) to stay at home living on welfare for a further ten years after the youngest child starts school does not benefit the child or the parent. Indeed, there is mounting evidence that it is harmful for both parties.

American research suggests that continued 'exposure' to welfare significantly damages young people's educational attainment.<sup>17</sup> This effect still holds even when the impact of other factors like household income and parental education is taken into account, and it is particularly marked when children reach adolescence (the reason why adolescents living with welfare mothers are so badly affected may have to do with their prolonged exposure to a negative role model, or at least the absence of a positive one).

We also know that welfare dependency tends to get transmitted across the generations. In Australia, older teenagers who grow up in welfare-dependent households are up to four times more likely to become teenage parents and are up to five times more likely to end up claiming some form of income support (other than student allowances).<sup>18</sup>

Parents are also damaged by prolonged exposure to welfare. Their skills and qualifications erode, their readiness to work decays, and their

self-esteem plummets. Their income also remains at a much lower level than would be the case if they were working. More than half of the parents who continue to claim PPS right up until their youngest child turns 16 are still on income support five years later,<sup>19</sup> and this extended dependency means many are likely to become habituated to welfare and lose the capacity or motivation to achieve self-reliance. It is for these reasons that Jocelyn Pech and Helen Innes (quoted at the start of this chapter) suggest that a system designed to support women may be hurting them more than it is helping them.

### **A Modest Proposal**

It is difficult to think of any coherent argument for continuing to exempt lone parents with school-age children from working. If it is acceptable for married and cohabiting mothers to go to work (particularly once their children start school), why not single mothers?

This is an area where Australia can learn, not just from America, but also from continental Europe, because in both cases, sole parents are expected to return to the workforce once their children start school. The same expectation should be built into our welfare system by limiting the full rate of Parenting Payment (for sole parents and for coupled parents who claim PPP) to those who have full-time responsibility for a child under the age of five. Once the youngest child starts school, this full-time responsibility ceases, and the expectation should then be that the parent will seek part-time work.

Some important details would need to be thought through if this proposal were implemented. It would have to be clear how those parents who fail to find work after their children start school would be supported.<sup>20</sup> It would also be necessary to address the problem of work disincentives generated by the ‘taper’ on Parenting Payment and Family Tax Benefit as claimants increase their earned incomes.<sup>21</sup> The availability of affordable child care during school holidays would have to be considered. And there is the question of whether parents with older children should continue to be entitled to a payment or should be expected at some point to return to work full-time as their children become more independent.<sup>22</sup>

If all PPS and PPP claimants whose youngest child is at school were required to seek part-time work, this would include 110,000 sole parents and over 60,000 partnered parents. Over \$1 billion could be saved each year on PPS payments<sup>23</sup> plus as much as half a billion on PPP outlays.<sup>24</sup>

Whatever the actual size of the savings turned out to be, how could this money best be used? Chapter 4 showed that in America,

much of the money saved as a result of the dramatic success of welfare reform has been used to increase spending on child care to support sole parents as they move from welfare to work.<sup>25</sup> Alternatively, some or all of these savings could be used to defray revenue lost from the tax reforms we so urgently need (outlined in Chapter 12). Either way, the money would be put to a much more positive use than it is now where we are simply paying parents to stay at home while their children are at school.

### **Politically Feasible Reform**

Australia's social policy establishment is firmly opposed to any reform along the lines suggested here. They believe single parents should be allowed to stay at home if that is what they choose to do, and that the government should spend more of other people's money supporting them to do so.<sup>26</sup>

When the reform proposal outlined above was first floated in 2003,<sup>27</sup> the reaction from some social policy activists and intellectuals was little short of hysterical. Forgetting that the proposed change would bring Australia into line with the Scandinavian welfare systems which he so admires, Father Joe Caddy, Chair of Catholic Welfare Australia, condemned it as 'staggering in its harshness', 'elitist' and 'completely out of touch with the real issues confronting people who rely on welfare for their survival'.<sup>28</sup> Dr. Elspeth McInnes (an academic, ACOSS Board member, and leading figure in the National Council of Single Mothers and their Children) went even further, expressing disgust at what she called 'a rampant disregard for the needs of struggling families' and warning that part-time work for parents of school-age children would lead to 'homelessness and starvation for infants and mothers and more beggars in the street'.<sup>29</sup> She argued that instead of getting sole parents into the workforce, the government should be spending more money on setting up (voluntary) training programmes, providing child care and day-care services, legislating for paid maternity leave, and sponsoring domestic violence reduction programmes.<sup>30</sup>

These social policy advocates and analysts are out of step with those in whose names they claim to speak, for many single parents on welfare say they want to work and that they approve of tightening the eligibility rules once children start school. In research conducted by the Department of Family and Community Services, 63% of full-rate PPS recipients and 48% of full-rate PPP recipients claimed they would prefer to be working and that they would like to start immediately, but there is currently very little prompting them to do anything about it

(the median time they spent looking for a job was only two hours a week).<sup>31</sup> In Lawrence Mead's terms, they are not being 'hassled' to get off welfare.

A 1999 pilot scheme implemented 'hassling' by requiring a sample of PPS claimants to attend Centrelink for an interview. These people were then asked their views on further compulsory activities, and two-thirds said that some sort of participation activity (employment, training or voluntary work) should be expected of sole parents at some point during a claim period. About half thought it should be left to the claimant to decide when to start such an activity, but more than one-third thought it should begin once the youngest child starts primary school.<sup>32</sup> In other words, a proposal deemed by Catholic Welfare to be 'completely out of touch' with the issues confronted by single parents, and by the National Council of Single Mothers and their Children to show 'rampant disregard' for their needs, is actually consistent with what one-third of PPS claimants want to happen.

There is also strong public support for the idea that sole parents should work once their children start school. A 1999 Roy Morgan poll found 58% of the population thinks that lone parents should look for work once their youngest child starts school, and two-thirds thought that partnered parents should. Half of all respondents were also happy to see these expectations enforced by reducing payments to claimants who do not fulfil their participation requirements.

Also in 1999, a survey of 2400 Australians carried out by the Social Policy Research Centre found fewer than one in eight supported the current system of allowing lone parents to stay out of the labour force until their youngest child reaches 16. More than half thought sole parents should be expected to work part-time once the youngest child starts school, and almost half thought they should be working full-time once the youngest child is at high school.<sup>33</sup>

In the first 2003 ACNielsen survey commissioned by the CIS, only 6% of the population was found to support the present arrangements.<sup>34</sup> As Table 9.1 shows, there is massive (84%) support and expectation for single parents to take on a part-time job by the time their youngest child starts primary school. There is also strong support (71%) for a full-time work requirement once the youngest child starts high school.

The weight of public opinion alone does not make the case for policy change, but in this case, the evidence on public opinion is important as policy initiatives in this area have for a long time been paralysed by politicians' fears of courting unpopularity. For years, an outspoken welfare lobby has been intent on blocking reform and

**Table 9.1: When is it Reasonable to Expect Sole Parents to Go Out to Work (a) Part-time and (b) Full-time?**

	Part-time (%)	Full-time (%)
Once youngest child reaches age one	6	2
When youngest child can attend pre-school	33	7
When youngest child starts primary school	45	35
When youngest child starts high school	9	28
When youngest child turns 16	6	26
Don't know/no opinion	1	3

Answers to question: 'Sole parents who look after a child and do not go out to work can currently claim Parenting Payment. (a) When do you think it is reasonable to expect a sole parent to go out to work part-time? (b) When do you think it is reasonable to expect a sole parent to go out to work full-time?'

Weighted N=5723.

Source: First CIS/ACNielsen survey, 2003.

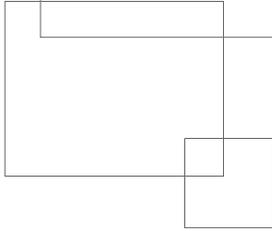
politicians are understandably worried about being labelled 'heartless' when dealing with single mothers and unemployed parents. Yet reform of the Parenting Payment system is long overdue. The present system is expensive, unfair and counterproductive. It is also increasingly anachronistic, rooted in a patriarchal family and employment system that disappeared in Australia almost half a century ago.

Full-time parenting can play a key role in the early years of a child's life, and there is no case for forcing parents out to work when their children are still young. But as children grow older and go to school, the case for paying parents to stay at home falls away. Evidence of overwhelming public support for reform should encourage politicians in all parties to bring policy into line with contemporary norms and expectations. When it comes to reform in this area, politicians will find that they are surfing a wave of public opinion, not swimming against it.



# **Reforming Disability Support**

Chapter 10





‘Of all the benefit types, one of the hardest nuts of all to crack is disability . . . It seems that when more people are paid benefits on the basis of complaints like mental and physical stress or bad backs, more people seem to report similar problems.’

David Grubb (Organisation of Economic Cooperation and Development)<sup>1</sup>

In one of those snap viewer polls beloved of broadcasters, Channel Nine asked its viewers in July 2002 to vote on the question: ‘Do you support plans to cut disability pensions?’ Over 20,000 people voted online, and the result was overwhelming. Three-quarters said ‘No’; only a quarter said ‘Yes’.<sup>2</sup>

Given the bluntness of the question, this response is not surprising. Few members of the public have any enthusiasm for cutting government financial support for people immobilised in wheelchairs, those who are blind, or people with congenital abnormalities who need round-the-clock care.

What many members of the public probably do not realise, however, is that most of the people who claim the Disability Support Pension (DSP) nowadays are not suffering disabilities like these. Some are not suffering any disability at all, but are classified as ‘disabled’ simply because no one can find any work for them in their local area.<sup>3</sup> Others are suffering from relatively mild complaints which need not prevent them from working. The OECD estimates that across western countries, only one-third of those on disability payments are suffering the sorts of ‘severe disabilities’ that make paid employment difficult or impossible, and Australia appears to be no exception to this.<sup>4</sup> Instead of asking its viewers if they wanted to cut disability benefits, it might have made more sense if Channel Nine had asked if they want to go on paying disability pensions to people who are perfectly capable of working. They might have gotten a very different set of answers.

### **Who Gets the Disability Support Pension?**

Add together all the DSP claimants with missing limbs, skin disorders, chronic fatigue syndrome, chronic pain, digestive disorders, congenital abnormalities like Downs Syndrome or spina bifida, cancer, deafness, blindness, AIDS, brain damage due to things like accidents, strokes or MS, problems with breathing, problems involving the nervous system and problems with the circulatory system, and less than one-third of

those on the Disability Support Pension have been accounted for. Add those suffering from intellectual or learning difficulties and the total is still far short of 40% (Table 10.1).

**Table 10.1: Main Condition of DSP Recipients of Working Age, 2000**

Condition	%
Amputation	0.3
Skin disorders and burns	0.3
Chronic fatigue/post-viral	0.7
Chronic pain	0.8
Visceral disorder	1.4
Congenital abnormality	1.7
Cancer/tumour	1.9
Sense organs	2.3
Endocrine and immune system	2.4
Acquired brain impairment	2.5
Respiratory system	2.9
Nervous system	3.2
Circulatory system	5.3
Intellectual/learning	10.5
Psychological/psychiatric	24.7
Musculo-skeletal/connective tissue	33.7
(Not classified)	(5.4)

*Source:* Department of Family & Community Services, *Characteristics of Disability Support Pension Customers* (Canberra: June 2003).

The most common conditions reported by DSP claimants are ‘musculo-skeletal’ problems, which account for one-third of the total, and ‘psychological/psychiatric’ problems (not including intellectual and learning difficulties) covering another quarter. These have been the fastest-growing conditions over the last 20 years (overseas, as well as in Australia), and they are among the least easily defined or clearly diagnosed categories of disability. Musculo-skeletal problems, for example, can include people who complain of a ‘bad back’ as well as those confined to a wheelchair while psychological and psychiatric problems can range from ‘feeling stressed’ to suffering severe paranoid schizophrenia.

When ordinary members of the public are asked if they have any impairment which limits their everyday activities, vast numbers say

they do. Almost one in five of those under the age of 64 (3.6 million people) claim to be suffering from some sort of 'disability' and another 3.1 million say they have an impairment but that it is not bad enough to restrict their everyday activities.<sup>5</sup>

Fortunately for the taxpayer, to be eligible for DSP, a doctor needs to confirm that incapacity is bad enough to prevent a person from working a 30 hour week (or retraining for work), and that this condition is likely to persist for at least two years. This cuts the numbers down substantially and only about one in six of those who say they are disabled receive DSP.

The DSP is a means-tested payment made to adults of working age. Because it is a pension, rather than an allowance, it is worth the same as an age pension and significantly more than an unemployment allowance like Newstart (for those who are doing some paid work, it can also be supplemented by a Mobility Allowance to help with transport costs). And because DSP claimants have been defined as incapable of working as much as 30 hours per week, claimants are exempt from any mutual obligation requirement (there is little point in requiring work-preparation activities of those deemed incapable of working). All of this makes the DSP one of the most generous, yet least demanding, of the benefits on offer in the Federal government's income support system. Once enlisted, few people leave until they retire onto the age pension. The average time spent on DSP is over seven years, and only about 10% of recipients ever rejoin the workforce.<sup>6</sup>

Since mutual obligation became a condition of receiving unemployment allowances, the attractiveness of DSP has grown, and this shows up in the trendlines for each of these two benefits. In 1980, 229,000 people claimed DSP (2.3% of all working-age adults). In those days, there were more people on unemployment benefits than on the disability pension, but the DSP total soon began to rise. It went through 300,000 in 1989, passed 400,000 in 1993, breached the 500,000 mark at the end of 1996, and went through 600,000 in 2000. By June 2003, it had risen to 673,000 (5% of all working-age adults), and the number of disability pensioners today far outstrips the numbers on unemployment allowances.<sup>7</sup> Today, one in nine Australians aged between 50 and 64 receive DSP.<sup>8</sup>

### **How an Increasingly Healthy Population Became Decreasingly Capable of Working**

The proportion of working-age adults deemed incapable of work due to disability has increased by 117% in 23 years, yet this has been a period when average health and fitness levels have been going up, not going

down. Few commentators believe that this huge increase reflects a real increase in disability and incapacity in the working-age population.

Predictably, ACOSS is an exception. It argues that as much as 40% of the increase reflects a real rise in disability rates. However, this claim rests on evidence of a rise in the number of people who *say* they are disabled, and we have already seen that these numbers are virtually meaningless.<sup>9</sup> ACOSS is on stronger ground in its claim that some of the increase in the number of DSP claimants could be due to factors such as the ageing population and government policy changes, although the effect of these factors appears fairly small.

The ageing of the baby boomers means that the most disability-prone age cohort among the working-age population (people in their 50s and 60s) is now relatively larger than it used to be, so we should expect the overall rate of DSP claims to have risen. However, Ernest Healy shows that the increase in relative size of this older cohort is much smaller than the increase in its rate of DSP dependency. Between 1991 and 2001, the 55–64 age group grew from 13.0% to 14.1% of the working-age population (a 9% increase), but its rate of DSP receipt rose from 9.7% to 13.6% (a 40% rise).<sup>10</sup> Clearly, the demographic shift was only a minor factor in the huge rise in the number of DSP claimants.

Changes in public policy over the last 20 years have also played some part in the growth of DSP dependency rates. The increase in the female retirement age from 60 to 62 has kept 70,000 more women in the labour force who would previously have gone onto the age pension, and some of them are now claiming DSP (this could account for up to 20,000 or so of the increased number of recipients since 1995).<sup>11</sup> Furthermore, changes to the disability support system in 1991 added some 10,000 people who were previously receiving sheltered employment allowance. This legislation also allowed part-time workers to claim DSP while working up to 30 hours per week and made it easier for people with ‘psychiatric problems’ (including drug addicts and alcoholics) to establish eligibility. Clearly, these changes have led to some growth in the number of claimants,<sup>12</sup> but they still bring us nowhere near the 450,000 extra recipients who have been added to DSP since 1980. Indeed, ACOSS suggests that the 1991 changes tightened eligibility rather than loosened it.

The main reason for the huge increase in the proportion of the workforce on DSP is simply that, over time, doctors, employment advisers and older unemployed workers have between them redefined and renegotiated the eligibility rules. Increasing numbers of men and women in their 50s and early 60s who would previously have stayed in

work or signed on as unemployed have been able to leave the labour force and live on the DSP until they reach retirement age. DSP, in other words, has become the poor man's early retirement package.<sup>13</sup>

One of the key changes that enabled this to happen was the 1991 decision to take local labour market conditions into account when considering a DSP claim by anybody aged 55 or over. This completely confused the distinction between 'inability to work' (the prerequisite for DSP eligibility) and 'inability to find work' (the pre-condition for receipt of unemployment benefits), resulting in DSP becoming 'an institutional mop for soaking up older males who have lost jobs'.<sup>14</sup>

This reclassification of older unemployed people as 'disabled' has suited everybody except the taxpayers. Employment advisers whose task is to help unemployed people find work have been relieved of some of their most difficult cases, as the over-55s have been shuffled off into DSP. Claimants have been kept happy because their payment has gone up at the same time as the demands made upon them have been eliminated. And the politicians have benefited because the unemployment statistics are massaged downwards every time a claimant transfers from Newstart to DSP.

A huge chunk of the people claiming DSP should really be regarded as 'displaced unemployed'. One indication of this is that the proportion of the population receiving DSP is higher than would be predicted in areas where jobs are more scarce, and is lower than predicted in areas where jobs are more plentiful. Where people find it most difficult to get work, they are more likely to end up on DSP.<sup>15</sup> Another indicator is that, although the official unemployment rate across Australia had dropped below 6% by late 2003, the level of full-time employment relative to the size of the adult population was no higher than it had been during the 1992/93 recession. This means there had been no recovery in full-time employment since the early nineties recession, despite the ever-improving unemployment statistics. Allowing for the population increase, about 700,000 full-time workers have disappeared off the radar since 1980, and some of the results can be seen in the blowout of numbers on the DSP.<sup>16</sup>

### **Calculating the 'Real' Unemployment Rate**

Australia is not the only country where unemployment has been redefined as disability. It has happened throughout the OECD. In the United States, the number of people receiving disability payment has nearly doubled since 1990 and the Federal government now spends more supporting them than it does on Unemployment Insurance or food stamps.<sup>17</sup> It is much the same story in France and Germany.

This deception has gone furthest in the Netherlands and Scandinavia. Looking at Holland's unemployment figures, academics in other countries used to talk of the 'Dutch miracle' until they realised that many of the unemployed had simply been transferred into the WAO (the disability payments scheme).<sup>18</sup> Some Australian devotees of Scandinavian-style policies still have not realised this. The head of ACOSS, for example, recently pointed to Danish and Swedish unemployment statistics as evidence that high social expenditure and high taxes need not destroy jobs, little realising that these countries have twice as many citizens on disability payments than on unemployment benefits.<sup>19</sup>

Clearly, a realistic assessment of the 'real' unemployment rate in any country must take account of both the official unemployment rate and the number of people on disability payments. As Table 10.2 shows, the

**Table 10.2: Unemployment and Disability Rates (rounded), Selected Countries, 2003**

<b>Liberal Welfare Regimes</b>	<b>% Unemployed</b>	<b>% Claiming Disability Payments</b>
US	6	4
Australia	6	5
UK	5	6
Canada	8	4
<b>Corporatist Welfare Regimes</b>		
France	9	4
Germany	9	4
Italy	9	5
<b>Social Democratic Welfare Regimes</b>		
Denmark	5	8
Netherlands	4	9
Sweden	5	8
Norway	5	9
<b>OECD average</b>	<b>7</b>	<b>6</b>

Sources: Standardised unemployment rates From *OECD Main Economic Indicators* (July 2003); disability rates from *OECD Policy Brief* (March 2003). The terms 'liberal', 'corporatist' and 'social democratic' are from G. Esping-Andersen, *Three Worlds of Welfare Capitalism* (Cambridge: Polity Press, 1990).

'liberal' regimes of Australia and the United States have roughly similar rates of disability as the corporatist regimes of France and Germany, but they 'score' much better on their official unemployment rates. Conversely, the 'liberal' regimes have roughly similar official rates of unemployment as the 'social democratic' regimes of the Netherlands and Scandinavia, but in this case they 'score' much better on their disability rates. Whichever way it is seen, when both unemployment and disability figures are taken into account, the Anglosphere countries are clearly outperforming the rest.

Accounting for disability rates has dramatic consequences for our estimates of long-term unemployment in Australia. Chapter 8 showed that around 350,000 Australians have been claiming unemployment allowances for more than one year, but that the 'actual' incidence of long-term unemployment is likely to be much greater than this. Half the people joining DSP each year are recruited directly from the unemployment rolls where they have on average spent more than 12 months drawing unemployment allowances.<sup>20</sup> As a rough calculation, this means that in excess of 300,000 of those claiming DSP have transferred out of long-term unemployment. Add these to the official estimates of the number of people on unemployment assistance who have been claiming for more than a year and we end up with around 650,000 'long-term unemployed'.

### **The Tortuous Road to Reform**

In January 2004 the cost of DSP payments was estimated at \$7.6 billion.<sup>21</sup> On cost grounds alone there is a strong case for arguing that something needs to be done to stop and then reverse the 20-year trend of spiralling DSP dependency. But there is also a compelling case for reform on grounds of 'fairness', not only to working taxpayers, but also for all categories of income support claimants.

The McLure Report on Welfare Reform, published in 2000, drew attention to the way people in similar circumstances can end up on different types of payments involving different levels of remuneration and different activity requirements. An obvious example is the way some older unemployed people get placed on DSP while others stay on the less generous and more demanding Newstart allowance. The report thought the answer was to abolish the different categories of income support and replace them with a single 'Participation Payment'.

Under this proposal, every claimant would in principle be subject to a mutual obligation requirement. This could involve 'social participation' (such as caring for a family member or involvement in voluntary work

in the community) or ‘economic participation’ (paid work or training). Like everybody else, disabled people would be expected to participate in accordance with their individual capacities and circumstances, which would be assessed as they pass through an initial gateway into the income support system. Every claimant would get the same basic payment, with additional supplements payable according to family circumstances, costs of coping with disability and costs incurred through economic participation (for example, travel to work).

The McLure Report’s objective to reduce welfare dependency by getting as many people as possible into some form of active participation clearly deserves support, but its suggestion that this should be done by abolishing the distinctions between different categories of benefits threatens to make matters worse.

Blending pensions and allowances into a single payment would significantly increase welfare spending as allowances are currently less generous than pensions and the Report backed the government’s view that ‘there should be no reductions in existing pensions and allowances’. The new single payment would therefore have to be rounded up, not averaged or rounded down, and the report’s authors themselves admit that this would be ‘very costly’.<sup>22</sup>

Removing the distinction between people who are deemed capable of supporting themselves and those who are not would also send out the wrong signals to current and potential welfare claimants. Some working-age people should not be expected to earn an income. They include people with severe disabilities and those with full-time caring responsibilities (including single parents with pre-school age children). This group should be clearly distinguished from those who are expected to support themselves but who for one reason or another cannot find employment. Their situation is transitional, and this should be reflected in the way their payments are organised and administered.

Abolishing the distinction between temporary ‘allowances’ and open-ended ‘pensions’ would make it difficult if not impossible to impose clear time limits on claimants whom the community expects to be self-reliant. While the welfare lobby favours this,<sup>23</sup> the result would almost certainly be a further increase in the number of people spending long periods in the welfare system.

The McLure Report stated, ‘The design of the current system itself, particularly the focus on categories, is ultimately the problem.’<sup>24</sup> Yet the issue does not lie in the existence of different categories of benefits so much as in the way claimants have been allocated between them. The distinction between transitional claimants, who are expected to find

work, and longer-term claimants, who have a legitimate expectation of continuing support, makes sense and should be retained. What needs fixing is the blurring of this distinction, which has worsened over the last 20 years as people who should be in the first category (the able-bodied unemployed) have gravitated to the second ('disabled' or otherwise 'incapacitated'). Trying to resolve this slippage by abolishing the categories is like passing all the candidates in an examination because of the difficulty of separating those at the pass/fail margin. The solution is not to give up on the distinctions but to find better criteria for applying them.

Although the Federal government has indicated its support for the principle of a single, integrated payment,<sup>25</sup> this is seen as a long-term objective. More immediately, considerable effort has been expended since the McLure Report on finding ways of tightening the eligibility rules for admission onto the DSP. Despite all the huffing and puffing, however, little has been achieved.

One important change that has gone through is that family doctors are no longer given the responsibility of assessing somebody's capacity to work. Instead, they are simply asked for a diagnosis of a patient's condition, and Centrelink, aided if necessary by its own medical advisers, judges whether or not this precludes the possibility of working for 30 hours per week. This is an important change because doctors were clearly coming under pressure from patients to sign them over to the DSP and were being put in the invidious position of having to juggle the demands of their patient and the concerns of the welfare providers. This tension has now been resolved.

However, the '30 hour rule' itself has not changed. As part of its 2002 *Australians Working Together* reform package, the Federal government tried to overturn the rule allowing people over 55 to be admitted to the DSP if no suitable employment was available in their local area, and it proposed reducing the 'work capacity' criterion for DSP eligibility from the current 30 hours per week to 15.<sup>26</sup> Had these changes gone ahead, they would have stopped people with no disability from claiming the DSP. Those with relatively minor incapacities who are capable of working for 15 hours or more each week would also have been regarded as 'unemployed' rather than 'disabled' and would have become subject to activity requirements including job search. But in November 2002, the Opposition parties in the Senate rejected these changes, and a subsequent attempt to reintroduce them was similarly blocked.

The result has been stalemate.<sup>27</sup> In January 2004, the Federal government did announce a pilot scheme providing financial

inducements for Job Network service providers to contact DSP claimants and encourage them to return to work or training (successful agencies would receive \$6,000 for every claimant moving from DSP into paid work). This plan has received cautious support from the welfare lobby—who nevertheless expressed their concern that DSP claimants should not be ‘bullied’ into accepting work or training<sup>28</sup>—and may help stem the rise in DSP dependency. But as in other areas of welfare reform, it is doubtful whether incentives alone will be enough to reverse the trend of the last 30 years. As Lawrence Mead has argued, getting people off welfare and into work requires ‘hassle’ as well as ‘help’.<sup>29</sup>

### The Politics of Disability

The obstacles and difficulties that have been encountered in the attempt to limit DSP to those who really are incapable of working indicate how politically difficult reform in this area of welfare can be. The problem facing reformers is that any attempt to stop people capable of working from getting access to the disability pension can too easily be interpreted by critics as an attack on defenceless, disabled people.

ALP welfare spokesperson, Wayne Swan, described the proposed 2002 reform of the eligibility rules as an attack on ‘people whose bodies have been worn out after a lifetime of labouring for the country’. Catholic Welfare saw the government’s proposals as ‘exposing all people living with disabilities to demonisation’.<sup>30</sup> ‘How,’ asked Swan, ‘does cutting the level of income to people with disabilities help them get back into work?’<sup>31</sup>

As with reform of unemployment benefits and parenting payments, the welfare lobby has set its face firmly against reform of the disability support pension. But as with the other two payments, this stance is completely out of sympathy with mainstream public opinion.

In a 2000 survey, Roy Morgan found public opinion was split (27% in favour, 30% against) on the bald question of whether people on DSP should be required to look for work. There was, however, very little opposition to the idea that people on DSP should be expected to work or undertake some other activity if they were capable of it: 85% thought they should be required to undertake appropriate activities in return for their payment, and 86% approved of compulsory activities designed to improve their ability to gain employment. More than half also thought DSP recipients should be penalised financially if they failed to undertake any activity required of them.<sup>32</sup>

In the first 2003 ACNielsen survey for CIS, respondents were told: 'The proportion of working age people who are claiming Disability Pension has doubled to more than 600,000 in the last 20 years.' They were then asked if they agreed or disagreed with tightening up the eligibility rules. Nearly two-thirds (63%) said they agreed with such move, and fewer than a quarter (only 22%) disagreed.

It is clear from these two surveys that the Australian public wants disabled people to be properly supported, but that those who are capable of working should not be allowed to shelter undisturbed on DSP.

The primary aim of policy reform in this area should therefore be to separate out those who can work from those who cannot. Reducing the criterion of incapacity from 30 to 15 weekly working hours remains a crucial component of such a strategy, and those who blocked the reform in the Senate should explain to their electors why they think the disability pension should continue to be paid to people who are not disabled. More clarification is also needed in light of the ambiguity that has arisen since the 1991 legislation that allowed local market conditions to be taken into account when determining an individual's capacity for work.

With the definition of incapacity tightened up, existing DSP claimants should be asked to re-submit medical evidence of their impairment so that they can be reassessed under the new criteria. This evidence should be subjected to random audit, and doctors who have exaggerated the incapacity of their patients should be required to account for their diagnosis. Any deliberate attempt at deception that is uncovered should be liable to prosecution for conspiracy to defraud.

This reclassification procedure would inevitably inconvenience bona fide applicants, but removing those who are capable of working from the system should enable support services and payments for genuinely disabled people to be improved. For example, the recent Senate Poverty Inquiry concurred with many advocacy groups in proposing that disabled people should be given a supplementary payment in respect of the additional costs incurred as a result of their disability.<sup>33</sup> It would be reasonable to pay for this using a proportion of the expenditure savings made as a result of reforming the eligibility rules.

A change to the eligibility rules could result in half or more of those currently claiming DSP either failing to re-apply, or being re-assessed as unemployed and transferred onto unemployment allowances. Some commentators say there is little point in simply shifting people from disability payment to unemployment payment as they still remain on

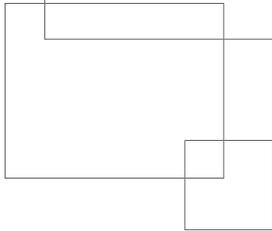
welfare. Bob Gregory, for example, thinks a change like this ‘is not likely to make much difference’ since most claimants will still remain jobless.<sup>34</sup> But this overlooks the importance of eliminating fraud and deceit from the income support system. If it achieved nothing else, this reform would mean that about 300,000 people who are not incapacitated would no longer be allowed to pretend that they are.

These critics also ignore potential cost savings. We saw earlier that the DSP is costing taxpayers in excess of \$7 billion. Reform could trim this to nearer \$3 billion. The unemployment assistance bill would rise to soak up much of this saving, but if half of those currently on DSP transferred to unemployment benefits, the difference in value between these two benefits would generate an annual saving of \$500 million dollars, even if every one of them stayed on income support.<sup>35</sup>

But of course, not all of them would stay on income support. Employment benefits are conditional on fulfilling activity requirements, and Chapter 8 showed that activity requirements have a ‘compliance effect’ in pushing some claimants off benefits and into jobs while making it harder for others to make fraudulent claims. Furthermore, if the unemployment assistance system were reformed along the lines proposed in Chapter 8, claimants transferring from DSP onto Temporary Assistance for Jobseekers would after six months transfer into full-time Work for the Dole, providing an additional impetus to find paid work. If their rate of exit from welfare matched that anticipated for other long-term unemployed claimants, we might expect up to one-third (about 100,000 people) to leave the system before their six month time limit expired. Allowing for the extra cost involved in organising Work for the Dole placements for those who remain, this would generate a further net saving of around \$1 billion.

# **Sticks. When People Don't Want to Work**

Chapter 11





'Breaching has little to do with compassion . . .  
The focus is on coercion and control . . .  
The breaching system doesn't need tweaking.  
It needs scrapping.'

St Vincent de Paul Society, 2002<sup>1</sup>

**T**he reforms of the income support system outlined in the last three chapters are all aimed at pushing welfare recipients who are capable of working out of welfare and into the workforce. But what are we to do if some people simply refuse to accept the conditions attached to the receipt of benefits? What should happen if welfare claimants refuse to look for work, or repeatedly get sacked when they are given jobs, or are unwilling or incapable of assuming the responsibilities they are required to discharge?

The obvious answer is to exclude them from the welfare system. If a worker refuses to accept the conditions governing her or his employment, dismissal will almost certainly follow, so why not apply the same principle to people claiming welfare?

The problem with this is that the welfare system is the last resort for many claimants. Exclude them from government welfare and they could end up with no legitimate source of income. In this situation, some debarred claimants would probably find paid work (some, indeed, already have it and are claiming welfare fraudulently). Others might be able to prevail upon family and friends to support them. But some would probably turn to crime and a few would drift and starve unless charities rediscovered their traditional role and stepped in to help them. A tough policy of excluding those who fail to live up to their side of the welfare bargain could be made to work, but it is doubtful whether public opinion would support it, especially where children are involved. Most politicians are likely to feel very queasy about it.

This then presents us with an awkward dilemma. If we are serious about attaching conditions to welfare to get more people into work, then there must be sanctions against those who fail to comply, otherwise the rules will be ignored. It is difficult to see what form these sanctions might take if not the withholding of payments, but this will inevitably cause hardship—the very thing the welfare system is supposed to prevent. Few of us have the stomach to stand by and watch people starve, even if they are being sanctioned as a result of their own irresponsibility.

Australia's welfare lobby is alive to this uncomfortable problem and has for some years been drawing attention to it by attacking the breaching penalties that are applied to claimants who fail to discharge the obligations required of them as a condition of their receipt of welfare. Welfare lobbyists say these penalties are too harsh, that they result in hardship and suffering, and that the Australian public disapproves of them. In March 2003, their campaign succeeded in pushing the Federal government into weakening the sanctions for a first breach, and they are now pushing for further concessions.

Although ACOSS says it does not oppose the principle that welfare claimants should accept certain obligations in return for their payments, the more radical welfare organisations, such as the St Vincent de Paul Society, have never felt happy with it. They are using the attack on breaching penalties to undermine the basic principle of conditional welfare. If sanctions that enforce claimants' obligations are eroded, the obligations themselves will inevitably be weakened.

While the battle over breaching penalties looks at first sight like a rather technical dispute over rules, it is in fact pivotal to the future shape of social policy in Australia. If the sanctions are eroded, so too is the principle that people should not be allowed to live indefinitely from welfare payments if they are capable of working, and little can be done to prise those who do not want to work out of the welfare system and into self-reliance.

## Rules and Sanctions

Most welfare recipients are currently outside the mutual obligation system. Those on Disability Support Pension are exempted, as are most claimants of Parenting Payment. The argument over sanctions thus applies almost entirely to people receiving unemployment benefits.<sup>2</sup>

Eligibility for unemployment benefits has never been unconditional. Claimants have always had to show they are looking for work, they have always been required to accept a 'suitable' offer of employment, and it has always been understood that they should not walk out on a job without good reason. The battle, however, is over the new requirements introduced as a result of the Howard government's policy of 'mutual obligation'. Unemployed people are now required to enter the Preparing for Work Agreement (PFWA) which obliges them to undertake specified activities (in addition to looking for work) aimed at improving their chances of getting a job. As seen in Chapter 5, these activities may include job search training, skills training, language or literacy classes, participation in community projects, or in some cases, Work for the Dole.

Each jobseeker negotiates a PFWA with an employment service provider belonging to the Job Network. Job Network members include for-profit and non-profit organisations which contract with the government to match jobseekers to vacancies, to provide them with job search training, and to offer them personalised 'Intensive Assistance' to help improve their employability.<sup>3</sup> The PFWA is the mechanism for achieving this, as it commits jobseekers to an agreed programme of activities aimed at securing entry or re-entry into employment.

If a jobseeker breaks the terms of his or her agreement, the relevant Job Network organisation is required to submit a 'participation report' to Centrelink which may then impose a financial 'breaching penalty' on the individual concerned. There are two ways in which claimants may breach the conditions governing their payment:

- Administrative non-compliance (for example, failing to attend the office of Centrelink or a Job Network service provider when required to do so, or failing to provide information when requested to do so);
- Activity Test breach (for example, a failure to undertake an activity, such as training or job search, laid down in an Activity Agreement, or obstructiveness in the process of finding a job).

Administrative breaches, considered less serious than Activity Test breaches, attract lesser penalties. Before the 2003 changes, administrative breaches were punished by a 16% reduction in payments lasting for three months, whereas Activity Test breaches were penalised on a rising scale from an 18% reduction in payments for six months (for a first breach in any two year period), through a 24% reduction for six months (for a second breach), to complete cessation of payments for eight weeks (for a third breach). Since 2003, the penalty for an administrative breach and for a first activity breach has been reduced to eight weeks (provided the breach itself stops), but all other penalties remain unchanged.

This whole system of breaching penalties came under fire almost as soon as it was put in place as the number of Administrative and Activity Test breaches escalated alarmingly in the first four years after Centrelink and the Job Network were established. Even though the total number of unemployed claimants was falling between 1997 and 2001, the total number of breaches rose by 220% (Table 11.1). Most of these were first offences, but over 30,000 people were breached for the third time in two years in 2001-02 and were therefore cut off from payments altogether for eight weeks.<sup>4</sup>

**Table 11.1: Centrelink Breaches From 1997 to 2002**

<b>Breach</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>
<b>Activity Test</b>	60,981	88,751	177,759	294,747	213,533
<b>Administrative</b>	59,737	76,741	124,735	92,199	47,217
<b>Total</b>	120,718	165,492	302,494	386,946	260,750

Sources: Stephen Ziguras and Charne Flowers, 'The community expects . . . ' (Brotherhood of St Laurence, 2002); and ACOSS.<sup>5</sup>

There are two possible explanations for the rapid increase in the number of notified breaches. One is that large numbers of people had been avoiding the work, training and other requirements imposed on them as a condition of claiming benefits, and the new system put in place in 1997 began to tackle this problem with increasing effectiveness. The other is that the new system began to penalise many people unfairly for petty and perhaps unintended offences. The truth turns out to be a mixture of both, but it was the latter explanation that was favoured by the welfare lobby.

### **Unjust, Harsh and Counterproductive?**

There is no doubt that some of the people who were breached in the years following 1997 were unfairly treated. A 2002 investigation of Centrelink and the Job Network by the Commonwealth Ombudsman identified 'some deficiencies in Centrelink procedures and practice' which resulted in mistakes being made.<sup>6</sup> These included treating broken appointments as an Activity breach rather than an Administrative breach; unfair punishment of people who had unintentionally underreported earned incomes; and failure to contact jobseekers prior to imposing a breach penalty upon them.

Most of these errors appear now to have been addressed. Some were resolved by procedural changes introduced before the Ombudsman's report was published<sup>7</sup> while others have been heeded since. These changes help explain the substantial drop that occurred in the number of breaching penalties in 2001-02 (Table 11.1).

However, these changes have not satisfied the welfare lobby. It is their contention that even when the procedures have been followed correctly, the penalties imposed are too severe given the character of the offences. They also claim that people who have been penalised have been driven into poverty, or have somehow become 'disabled' as a result of losing benefits, or even that they have been 'compelled' to turn to crime in order to survive.<sup>8</sup>

As part of their campaign to reduce the severity of the penalties, several leading members of the welfare lobby set up their own independent inquiry into breaches and penalties in 2002.<sup>9</sup> Chaired by former Ombudsman Dennis Pearce, this inquiry began by outlining a set of basic principles which effectively pre-determined its findings. It agreed in advance, for example, that 'a high incidence of breaches . . . should be seen as a serious failure in the system', meaning the inquiry team was committed from the outset to reducing the number of people being penalised irrespective of how many might be guilty of flouting the system. Similarly, it stipulated that Centrelink should make 'extra efforts to achieve compliance without the imposition of a sanction', which came close to saying that there should be no sanctions at all for a first breach. Most crucial of all, it held that if compliance could not be achieved, 'it *may* be necessary to withhold *some* payment [emphasis added]', but that 'such a penalty should not be so severe that it is likely to cause greater hardship'. Given that the inquiry team also claimed that 'unemployment allowances are already at or below bedrock level for the maintenance of basic necessities',<sup>10</sup> this could only mean that any reduction of benefits would create 'greater hardship' and could not therefore be justified.

Given these initial operating principles, it came as no surprise when the inquiry concluded some months later that the breaching system had operated in an 'arbitrary, unfair or excessively harsh' manner; that 'breaches are imposed too frequently'; and that penalties are 'often too severe' and cause 'unjustifiable hardship'.<sup>11</sup> It recommended that Activity Agreements should be watered down, service providers and Centrelink should have to jump through a series of new bureaucratic hoops before declaring a breach,<sup>12</sup> penalties should be revoked if jobseekers later comply with requirements, Centrelink should consider waiving penalties altogether if they are likely to cause hardship, and that no penalty should involve withholding more than 25% of benefits or should run for more than eight weeks in total.

This report provided invaluable ammunition for the welfare lobby's battle against the breaching system. *The Sydney Morning Herald* reported that breaching penalties constituted 'cruel and unusual punishment' and that they reduce people to 'destitution and crime'.<sup>13</sup> ACOSS said the penalties led to acute deprivation and calculated that a first breach penalty pushes unemployed adults 34% below the Henderson poverty line.<sup>14</sup> The St Vincent de Paul Society challenged us to 'imagine the public outcry' if wealthy people were 'fined 18% of income for such minor administrative indiscretions'.<sup>15</sup>

Opposition parties in Canberra also joined the clamour for reform, and Labor and Democrat senators responded to the Pearce Report by establishing their own inquiry into how breaching penalties were working. This predictably backed the Pearce report recommendations, arguing that penalties were too harsh and that some claimants should be exempted from breaching sanctions altogether.<sup>16</sup>

In March 2003, as part of a deal to get its *Australians Working Together* package of reforms through the Senate, the Federal government agreed to reduce the penalty for a first breach from 26 to eight weeks once claimants begin to comply with the conditions of their PFWA.<sup>17</sup> Penalties for second and third breaches remained unchanged. It also agreed to set up a taskforce to ensure that Centrelink enforces the rules 'fairly'.

The welfare lobby groups professed themselves pleased but not satisfied with this concession. ACOSS praised the softening of the penalties but the National Welfare Rights Network said the penalty for a first breach was 'still tough'.<sup>18</sup> In discussions between themselves, welfare leaders continued to refer to the breaching penalties as 'harsh' and 'unjust',<sup>19</sup> and within a few months they seized on another Senate inquiry (this one looking into poverty) to step up their calls for more changes.

In its testimony to the Senate Poverty Inquiry, the Brotherhood of St Laurence called compulsory activity requirements 'obscene', the St Vincent de Paul Society described breaching as an 'injustice' and ACOSS called for the Pearce Report recommendations to be implemented in full.<sup>20</sup> It was no surprise when the anti-government majority on this Inquiry recommended in its final report that no penalty should exceed eight weeks, that all penalties should be fully recoverable once claimants take 'reasonable steps' to comply, and that no penalty should ever exceed a 25% reduction in payments.<sup>21</sup>

If these changes were carried out, they would bury the principle of mutual obligation and mark the end of conditional welfare. If nobody ever faced a sanction stronger than a one-quarter reduction of payments for a maximum of eight weeks, claimants who did not wish to meet the requirements imposed on them could simply ignore them. Provided they were willing to settle for a three-quarters payment, they would know that nothing more could be done to force them to comply. This collapse of conditionality is what many social policy activists and intellectuals have wanted right from the start.

### Entitlement or Conditionality?

The controversy surrounding breaching penalties reflects a fundamental division between those who subscribe to an **entitlement** theory of welfare (payment should be on the basis of need), and those who believe

in a **conditional** welfare system (payments should where appropriate be contingent on the performance of some obligation by recipients).

Chapter 5 showed that many welfare activists and social policy intellectuals believe welfare should be given to people as an unconditional right. An unconditional welfare system would have no activity rules and would therefore apply no sanctions. Welfare lobbyists do not consider failure to undertake activities specified in a PFWA as adequate grounds for reducing people's payments which is why they wish to weaken the regulatory procedures and water down the penalties for those found to have breached the requirements.

The conditional rules governing access to welfare would, however, become largely ineffective if the punishments attached to them were whittled away. In welfare, as in other areas of life, rules cease to exist when they are uncoupled from sanctions. If nothing much happens when a rule is broken, people will gradually come to disregard it. Evidence from America clearly demonstrates that the states with the weakest sanctions against non-compliance have been the least successful in reducing their welfare caseloads.<sup>22</sup> This is why the argument over breaching penalties is so critical, and both sides know it. A conditional welfare system cannot operate without effective sanctions.

### **The Penalties Are 'About Right': Evidence From Public Opinion Surveys**

The majority of Australians endorse the principle of conditional welfare, and there is widespread public support for enforcing compliance through imposition of financial sanctions. A 1999 SPRC survey found that half of all adults thought the existing penalties for breaches were 'about right', while only one-fifth considered them 'too harsh' (Table 11.2). Research carried out by Roy Morgan in 2000 on behalf of the Department of Family & Community Services found that seven out of ten Australians thought payments should be temporarily stopped (36%) or reduced (33%) if unemployed people fail to undertake activities aimed at improving their chances of finding work. More than one-third (37%) believed they should have to take any available job or lose their payments.<sup>23</sup>

There is also a surprisingly high level of support for breaching penalties among the unemployed themselves, presumably because those claimants who abide by the rules expect sanctions to be applied against those who do not. The 1999 SPRC survey found that half of all unemployed respondents thought the penalties were appropriate, and a 2001 Wallis Consulting survey concluded that a majority thought they were 'about right'.<sup>25</sup>

**Table 11.2: Public Attitudes to Breaching Penalties (SPRC 'Coping With Economic and Social Change' Survey, 1999)<sup>24</sup>**

(%)

1st/2nd Breach	Too Harsh	About Right	Too Lenient	Don't Know
Self-employed	14	48	27	11
Employed	18	51	29	11
Unemployed	37	51	4	8
Not in labour force	20	54	11	15
<b>Total</b>	20	52	16	12

<b>Third Breach</b>				
Self-employed	16	53	25	8
Employed	17	55	20	9
Unemployed	35	49	7	10
Not in labour force	19	55	12	13
<b>Total</b>	19	54	16	10

Unweighted N=2,142-2,365

Evidence like this makes uncomfortable reading for the welfare lobby because it shows that its continuing campaign against breaching penalties is out of step with public opinion. In an attempt to deal with this, the Brotherhood of St Laurence commissioned its own poll in 2002. It found 'a majority of those surveyed did not think the current penalties for activity test breaches were fair . . . the current penalty regime is not supported by the community, and . . . the public would support a reduction in breach penalties'.<sup>26</sup> This was an extraordinary result given that all the other research points in the opposite direction, and it attracted widespread press coverage. *The Sydney Morning Herald* told its readers: 'The survey challenges previous research showing Australians take a hard line against those unemployed who fail to meet their obligations.'<sup>27</sup>

On closer inspection, it is clear that this survey was designed to generate findings like this. At the outset, respondents were given a *weekly* figure of \$185 as the amount a single person was at that time receiving on unemployment benefit (a figure which ignored rent assistance and the value of concessions), and this was then compared with the *total* value of payments withheld over a *six month period* from claimants who breach their activity requirements (a total of \$863 for

**Table 11.3: Public Attitudes to Breaching Penalties  
(Brotherhood of St Laurence Newpoll survey, 2002)**

	(%)		
	Unfair	Fair	Don't Know
<b>First Breach</b>	58	37	6
<b>Second Breach</b>	54	39	7
<b>Third Breach</b>	47	46	7

N=1,200

the first breach, \$1,151 for the second, and \$1,476 for the third). The survey than asked whether these 'fines' were fair or unfair.

By asking respondents to compare one week's income of less than \$200 with a total deduction of \$1,000 or more spread over 26 weeks, the survey encouraged respondents to see the penalties as relatively much larger than they really are. Asked whether a 'fine' of \$863 imposed on somebody with an income of \$185 was appropriate for a 'first infringement', it is remarkable that more than one-third of respondents still insisted that it was, for the question clearly implied that it was not.

The Brotherhood's survey was misleading. The truth is that many more members of the public see current breaching penalties as too lenient rather than too harsh. Table 11.4 (overleaf) summarises the responses to an item asked in the first ACNielsen survey carried out for CIS in 2003. The most striking finding is the agreement among respondents of all ages, income groups and political orientations that the current penalties for first and third breaches are either appropriate or are too lenient. Only 6% thought first breaches should not attract a financial penalty, and this fell to 4% for third breaches. For a first breach, 42% thought a temporary reduction in benefits (as under the existing system) was appropriate, but just as many opted for a complete withdrawal of benefits for at least a few months. When it comes to third breaches, only a quarter of the public thought complete withdrawal of all benefits would be too harsh a sanction.

### **Enforcing Reasonable Requirements on Recalcitrant Recipients**

Even after the Federal government buckled under the weight of the welfare lobby's campaign and agreed to water down the penalties system in 2003, the social policy establishment was not satisfied. As the St Vincent de Paul Society put it, the changes only 'tweaked' the penalties whereas they wanted them 'scrapped'. But if our aim is to

**Table 11.4: Public Attitudes to Breaching Penalties (AC Nielsen/CIS survey)**

	Response (%)						
	A	B	C	D	E	DK	Other*
<b>First Breach</b>							
Coalition Voters	16	14	25	38	2	1	4
Labor Voters	8	8	17	46	9	3	10
Others	10	9	18	42	9	2	10
Under \$40k	10	9	18	46	7	3	8
\$40-\$80k	13	19	21	42	6	2	8
Over \$80k	12	12	22	38	7	1	8
18-29	10	11	20	43	7	2	7
30-49	11	10	20	43	6	2	8
50 and above	15	11	22	37	6	2	7
<b>All</b>	12	10	20	42	6	2	7
<b>Third Breach</b>							
Coalition Voters	23	27	32	16	1	1	-
Labor Voters	12	18	32	30	6	2	-
Others	15	17	31	27	6	2	-
Under \$40k	14	20	33	27	5	2	-
\$40-\$80k	18	21	32	24	4	2	-
Over \$80k	19	23	32	21	5	1	-
18-29	19	21	32	23	3	1	-
30-49	17	21	31	25	5	2	-
50 and above	17	22	32	23	4	2	-
<b>All</b>	17	21	32	24	4	2	-

\* Other answers only recorded for first breach

Weighted N=5,279 (voting), 5,368 (income), 5,710 (age)

Respondents were told that: 'People who currently receive unemployment benefits are required by law to undertake activities such as attending job interviews or undergoing job training', and they were then asked: 'What do you think should be done, if anything, if somebody receiving unemployment benefits does not carry out a required activity, such as attending job interviews, without a reasonable excuse?'

and: 'Now please assume that the person receiving unemployment benefits does not carry out a required activity, such as attending job interviews, on three separate occasions, what penalty if any would be appropriate assuming they offer no reasonable excuse?' For each of these questions, five possible options were listed:

- A 'They should not be allowed to claim more benefits in future'
- B 'They should not be allowed to claim benefits for 12 months'
- C 'They should have their benefits stopped for a few months'
- D 'Benefits should be reduced for a time (e.g. to four-fifths)'
- E 'They should not be penalised at all'

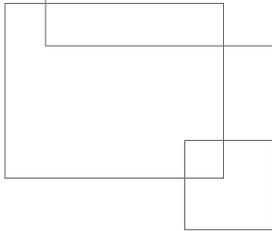
reduce the escalating levels of welfare dependency in this country, any further concessions on breaching penalties would be a major setback.

Naturally, there is much more to reducing welfare dependency than simply imposing penalties on those who breach the eligibility rules. As we shall see in the next two chapters, it is essential that the rewards and incentives for people to take paid work are increased, and that it is made more attractive for employers to take on more workers. Getting people off welfare in significant numbers means there must be sticks as well as carrots. There is little point in generating stronger work incentives and more job opportunities if some claimants just refuse to respond. If the proposals outlined in this book are to be effective, reasonable sanctions must be available to push those who refuse to budge off welfare and into work.



# **Carrots. Rewarding People Who Work**

Chapter 12





‘The existing tax structures sap initiative and cripple the incentive to work harder and make more money, for high- and low-income earners alike. And the insidious combination of tax and welfare systems punishes people who try to reduce their reliance on the public purse by earning additional income. Getting the tax mix—and the rates we all pay—right is the central policy problem in Australian politics’

Editorial in *The Australian*, February 2004<sup>1</sup>

To encourage more people to move from welfare into self-reliance, it must pay them to work. Current levels of taxation on incomes do not reward hard work and personal initiative, and in some cases the interaction of the tax and benefits systems viciously penalises those who try to improve their situation through their own efforts.

Taxation as a proportion of GDP has been rising steadily for the last 100 years.<sup>2</sup> In 1901, total tax revenue per person as a percentage of the per capita GDP was just 6.3%. It reached double figures in the 1920s, crashed through 20% at the time of World War II, and went past 30% during the Howard years.<sup>3</sup> Despite the 2000 reform of the tax system, this is where it has stayed. After seven years in power, and despite its rhetoric about reducing the role of government and allowing people to retain more of the proceeds of their own labours, John Howard’s Liberal-National Coalition government has been raising more tax as a proportion of the nation’s GDP than any Federal government in our history.<sup>4</sup>

### **The Tax-Welfare Squeeze: The Problem of High Effective Marginal Tax Rates**

Australia spends less on welfare than many other OECD countries. The social policy establishment thinks this means we are less generous to those in need, but this is not the case. Although we spend less in total than they do, we divert more of the to those on the lowest incomes.

The reason Australia’s welfare bills are relatively low is because welfare payments are means-tested more stringently than in other countries where their contributory, insurance-based welfare systems allow workers to draw benefits on the basis of entitlement rather than strictly according to ‘need’. This means people can still qualify for payments even if they do not ‘need’ them, and the ‘surplus’ is then

clawed back through the tax system as claimants are taxed on their welfare incomes. Retired people with independent incomes or savings still get paid the state pension, for example, but they have to pay tax on their income from all sources including the pension.

In Australia, by contrast, all benefits (including age pensions) are paid out of general taxation, and eligibility is established purely on the basis of 'need', rather than according to contributions made. The result is that fewer people end up receiving payments because those who have saved or who have other sources of income get nothing. Less is spent in total on welfare, but it is more targeted to those who need it most. Although our total welfare spending is the third lowest in the OECD, the value of net transfers to the poorest 30% of the population is the third highest, exceeded only by Norway and Finland. Our generosity towards the bottom 30% is greater even than that of Sweden.<sup>5</sup>

The Australian system is therefore very efficient, but at the same time, it creates perverse disincentives when it comes to working and saving. Provision of a non-contributory and means-tested age pension, for example, means those who save for their old age are penalised because any income from savings reduces the value of the pension they can claim. This is why workers have now to be forced to save through the compulsory superannuation levy on their employers as it makes little sense for them to save voluntarily.

Similarly, targeting benefits for the working-age population at those with little or no other income means rewarding those who do not work while penalising those who do. As soon as people on welfare find a job or when part-time workers increase their hours, they rapidly begin to lose their welfare payments as well as starting to pay income tax. As with savings, so with earnings, means-testing creates huge disincentives to self-reliance.

Many people living on benefits find that moving into low-paid or part-time employment produces disappointingly small improvements in their living standards as sharp income tests begin to bite and the value of payments declines at the same time as they start paying tax.<sup>6</sup> For example, a single parent with two young children living on Parenting Payment Single (PPS) would have received a total welfare income of \$18,127 per annum (not counting rent assistance) in early 2004.<sup>7</sup> Once they start to work, however, these benefits rapidly fall away,<sup>8</sup> and income tax liability kicks in on all earnings of more than \$6,000 per year.<sup>9</sup> If this sole parent takes a part-time job paying, say, \$24,000 per annum, they will find that 74 cents in every additional dollar earned disappears in tax and lost benefits (what economists refer to as an 'effective marginal tax rate', or EMTR, of 74%).

Sole parents are not the only people to suffer in this way. Means-testing of Family Tax Benefit ensures that many full-time working parents earning between the minimum wage and the average wage also see much of their additional earnings disappear if they work more hours or take a better-paid job. Because eligibility for income support is assessed on the combined family income while income tax is levied on an individual basis, many part-time second earners find it hardly pays to work at all.

It was calculated in 2003 that almost a million people, or 8% of the working-age population, faced EMTRs of 60% or more.<sup>10</sup> Three-quarters of them are working parents with children under the age of 16 because it is the means-testing of Family Tax Benefit (Part A) that causes many of the problems. Only 3% of single people, and just 1% of those in couples without children, face EMTRs this high, but 15% of individuals in couples with children and nearly one-quarter of sole parents are caught by EMTRs of 60% or more.

The unique nature of our benefits system and the steeply progressive structure of our income tax system mean that low to middle income families in Australia encounter bigger tax/welfare work disincentives than equivalent families in many other nations. In early 2004, a single income family in Australia with two children on average earnings faced an effective marginal tax rate of 61%. Only four other OECD countries had EMTRs this high.<sup>11</sup>

### **Problems in Making Work Pay**

Almost everyone agrees that high EMTRs are destructive of personal incentives to work and must be reduced. There is, however, little agreement about how this might best be done.

Logically, there are three possible solutions: (i) change the welfare rules so that people do not lose so much in benefits as their earnings rise; (ii) change the tax rules so they do not pay so much tax as their earnings rise; or (iii) change the way the welfare and tax systems interact with each other so that people do not lose benefits at the same time as they pay more tax.

#### **(i) Changing the welfare rules**

The first possible solution is to reduce the rate at which welfare benefits are withdrawn as incomes rise. This would certainly increase work incentives, for when the PPS taper was reduced from 50% to 40% in 2000, work participation of single parent households rose by around 2.5% (and because more people were attracted into work and began paying tax, the net cost was halved). There was also a positive

though less dramatic employment effect from the reduction of the FTB taper from 50% to 30%.<sup>12</sup>

The problem, however, is that reducing the taper rate on welfare payments means increasing the income range over which the benefits are payable. Currently, PPS is withdrawn at 40 cents in the dollar on earnings over \$4,411 per annum and it phases out altogether once people earn around \$34,000. If the taper rate were reduced to 20 cents in the dollar, this would mean the benefit would still be payable to single parents earning as much as \$60,000 per annum. If the current 70% taper on NewStart allowance were reduced to 45%, unemployment benefit would have to be paid to people working full-time at the minimum wage.<sup>13</sup>

Not only is it very expensive to reduce the taper rate on benefits, but it is also inefficient. Because more affluent households become eligible for welfare payments, the tax and welfare bureaucracies become increasingly entangled as one pays people the benefits to which they are entitled while the other tries to claw them back again in increased taxes. This not only increases bureaucratic costs (so-called ‘churning’), but it also undermines work incentives.

## (ii) Changing the tax rules

The second possible solution to the problem of high EMTRs is to reduce the amount of tax that lower income working households have to pay. This could be achieved by across-the-board tax cuts, but given that low to middle income groups face the highest EMTRs,<sup>14</sup> some economists prefer the idea of an ‘earnings credit’ (EC) paid solely to low income working families.

An earnings credit is a cash transfer financed by the government but paid through the wage packet to lower income earners to compensate them for the increased taxes they pay and the reduced benefits they receive as their income rises. Workers continue to claim their benefits and pay their taxes, but a new payment is laid on top of this existing system to reduce the net amount they end up losing.

The Americans have had an ‘Earned Income Tax Credit’ for more than 30 years, and the Blair government in the UK introduced a series of tax credits in 1997. In Australia, a proposal to introduce an earnings credit was first outlined by five leading economists in an open letter to the Prime Minister in 1998.<sup>15</sup> The latest version of this proposal<sup>16</sup> would reduce the EMTR faced by a jobless couple with two children who move into low-paid employment from 69% to 65%. Its supporters claim that, although this does not sound much, it

would encourage another 72,000 people into paid employment at an estimated cost to the Treasury of \$2.5 billion per annum.<sup>17</sup>

There are, however, some serious drawbacks with earnings credits. The main one is that they improve work incentives for some people while reducing them for others. Like any other means-tested government payment, they phase out as people's earnings rise, so they inevitably create new work disincentives at the point in the income scale where they start to fall away. The 'Five Economists' try to minimise this disincentive effect by linking their proposed tax credit to the existing FTB payment, but this will still increase the number of people affected by spreading the taper across a broader band of incomes than before.

In the United States and the United Kingdom, tax credits have helped those on lower incomes but have created new problems for those on middle incomes.<sup>18</sup> In Britain, tax credits increased the number of households claiming means-tested payments by more than 40% in six years,<sup>19</sup> and 85% of families with children are now enmeshed in the payments system.<sup>20</sup> Blair's former Minister for Welfare Reform, Frank Field, says it is now impossible for many people to escape dependency on government payments by working harder or gaining more qualifications.<sup>21</sup> People who had never before gone near the social security system are now caught up in the welfare dependency net.<sup>22</sup> The British have also found that tax credits encourage fraud as employers collude with their employees to pay a proportion of the wage 'off the books' so as to maximise tax credit eligibility.<sup>23</sup>

If Australia were to go down this road, even more money would end up being spent on income support than at present. The Five Economists speculate that the increased work incentives generated by an EC could mean their scheme could become revenue-neutral (or even revenue-generating) within ten years,<sup>24</sup> but international experience suggests otherwise. Like every government payment that has ever been introduced, tax credits would get extended and their cost would grow. In the United Kingdom, spending on tax credits has grown alarmingly since the Working Families Tax Credit was first introduced in 1997. Reaching 0.6% of GDP by 2001, the total cost is anticipated to rise to 1.2% of GDP (14 billion) by 2005-06.<sup>25</sup> In the United States, the cost of the Earned Income Tax Credit was estimated to have reached \$27 billion in 1996.<sup>26</sup>

### (iii) Disentangling tax and welfare

The first two solutions to high EMTRs—more generous welfare tapers and more generous tax tapers—share a common problem in that any

means-tested payment aimed at working households *must* create work disincentives because it reduces as earnings rise. The only way to avoid this is to move away from means-tested in-work benefits altogether.

This is the logic behind the third possible solution to high EMTRs, which is to disengage the tax and welfare systems so that as far as possible they no longer overlap. The key to achieving this is to raise the zero-rate (tax-free) threshold and to replace means-tested child payments with flat-rate payments.

### **Raising the Tax-free Threshold**

In 1980, a worker did not pay any tax until earnings reached one-third of average earnings (\$4,041 per year). Wages have gone up by 350% since 1980, but the tax-free earnings threshold has only risen 50%, to \$6,000. This is less than one-seventh of today's average earnings, meaning that every worker now pays tax on a much bigger proportion of their earnings than they used to. Had the 1980 zero-rate threshold of \$4,041 kept pace with earnings, it would now be worth over \$14,000.

The value of the tax-free threshold should be restored to something close to its 1980 level. If a 'subsistence income' is defined as the minimum amount somebody would receive if they were unemployed and living on welfare benefits (\$12,567 per annum in early 2004), then this 'subsistence principle' suggests the tax-free threshold for a single person should at least be raised to about \$12,500.

There is also a strong pragmatic argument for raising the threshold. Because the government currently taxes us long before we have secured our own basic subsistence, it has to give much of this money back again in welfare payments so that those on lower incomes can maintain themselves and their families. It is this 'churning' that creates the high EMTRs discussed earlier.

It makes much more sense to allow people to keep more of what they earn so that they do not become enmeshed in the welfare transfer system in the first place. Raising the threshold above the welfare floor would allow more people to remain self-reliant through their own efforts without having to depend on handouts from Canberra.

The main argument against raising the zero-rate threshold is that it would benefit all income taxpayers, not just those on the lowest incomes. The cost to the Treasury would be substantial while the pay-off in terms of inducements to lower income groups is diluted. Critics have suggested that raising the tax-free threshold to \$10,000 (while leaving all other welfare payments unchanged) would cost twice as much as the Five Economists' proposal for an earned tax credit, but would achieve only half of the increase in labour market participation.<sup>27</sup>

Yet what the critics see as a weakness is, in fact, a strength of this proposal. Every earner benefits equally from raising the tax-free threshold and those on low incomes can be helped without persecuting those who start to increase their earnings. The threshold is never taken away, no matter how much extra people earn, so it never creates disincentives higher up the income scale.

Of course, a tax-free income of \$12,500 or so is only sufficient to maintain one person. Where a worker is earning a wage that has to support a second adult, they clearly need a more generous zero-rate threshold if the couple is to achieve a subsistence income and thereby maintain self-reliance.

In the welfare system, an unemployed couple with no children is currently given a total income in benefits worth \$20,169, which is 61% more than a single claimant receives. While the welfare system assesses needs at a family or household level, the tax system treats individuals as distinct income units and takes no account of how many people have to share a given income.<sup>28</sup> There is a strong case for the tax system to come into line with the welfare system by taking into account the number of people who have to be supported from any one individual's earnings.<sup>29</sup>

This can best be achieved by allowing a second partner in a couple to transfer part of their zero-tax threshold to the first, assuming this is what they both choose to do.<sup>30</sup> This would give them a shared zero-tax threshold substantially above the single person's threshold, but less than double (for two people can live cheaper than one). If one person needs, say, \$12,500 for subsistence, two people living together do not need 2 x \$12,500 (\$25,000) to achieve the equivalent standard of living. Most 'equivalence scales' suggest they need about 1.5 times what a single person needs (which would give them a joint threshold of \$18,750) while the welfare system thinks they need around \$20,000. A figure of \$19,500 is probably about right.

### **Universal, Non-means-tested Tax Credits For Dependent Children**

This principle of pooling family members' zero-rate thresholds need not be limited to adult partners. Dependent children could be given their own tax thresholds because, like adults, children must also achieve a subsistence income in order to live, and their income up to this point should not be taxed. In most cases, children's income comes from a share of their parents' earnings, so it would be appropriate for the children's threshold to be transferred to one of both working parents to compensate them for that portion of their income that is transferred to, and consumed by, their children.

The problem with this idea, however, is that it would soon take the total threshold for a family above the minimum wage level. For example, if children were each allowed to transfer, say, one-third of the full adult threshold to their parents, a two-adult, two-child family with just one earner could earn around \$27,000 before becoming liable for tax. However, if a single earner were on the federal minimum wage (currently worth \$23,316),<sup>31</sup> the family income would be \$3,684 per year less than its pooled threshold, and it would therefore fail to get the full benefit of the pooled allowance.

The way to overcome this is to recognise the subsistence costs of children through non-means-tested child tax credits, rather than by giving them additional zero-rate thresholds.<sup>32</sup>

In 2004, the welfare system defined the subsistence income for a family of two adults and two children as \$27,335. Such a family should therefore be allowed to earn something around \$27,000 before starting to lose tax. This could be achieved by allowing them two single person thresholds of \$12,500 (or a shared couple tax-free allowance of, say, \$19,500), and adding to this a refundable tax credit worth about \$3,000 per child. This credit could be claimed against any income tax paid on family income over the tax-free threshold, but if the total value of the child tax credit/s exceeded the family's total tax liability for the year, the balance could be claimed back as a refund.

For example, a couple with one full-time earner and two dependent children might between them earn \$50,000. If they opt to pool their tax-free threshold, they would start to pay tax at \$19,500. At April 2004 tax rates, they paid 17% on earnings between \$19,501 and \$21,600 and 30% on the remainder—a total tax liability of \$8,877. Two \$3,000 child tax credits would then allow them to recoup \$6,000 of this<sup>33</sup> so they would only end up paying \$2,877 tax.

The crucial point about this proposal is that the child credit should be non-means-tested so that parents are not penalised as they increase their earnings. It could then replace the existing array of means-tested child payments—the Family Tax Benefit (Part A), Family Tax Benefit (Part B), Child Care Benefit and Maternity Allowance—which cause much of the problem of high EMTRs experienced by low-to-middle income families.

### **Can Treasury Afford It?**

Raising zero-rate thresholds above the welfare subsistence floor and supplementing them with flat rate tax credits for dependent children would allow families with at least one full-time worker to be taken out of the means-tested welfare system altogether. Working families would

retain more of what they earn, would become more self-reliant, and would escape the 'poverty trap' produced by the interaction of the tax and welfare systems. But can it be done?

In principle it should be possible, after all, it was not long ago that Australia enjoyed a system very much like the one proposed here. As recently as 1980, the zero-rate tax threshold was worth around \$14,000 in today's money (although tax rates were somewhat higher then), and up until 1986 there was a universal allowance for families with children which was not taxed. This benign combination meant that 40 years ago a single earner family with three dependent children living on an income one-and-a-half times average earnings (equivalent to about \$65,000 today) paid no tax. Indeed, after receiving child allowances, this family's final disposable income was 3% higher than its earned income.<sup>34</sup>

Since then, however, the tax burden on families has grown much heavier and their reliance on welfare payments has escalated. Abolishing Family Tax Benefit (Part A), Family Tax Benefit (Part B), Child Care Benefit and Maternity Allowance would generate savings of \$13 billion per annum,<sup>35</sup> but raising the zero-rate tax thresholds would cost \$10 billion plus providing all families with non-means-tested child credits of \$3,000 per child would cost another \$12 billion more.<sup>36</sup> This leaves a net shortfall of just over \$9 billion compared with present budgetary arrangements.

One major difference between 40 years ago and today is the size of the welfare budget. If we could return to 1965 levels of welfare dependency, we might also return to 1965 levels of tax and child payments. Earlier chapters have shown how reforming welfare benefits could make significant savings. Limiting the DSP to those who are really disabled could save between \$500 million and \$1.5 billion per year; time limits on unemployment benefits linked to an extension of Work for the Dole for those claiming for more than six months could generate another \$1 billion; and bringing Australia into line with other OECD countries by expecting welfare parents to find part-time employment once their youngest child starts school could save around \$1 billion on Parenting Payment Single and another half a billion on Parenting Payment Partnered.

These three reforms alone could therefore save more than one-third of the money required, and this takes no account of any new revenues that would accrue as former welfare claimants moved into employment and started to pay taxes rather than receiving benefits. There would also be savings in staffing—the Department of Family & Community Services wages bill increased five-fold between 1996 and

2002 and its spending on consultancies doubled.<sup>37</sup> With fewer people on welfare, there should be a reduced need for bureaucrats and the 'experts' who advise them.

Additional savings should be possible in other areas of the Federal government's budget, but any remaining shortfall could be made up by increasing the rate of GST, which at 10% is low by international standards.<sup>38</sup> This reform package is affordable, given the political will to implement it.

### Winners and Losers

Politicians do not like creating losers, but any radical tax and welfare change is bound to hurt some people even as it benefits others.

Nobody loses if the zero-rate threshold were raised from \$6,000 to \$12,500 (for singles) or \$19,500 (for couples), and anybody earning more than \$6,000 per annum gains. In absolute terms, everybody makes the same money gain (at a 17% tax rate, this works out at \$1,105 per annum for singles and \$2,295 for couples opting for shared taxation), but in relative terms, lower income earners gain more because an increased threshold lowers their average tax rate more than it does for higher earners. A single person on the minimum wage ends up paying 35% less tax (\$2,061 as against \$3,166), compared with just a 3% tax saving for the equivalent person earning twice the average wage (\$31,755 paid in tax as against \$32,859 now). Raising the threshold would, therefore, be very popular.

Similarly, nobody loses if we give children a \$3,000 per head non-means-tested tax credit, and again, in relative terms this is worth more to low income families than to those on higher incomes. However, this change is linked to the abolition of a raft of in-work means-tested benefits and this would create net losers as well as net winners.<sup>39</sup>

### Full-time Workers

The biggest winners would be full-time workers in low-to-middle income families who currently face cripplingly high effective marginal tax rates as they seek to improve their incomes. As gross earnings rise from the minimum wage of \$23,316 to the average wage of \$48,993, a single parent with two school-age children in early 2004 retained just \$7,542 (29%) of the increase. Under the proposals outlined here, they would retain 52% (\$13,249) of it. Similarly, a couple with two children currently keeps just 34% of this gross increase, but with these reforms they would retain 56% of it.

These improvements in work incentives are mainly the result of boosting take-home pay higher up the scale.<sup>40</sup> The great majority

of families with a least one worker in full-time employment would benefit from the changes, and very few would lose out. With much lower EMTRs, even those who did lose would soon be able to make up the difference with a relatively modest increase in gross earnings. The incentives boost on activity levels and hence on additional tax revenues is likely to be substantial.

### **Workers Who Are Also on Benefits**

In recent years there has been an increase in the number of people who combine receipt of welfare with earnings from paid work. It is estimated that as many as 18% of claimants have some independent earnings.<sup>41</sup> Some of these earn above the proposed \$12,500 tax-free threshold but still receive some income support. A single parent with two children, for example, could in 2004 earn up to \$35,000 before losing eligibility for reduced-rate Parenting Payment Single. Workers earning this sort of money would benefit from raising the tax-free threshold, but they would continue to encounter high EMTRs because taxes would start at \$12,500 while their benefits are still tapering out.

It makes a lot of sense to allow welfare claimants to combine part-time work with welfare (Chapter 9 suggested that parents of older children should be expected to do this), but this inevitably means they will face high EMTRs as they increase the earned part of their income because eligibility for income support must taper out at some point. Only if welfare payments were capped at the zero-tax threshold, or the tax-free threshold was set at the maximum welfare level, is it possible to ensure that welfare tapers would never be exacerbated by the onset of tax liability. Neither option is feasible. Workers earning above the welfare floor but below the welfare ceiling are therefore destined to live with high EMTRs.

This is why 'carrots' have to be combined with 'sticks' as it is not always possible to engineer strong financial incentives for people on welfare to go to work. It is appropriate, for example, that full Parenting Payment should only be payable to families who have at least one child under school-age because once children start school it is reasonable to expect the principal carer to return to work part-time. Parents with older children should be expected to contribute towards their own living costs by finding part-time work, even if this does not substantially increase their final income relative to what they were receiving on benefits. If it is appropriate that some welfare claimants should work, then this should be a requirement irrespective of whether it 'pays' them to do so.

### **Welfare Claimants With No Other Source of Income**

Those who stand to lose the most from the changes outlined here are people on welfare who do no paid work. Single jobless claimants would not be affected, but the net income (excluding rent assistance) of a jobless single parent with two children would fall by 13%, and that of an inactive couple with two children would fall by 10%. Part-time workers who make extensive use of child care would also lose as a result of scrapping the Child Care Benefit (currently, parents on income support and those with earned incomes below \$31,755 can claim a maximum Child Care Benefit of \$2.74 per hour for up to 50 hours).<sup>42</sup>

This does not mean that the proposals are flawed. It was shown earlier that the value of net income transfers to the poorest 30% of the population is the third highest in the OECD, and is higher even than in Sweden. There may therefore be some scope for adjustments to welfare-wage relativities without putting Australia out of line with other countries, and a fall in the value of welfare payments would obviously strengthen work incentives.

Politically, however, it would be difficult to resist making some concessions to those who lose the most net income. The problem here is that any targeted additional support for these low income groups would involve means-testing and would recreate the problem of high EMTRs. The best way around this might be to limit supplementary payments to low income families with children under five on the grounds that primary carers of young children should not be expected to participate in paid employment. Limited in this way, a means-tested top-up would not create damaging work disincentives for other claimants who should be working.

If the proposed Child Tax Credit for the under-fives was raised from \$3,000 to, say, \$5,000, this would compensate most of the people who lose from our proposed changes as well as directing more resources into the 'early years' where many commentators now believe extra help should be targeted.<sup>43</sup> Yet with about 1,230,000 children in the 0 to 4 age group, this option would be expensive, incurring an additional cost to the Treasury of just under \$2.5 billion. Alternatively, if the quarter of a million or so Parenting Payment claimants with children under school age were each given a supplement worth, say, \$3,000, this would again ameliorate many of the most severe losses incurred by parents of young children, be they coupled or single, but at a cost of less than \$1 billion.<sup>44</sup>

### **Would Voters Support It?**

Table 12.1 reveals strong support for the first part of the radical reform package outlined in this chapter, namely, raising the personal

tax threshold above the minimum welfare floor. More than four out of every five voters believe there should be a zero rate on all earnings below the welfare subsistence level. This part of the strategy would definitely attract voters.

**Table 12.1: Public Opinion and the Personal Tax-Free Threshold, 2003.**

Question: 'At what level of earnings do you believe people should start to pay income tax?'

	No	%
On every dollar they earn right from the first dollar	217	4
On earnings above \$6000 per year (as now)	764	13
Not until they earn above basic welfare benefits level	2,445	43
Not until they earn above minimum award wage	2,014	35
People should not have to pay income tax	230	4
Don't know/No opinion	51	1
Total	5,721	100

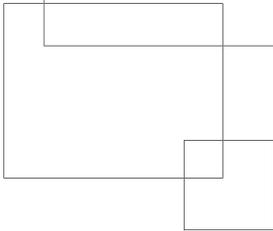
Source: First CIS ACNielsen survey.<sup>45</sup>

It would be easier to sell voters these changes to family support payments if some compensation for those who lose out was included in the package. Compensation in the form of a supplementary payment would raise the total cost of the combined tax and welfare changes above \$10 billion. Some sceptics might look at the revenue implications of these proposals and conclude that it cannot be done. However, there is a growing sense that the tax system needs radical reform. The economics editor of *The Australian* newspaper recently suggested that a \$20 billion tax reform spread over three or four years would not be inappropriate, and he criticised the caution of the Howard government which appears to believe that tax cuts can only be countenanced after all existing demands on government expenditure have been met.<sup>46</sup> In this context, the proposals outlined here are relatively modest.



# **Opportunities. Ensuring There Are Jobs**

Chapter 13





'Labour market training is the major active labour market policy in terms of public spending [but] . . . evaluations show rather disappointing results . . . Special youth measures [are] very disappointing . . . Subsidies to private sector jobs [have] large deadweight, displacement and substitution effects . . . Direct job creation schemes in the public sector . . . have been making a bit of a comeback . . . Evaluations point to little success'

John Martin, Director for Employment, Labour and Social Affairs, OECD<sup>1</sup>

**W**elfare activists and social policy intellectuals who oppose tighter eligibility rules for people on welfare often claim that our core problem lies not on the 'demand side' of the labour market but on the 'supply side'. They say moving more people from welfare into work requires improving job opportunities (supply of jobs) rather than worrying so much about raising work motivation among the jobless (demand for jobs). They assert that most people currently on welfare cannot be expected to get a job because there are nowhere near enough vacancies for them to fill. Increase the supply of jobs and welfare claimants will start working without being pushed.

Chapter 7 identified several problems with this line of argument. It seriously underestimates the number of jobs available, is blind to labour market dynamics (the rapid turnover of people and jobs over time), and ignores evidence that significant numbers of people on welfare either do not want to work or have become too fatalistic and dispirited to take opportunities when they arise.

Nevertheless, it is true that any attempt to get more people off welfare and into work needs to look at both sides of the coin—at the supply of jobs as well as the demand for them. There is little point in pushing people off welfare with tighter eligibility rules, or encouraging them into the labour force with lower taxes if it turns out there are insufficient jobs available to them.<sup>2</sup> The question to be addressed in this chapter, therefore, is whether there are enough jobs to soak up all those on welfare who should be working, and if not, what should be done to generate more?

### **Are There Enough Jobs?**

In recent years, Australia has been one of the developed world's fastest growing economies, but our unemployment record has

been disappointing. Despite strong economic growth, the official unemployment rate hovers between 5 and 6%. While this is a lot better than a few years ago, it still compares unfavourably with other 'Anglo' countries. Both New Zealand and the United Kingdom (two traditionally weak economies which are now enjoying the fruits of radical labour market reforms introduced back in the 1980s) have lower unemployment than we do, and although the unemployment rate in the United States has recently converged with that in Australia, the 'structural' rate of unemployment in the United States has over time been much lower than it is here.

It is true that our strong economic performance in recent years has generated many new jobs. In May 2004 there was a record figure of 9.7 million people in employment,<sup>3</sup> over a million more than were employed in 1996. During that period, 45% of all the jobs created were full-time.<sup>4</sup> However, this job growth has barely been enough to keep pace with the growth in the number of people looking for work. Increased female participation in the labour market, coupled with continuing immigration, has meant that the employment-to-population ratio is only a little higher than it was in 1990.<sup>5</sup>

The million new jobs created in recent years were spread across every sector of the economy including manufacturing. They included relatively low-skilled jobs as well as high-skilled ones, although three-quarters of the new, low-paying jobs created between 1985 and 2001 went to women,<sup>6</sup> and many of these were part-time positions (part-time employment rose by 38% in the 1990s compared with a 14% increase in full-time employment).<sup>7</sup> The expansion of part-time employment partly reflects the increasing number of women who seek to combine family responsibilities with paid work,<sup>8</sup> but nearly a quarter of part-timers say they would prefer to work longer hours and cannot find a suitable position.<sup>9</sup> The ABS estimates that 3% of working-age men and 5% of working-age women—a total of 500,000 people—were 'underemployed' in 1998.<sup>10</sup>

Dramatic technological advances have meant that the number of traditional male blue-collar jobs has hardly grown at all in the last 30 years, despite the increasing working-age population. The big expansion has come in services, where former blue collar male workers sometimes find it difficult to secure employment. The result is that, while the female labour force participation rate rose from 50% to 64% in the 1980s and 1990s, the male labour force participation rate fell from 86% to 82%.<sup>11</sup> Full-time employment rates for males aged 35 to 64 have fallen (relative to the size of the population) by more than 20% since 1971.<sup>12</sup>

Chapter 7 explained the particular concern that surrounds the number of Australians out of work for a year or more. This long-term unemployment is measured in different ways by different agencies with varying results, but when those on Disability Support Pension who should be working are added, even the most parsimonious estimates suggest there are half a million long-term unemployed who are capable of working. Again, many of these are older males with few qualifications.

There is, then, a shortfall of jobs centred on lower-skilled males. Though there are still plenty of job opportunities in some areas, in parts of rural and regional Australia, as well as in some of the poorer metropolitan suburbs, it can be extremely difficult for unqualified people and older males to find full-time work. The crunch question is, what should be done about it?

### **Market Failure or Regulatory Failure?**

A shortage of jobs could be the result of market failure or of regulatory or government failure.

Market failure occurs when demand and supply fail to adjust to each other over an extended period and then settle down at an equilibrium point where the market fails to clear. There are many reasons why the demand for labour might remain consistently lower than the supply of workers. Shifts in investment might mean that workers end up living 'in the wrong place' (perhaps even the 'wrong country' in an increasingly globalised economy), or they may have skills that have been rendered redundant by new technologies, or employers may be ineffective in advertising their vacancies. Whatever the cause, the result is that many jobseekers fail to find work.

Regulatory failure, by contrast, occurs when employers are deterred from taking on more workers because government is making it too unprofitable or risky for them to do so. Employers may want to take on more staff, but high minimum wages mean they would have to pay people more than they are worth. High unemployment benefits mean people are unwilling to accept low-wage jobs, or laws governing 'unfair dismissal' and redundancy make employers reluctant to take on new workers in case they get landed with expensive law suits when they try to get rid of them. In these cases, jobseekers remain unemployed even though employers have work for them to do, and the economy ends up less efficient as a result.

Analysts who believe unemployment is primarily a function of market failure tend to look to government to intervene in the labour market to put things right. A shortage of trained personnel, for

example, can be overcome by government training schemes; cheaper labour overseas can be combated by giving employers wage subsidies to take on Australian workers; and if all else fails the government itself can employ more people to soak up unemployment. Analysts who think the problem has more to do with regulatory failure, however, see remedies like these as the exact opposite of what needs to be done. If government over-regulation is responsible for killing jobs, the last thing that should be done is tackling the problem with even more regulations.

What one analyst sees as a solution, another sees as a problem. To determine who is right, it makes sense to look at which policies have worked best in practice. In some countries, governments have assumed an active role in trying to create jobs, but in others governments have adopted a much lighter touch, allowing employers and employees greater freedom to strike their own bargains in the marketplace. Comparing the outcomes from this natural experiment should enable us to determine which strategy has been more successful.

### **Faith in ‘Active Labour Market Programmes’**

The social policy establishment is convinced that the solution to high rates of long-term unemployment lies in an array of ‘active labour market programmes’ instigated and directed by the government. The programmes they advocate take various forms, but they all have three things in common: they involve a proactive role for politicians, bureaucrats and welfare activists; they are expensive for taxpayers; and they rarely work.

Leading Australian social affairs intellectuals like Julian Disney (former President of the International Council on Welfare), Peter Saunders (Director of the Social Policy Research Centre), and Fred Argy (former Director of the Economic Planning Advisory Commission) converge on a core range of proposals.<sup>13</sup> These include reversal of the last ten years of labour market reforms and the reinstatement of centralised industrial relations bargaining; expansion of public sector employment; increased government spending on training programmes and regional development initiatives; higher government subsidies for specified industries; wage subsidies to encourage employers to take on unemployed workers; and increased regulation of working conditions, including a higher minimum wage. All three experts also want the government to introduce legal restrictions on overtime to make people share available jobs.<sup>14</sup>

Many of these ideas are echoed in the campaigns waged by welfare organisations and trade unions. In their submissions to the 2003-04

Senate Poverty Inquiry, for example, the St Vincent de Paul Society called for a government 'job creation blueprint' involving 'subsidies and programs', the Brotherhood of St Laurence wanted more public sector employment and subsidies for employers, UnitingCare Australia demanded new government labour market programmes to create jobs, and the Liquor, Hospitality and Miscellaneous Workers Union called for a higher minimum wage, restrictions on short hours working and more regulation of casual employment.<sup>15</sup>

The final report of this inquiry, written by the Opposition Senators who were in a majority, endorsed almost all of these suggestions. They called for a 'national jobs strategy' that would 'promote employment opportunities', 'set long-term targets for increased labour force participation', 'develop employment programs and job creation strategies' and 'invest in training and skill development'. They supported a 'new minimum wage benchmark' that would raise award rates for low-paid workers; new regulations to force employers to offer a minimum number of hours of employment per week; and legislation to give casual workers the same leave entitlements as permanent workers (an idea since endorsed by the federal ALP).<sup>16</sup> They criticised the 'negative impact' of the limited deregulation of the labour market that has taken place since 1996, asserting that this has 'benefited business' but made low-skilled employees 'more vulnerable',<sup>17</sup> and suggested that the Commonwealth government 'introduce a range of measures to address structural problems in the labour market', although the nature of these measures was not specified. The overall message was clear: 'The Commonwealth government needs to be more pro-active in creating employment opportunities for Australians.'<sup>18</sup>

Academics, activists and ALP politicians all seem convinced of the case for proactive labour market policies to generate more jobs. Yet when these sorts of policies have been tried, the results have been generally disappointing.

### **The False Promise of 'Active Labour Market Programmes'**

Proactive labour market programmes have been tried in various forms in all western countries, but they are most strongly associated with the continental European and Scandinavian welfare states where a history of over-regulation and high taxation has created the biggest unemployment problems in the western world. These countries have invested heavily in direct job creation in the public sector, in subsidies for jobs in the private sector and in various kinds of training programmes designed to improve the chances of unemployed

people getting a job. The outcome has invariably fallen well short of expectations.

Employing the long-term jobless in specially created **public sector jobs** obviously takes them off the unemployment register, but it achieves little in improving their chances of finding 'real jobs' in the 'real economy'. International experience suggests that employment in the public sector has a negligible impact on long-term job prospects and rarely provides the unemployed with the skills and experience that other employers are looking for.<sup>19</sup> Organised as part of a Workfare strategy (for example, Australia's Work for the Dole), government jobs can play a role in getting people off welfare, but the OECD reports they have 'been of little success in helping unemployed people get permanent jobs'.<sup>20</sup>

Some analysts argue for a permanent expansion of public sector employment to mop up the unemployed. The Brotherhood of St Laurence, for example, has suggested that the Federal government fund one million new jobs in the public and voluntary sectors and employ the jobless as teachers' aides in primary schools, as home helpers for elderly people, and on various environmental initiatives.<sup>21</sup> While it can make sense to employ them in tasks that genuinely need to be performed, there is a problem of forcing square pegs into round holes. Funding on the scale envisaged by the Brotherhood would run the risk of destroying jobs in the productive economy by diverting money from profitable enterprises and spending it on less efficient uses.<sup>22</sup> The western world went down this Keynesian path once before and it led to the stagflation of the 1970s. We should learn from our mistakes.

An alternative to employing people directly in the public sector is to pay **private sector employers** to do it instead. However, a review of employment subsidies in France, Germany, the Netherlands, the US and the UK found that they 'tend not to be effective with harder-to-serve groups' such as the long-term unemployed.<sup>23</sup> Employers are often reluctant to take up targeted subsidies because they generally want the best candidate rather than the cheapest one, and they worry about the quality of people who need government subsidies to induce anybody to employ them. The OECD also reports that subsidising employers to take on unemployed workers leads to very substantial 'deadweight effects' (that is, government pays subsidies to employers who would have created these positions anyway) and 'displacement effects' (people are recruited from the unemployment rolls into subsidised jobs, but other people who would have got these jobs are squeezed out). This makes employment subsidies a very expensive and inefficient way of expanding the demand for labour. Net employment

gains are typically as low as 10% (that is, the government subsidises ten jobs to create one new vacancy).<sup>24</sup>

A third strategy is to pump more money into **training** the unemployed, but this is rarely effective (though it is repeatedly urged by Australian welfare lobbyists). OECD evidence suggests that the only group among the unemployed who clearly benefit from training is mature-age women seeking to return to the labour force after a period spent raising children. They are generally highly motivated and gain much from the opportunity to brush up on their rusty skills. For others, training achieves little, and it is almost a complete waste of time and money when it is directed at the young unemployed.<sup>25</sup> While basic literacy and numeracy skills can help improve people's employability, government training schemes rarely achieve more than a 5 to 15% return on the money invested in them.<sup>26</sup>

Nearly all serious reviews of active labour market programmes find that they do not work, or that they create work for a small number of people at a very large cost. In Australia, the Productivity Commission concluded in its review of the evidence that 'they have variable, but usually small, effects on the employment and earnings of participants'.<sup>27</sup>

### **Learning From America—Again**

In the 1990s, millions of new jobs were created in the United States and unemployment stayed low without government job creation or training programmes.<sup>28</sup> Critics have often belittled this achievement by dismissing the jobs that were created as low-paid, casual 'McJobs', however most of the new employment came in the high-paying parts of the service sector. Indeed, job growth in the United States outstripped job growth in Europe at all levels of wages.<sup>29</sup> Not surprisingly, the OECD has for some time been advising governments to reduce their reliance on proactive labour market interventions and to learn instead from the extraordinary success of the United States.

US rates of long-term unemployment have been particularly impressive. Table 13.1 provides average figures for long-term unemployment for the period 1994 to 2001, based on labour force surveys in different OECD countries. The United States stands out as having a remarkably low incidence of long-term unemployment (an 8% average over this period).<sup>30</sup> Other liberal 'Anglo' countries did a lot worse than this, but they still performed much better than the continental European countries with their battery of government-funded make-work policies. At first sight the Scandinavian nations appear to have achieved figures comparable to those of Australia, but

this reflects the large-scale displacement into disability payments in those countries. France and Germany performed abysmally.

**Table 13.1: Average Unemployment and Long-term Unemployment Rates, Selected Countries, 1994-2001**

	Average Annual Unemployment	Average Long-Term Unemployment (12+ months)
Australia	7.7	29.8
Canada	8.6	14.2
Denmark	6.0	25.4
France	11.2	40.7
Germany	8.6	49.6
Italy	11.2	62.8
Japan	3.9	21.6
Netherlands	4.8	45.6
New Zealand	6.6	21.8
Spain	18.7	52.7
Sweden	8.0	28.7
United Kingdom	7.0	35.7
United States	4.9	8.4

*Source:* OECD, 'Long-term Unemployment: Selected Causes and Remedies', Employment Outlook (2003), Table 3.11.

There is no sign here that European-style proactive labour market interventions have achieved much in reducing unemployment in general or long-term unemployment in particular, but the strong US performance does suggest that the rest of the OECD might profitably learn something from the Americans. An IMF study suggests that the EU economies could cut their unemployment by one-third if they moved towards American-style labour market flexibility.<sup>31</sup>

### **The Pressing Need For Further Labour Market Reform**

Compared with the United States, Australia has an over-regulated economy and an over-busy government. To reduce unemployment, there are three particular areas of labour market reform where change is needed to stop government from destroying jobs.<sup>32</sup>

First, the **award system** needs to become much more responsive to employers' particular circumstances. For 100 years, wages and

conditions for many Australian workers have been determined by an industrial court which weighs the demands of the trade unions against the arguments of the employers and makes a legally binding award. The scope of this corporatist system has been scaled back in recent years, but more than one in five Australian workers are still paid at award rates, and many more are covered by collective agreements underpinned by awards. Awards mainly cover lower-skilled and lower-paid workers, which is precisely the part of the labour market where more jobs are needed.<sup>33</sup> Rather than promoting employment for this group of workers, the awards system is killing it.

A national awards system imposes a blanket one-size-fits-all uniformity of wages and conditions on all employers in a given industry or sector which stifles job creation, particularly in companies facing higher than average costs or operating in the least advantageous locations. There is a strong argument for reintroducing regional variability in awards and for increasing the opportunity for employers to seek exemptions or to opt out altogether. At present there is little incentive for employers to set up or to remain in parts of the country with the biggest employment problems because they cannot exploit location advantages (such as lower housing costs for workers) that these areas could give them in terms of more competitive wage structures.

There is a case for scrapping the awards system altogether and allowing employers and employees to make their own agreements under common law,<sup>34</sup> but the danger is that we could exchange the frying pan for the fire as new legislation governing things like minimum wages and holiday entitlements would expand to fill the vacuum. If we are to continue with the awards system, however, it must be made less rigid so that the wages and conditions that employers have to meet better reflect the varying conditions under which different businesses in different parts of the country are operating.

Secondly, and related to this, a more realistic national **minimum wage** level would raise the demand for lower skilled workers and make it more profitable for employers to take on more staff. Expressed as a proportion of median weekly full-time earnings, Australia's federal award minimum wage is the second highest (behind France) among OECD countries. At 58% of the median full-time wage, it far exceeds New Zealand (46%), Canada and the United Kingdom (both around 42%), and the United States (37%).<sup>35</sup> While a low minimum wage such as that found in the US need not destroy jobs, a high one like ours certainly does.<sup>36</sup>

The employment impact of a high minimum wage is felt mainly in the demand for low-skilled labour which has been drying up over

the last 30 years. This is because this demand is much more sensitive to wage shifts than the demand for workers with higher skills.<sup>37</sup> It is estimated that the 2003 minimum wage award destroyed 14,000 jobs in three months.<sup>38</sup> Effectively, what has been happening in Australia is that the trade unions have ensured that gains from our sustained run of economic growth have gone into higher wages for low-skilled workers who have jobs, whereas strong economic growth in the United States has gone into a massive expansion in the number of jobs available for low-skilled workers on relatively low wages.<sup>39</sup>

Welfare groups and trade unions often suggest that, rather than freezing or lowering the minimum wage paid to low-skilled workers, it would be better to spend more government money training unqualified people so they can secure better-paid jobs. But evidence shows that the benefits of training schemes for the long-term unemployed have in practice been very limited. Rather than imagining that the problem of joblessness can be solved by transforming hundreds of thousands of low-skilled workers into computer engineers or teaching assistants, it is more honest to acknowledge that current policies are rendering the weakest members of the community unemployable by driving the price of their labour above its true value, and to do something to rectify it.

There is a very strong case for freezing the minimum wage. This need not lead to a significant fall in people's living standards because under present tax and welfare arrangements the lion's share of any minimum wage increase disappears before workers ever get it.<sup>40</sup> If the tax reforms proposed in the last chapter were implemented, any fall in the value of the minimum wage would be more than compensated by the increase in the personal tax-free threshold. Besides, many minimum wage workers live in relatively affluent dual-earner households, so freezing the minimum wage would have little impact on their living standards.<sup>41</sup>

Thirdly, many of the irksome regulations that currently deter employers in general and small businesses in particular from taking on more workers should be removed. Most pressing is the case for reforming the **unfair dismissal laws** as they apply to small businesses.

The many onerous and often unnecessary regulations imposed on Australian companies contrast sharply with the much lighter touch used in America. The 1996 Workplace Relations Act tried to simplify the awards system by restricting it to 20 'allowable matters', but this still means Australian employers are told what to do about holiday entitlements, hours of work, periods of notice, incentive pay, parental leave, long service leave, redundancy pay, dispute procedures,

superannuation, and employee career paths (as well as wages). All this is in addition to the controls exerted by laws at state and federal level governing health, safety, trade union recognition and many other areas of labour contracts.<sup>42</sup>

Among this array of job-destroying regulations, the unfair dismissal laws are particularly damaging as they deter small companies from taking on new employees lest they find they are unable to get rid of them later. A 1999 business survey found that more than half of small businesses might have taken on more staff had it not been for the unfair dismissal laws, and a 2001 survey found that small businesses rated the unfair dismissal laws fifth in a list of over 60 concerns affecting them.<sup>43</sup> The Melbourne Institute has estimated that the unfair dismissal legislation alone is costing at least 70,000 new jobs in the small business sector.<sup>44</sup>

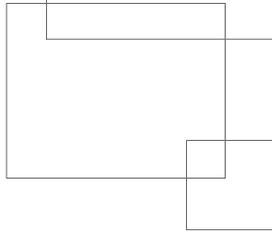
In America, the laws governing job security are much less restrictive than they are here. This means it is easier to lose a job in the United States, but it is also much easier to find another because US employers have fewer qualms about taking on more workers when demand for their products is rising.<sup>45</sup> The link between high unemployment and tight regulation of dismissals and redundancies is belatedly being recognised in Europe where there have been moves to weaken the traditionally strong regulations governing employment security.<sup>46</sup> Australia needs to move in the same direction.

A more flexible award system, a lower minimum wage floor and reform of legislation which is currently inhibiting employers from taking on more workers would all help generate more jobs, particularly in those parts of the country and among those sections of the labour force where unemployment problems are currently most acute. Taken together with tax reform to strengthen work incentives and welfare reform to tighten eligibility, labour market reform is the third essential element in any coherent strategy to return Australia to self-reliance.



# Getting Our Money Back

Chapter 14





‘Should government attempt to “deliver services” in areas of social policy? I think not. How can the citizens help themselves when government proposes to “deliver” this help through its programs and bureaucrats? Government cannot help itself. Because of the hoarding of power and resources at the top, its behaviour is essentially paternalistic and patronising. It always wants to “give things” to citizens for nothing. It always wants to do things for citizens, which perhaps the citizens should be doing for themselves.’

Noel Pearson, Team Leader of Cape York Partnerships and advisor to the Cape York Aboriginal Land Council<sup>1</sup>

In addition to providing income support payments for working-age adults, the government pays age pensions to four-fifths of retired people, and provides a battery of services in kind. Some of these are targeted at specific sections of the population, for example, home helps for the elderly, community services for children and special services for disabled people, while others are made available to all citizens, such as health care and education. The welfare state thus comprises both a cash transfer system and a system of service delivery. The former urgently requires reform, but the latter also demands attention.<sup>2</sup>

We have grown accustomed to the government providing us with benefits and services, but what would happen if the welfare state was radically scaled back? What if the government announced that people should save more for their own retirement rather than counting on the age pension to support them; that they should take out health insurance rather than relying on Medicare and the public hospitals; or that they should fund their own unemployment and sickness insurance funds rather than falling back on welfare payments when things go wrong?

It is often assumed that millions of people would struggle to cope if they were left to purchase their own services, but this seems unlikely given that many people are already paying for the welfare services they consume through their taxes. If the government reduced its spending on retirement incomes, health, and income security, tax rates would plummet, leaving many more people with sufficient purchasing power to buy the services they want directly from suppliers of their choosing.

The guilty secret of the contemporary welfare state is that most of us could afford to buy the services we need if it was not for the fact

that we are forced to pay taxes to fund government-provided services. The welfare state is mainly a system for recycling our own money back to us. A dramatic scaling back of state welfare could allow us to exert the same kind of choice over our health cover or our pension plan as we currently enjoy when choosing the food we eat or the kind of house we want to live in.

Some people, it is true, would still need government help, even if taxes were slashed and more money was left in people's pockets and purses. However, their numbers are not large (in Britain, David Marsland estimates that about 15% of the population would not be able to cope unaided),<sup>3</sup> and those who still did need some assistance may not necessarily require it in the form of direct government service provision. If their incomes were supplemented by cash top-ups or vouchers, they, like everybody else, would be able to buy the services they need. Not even the poor, nowadays, have to remain clients of the state.

### **Simultaneous Churning and Middle Class Welfare**

Most of us think of the welfare state as a Robin Hood system that takes from those who can afford to pay and reallocates the money to the poor. The reality, however, is that rising welfare spending has increasingly been funded by taking money from all sections of society, not only from the wealthy or high income earners. Many people are paying taxes on the one hand, but are on the other receiving welfare benefits and 'free' services in return (less the salaries and running costs of the bureaucracy).

Following Anthony de Jasay, James Cox refers to this process of circulation of money from taxpayers to governments and back again as 'simultaneous churning'.<sup>4</sup> In New Zealand he finds that the top 60% of income tax payers receive back in cash or in kind 46% of all social expenditure. They get more than their share (71%) of the money spent on public education, plus 55% of the health expenditure, 39% of income-tested benefits, 38% of family assistance and 25% of superannuation assistance.

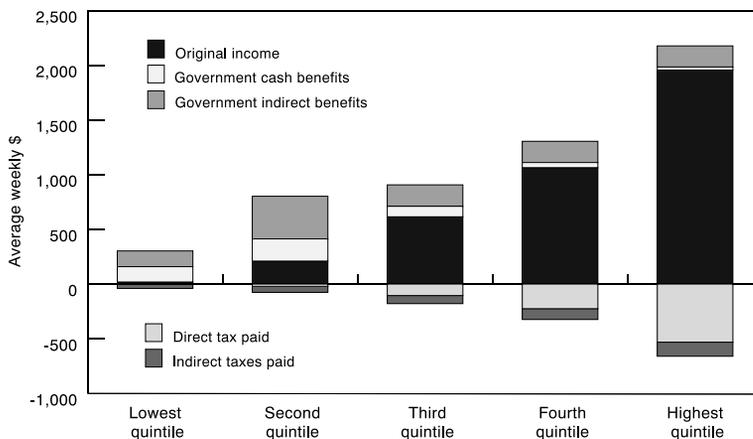
Cox argues that simultaneous churning has come about as successive governments have tried to buy off different sections of the electorate to win their support.<sup>5</sup> Politically, it is much easier to offer new benefits to some voters than it is to claw back spending once people have grown accustomed to it. The unintended result of this long-running auction of services for votes is that New Zealanders pay high rates of tax to finance high levels of provisions which they could afford themselves if only they were not taxed so highly.

A similar pattern has evolved in Australia, although the heavy reliance on means-testing in the Australian income support system means that direct, cash benefits are mainly targeted at lower income groups. While the lowest income quintile receives 27% of all the money spent on income support, the highest quintile receives only 5%. The distribution of benefits in kind, such as government education and health services, is, however, much flatter and somewhat regressive. The lowest income quintile receives only 15% of total welfare state services expenditure compared with 21% going to the highest quintile.<sup>6</sup>

Putting cash transfers and direct services together, the top fifth of Australian income earners receives 14% of total social expenditure, which is barely less than the 18% received by the lowest fifth. The ABS calculates that the highest gross income quintile receives \$221 per week from government spending, compared with \$286 for the lowest.<sup>7</sup>

Even though higher earners take almost as much out of the system as lower earners do, they put a lot more in, so the system overall does redistribute money between more and less affluent households. While the highest quintile pays an average of \$661 per week in taxes into the welfare system (leaving this group with a net 'loss' on its welfare transactions of \$439), the lowest pays an average of just \$40 (realising a net gain of \$246). Nevertheless, much of the money that goes into the welfare system is effectively returned to the same people, particularly in the middle income bands in the form of services in kind.

**Figure 14.1 Composition of Final Income, 1998-99**



Source: Based on ABS, *Government Benefits, Taxes and Household Income*, Cat. 6537.0 (2001).

## Lifetime Churning

The churning of money through the welfare system is even more marked when looking at income flows over an individual's entire lifetime, rather than at one point in time. This can be demonstrated by constructing an imaginary population matched to the real population to reflect the actual distribution of incomes, patterns of employment and non-employment, mortality and sickness rates, rates of welfare use, and so on, and then ageing the individuals through time. Ann Harding has done this for Australia.

Harding calculated how much each individual in the imaginary population would earn over a whole lifetime, and then divided the population into lifetime income deciles, ranking them from the poorest tenth to the richest.<sup>8</sup> Assuming the tax rates and welfare entitlements current in 1986, she calculated how much the people in each of these deciles would contribute in tax to the cost of the welfare system over a whole lifetime, and what they would get back in the value of the welfare payments and services they use.

The results show that the modern welfare state operates more as a system for forcing individuals to save rather than as a mechanism for redistributing money between them. Most of us pay in at one point in our lives only to get much of our own money back later on:

A significant proportion of income taxes paid during the lifetime are returned to the *same individuals* in the form of cash transfers during some other period of their lifecycle. Over the lifetime there is thus significant 'churning' as taxes paid to government at some point in the lifecycle are returned to the same individuals at some other point.<sup>9</sup>

Harding calculates that the bottom lifetime income decile receives 21% of its total income as government cash transfers. This surprisingly low figure shows that over a whole lifetime even the poorest section of the population is remarkably self-reliant (at least as of 1986). Even more surprising, however, is that this same group pays 12% of its lifetime income to the government in income taxes.

Of course, not all of the tax they pay goes to fund welfare payments. Looking only at that portion of their tax devoted to welfare expenditure, the bottom income quintile takes much more cash out of the income support jar over a lifetime than they put back in. Nevertheless, half of the value of government cash benefits received by individuals at the very bottom of the lifetime income distribution is cancelled out by the income tax paid.

Turning from cash benefits to welfare services in kind, lifetime churning is even more marked with richer individuals often getting more value out of government-funded services than poorer people do. For example, the highest decile of lifetime income earners in 1986 could expect to consume \$45,000 of taxpayer-funded schooling, while the lowest decile would receive only \$38,600 worth of schooling. Were it not that many higher income earners opt for private education, and private schools attract lower levels of public subsidy than government schools, this pattern would be even more regressive.

Similarly in health care.<sup>10</sup> Although the bottom decile was projected to receive about twice as big a share of government spending on doctors, hospitals and drugs as the highest decile, this is due mainly to the willingness of wealthier groups to pay for private care outside the welfare system. Moreover, even the bottom decile was still paying in tax \$30,000 of its \$86,000 lifetime health benefits. On average, Harding calculated that Australians end up paying for 73% of the government health care they receive in taxes.

The key role of the Australian welfare system for most citizens is, therefore, that of a compulsory 'piggy bank'. By taking taxes away during the more prosperous periods of our lives and returning the money to us as cash or services during the leaner years, the government ensures its citizens save enough to cover their lifetime needs. But because the government takes the money, individuals are left with precious little control over how it is spent. Furthermore, because the whole process requires vast bureaucracies to keep tabs on the money flows, the administrative cost of this churning is very high, so we never get back as much as we put in.

### **Alternatives to Welfare: Insurance, Loans and Savings**

It is important that individuals smooth out their lifetime income flows, yet this does not have to involve the state and there are at least three other ways in which this might be achieved. All three are already used to a greater or lesser extent by large numbers of Australians.

The first method of income smoothing is for people to **insure** themselves and their families against foreseeable and calculable risks. Rather than relying on the public hospital system for medical treatment, for example, many people take out private health insurance. Similarly, rather than relying on the state to pay benefits when they lose a job or fall ill, workers could insure themselves against any future loss of income resulting from short-term unemployment or sickness.<sup>11</sup> Insurance used to be more common, but it has since

been eroded by the expansion of public welfare. Before Medicare was introduced in 1982, for example, two-thirds of Australians had private health insurance, but this high level of self-reliance has dwindled as the government system has grown. Today, 45% have hospital cover and 41% have ancillary health cover.<sup>12</sup>

A second strategy for income smoothing is for individuals to **borrow** at commercial or subsidised rates when they need access to services earlier in life, and to repay the money later when their earnings are higher. This procedure is already well established in Australia where many people borrow from private financial institutions to buy housing, and throughout the years governments have provided various subsidies to bring home ownership within the reach of ordinary working families. More recently, the number of people in higher education has expanded dramatically by offering students access to subsidised loans through the Higher Education Contribution Scheme (HECS). This enables people to pay for a proportion of their course fees and redeem these loans later on when they begin to earn a decent salary.<sup>13</sup>

The third and most obvious income-smoothing strategy is **saving**. Even in the current high tax regime, many people could afford to save in order to pay for some of the eventualities currently covered by welfare state transfer payments.

Although household saving as a percentage of disposable income has been dropping alarmingly (from 12.5% in 1984 to just 3.8% in 2000),<sup>14</sup> ownership of investment assets has been growing, and this creates huge potential for increasing lifetime self-reliance. An average Australian couple, aged 67, owns financial assets (other than their home) equal to five times their annual income, which is a very high level of asset ownership by international standards.<sup>15</sup> Over half a million home owners (6.5% of households) own at least one investment property which generates a rental income.<sup>16</sup> More than one in two Australian households own shares either directly or through a managed fund, and savings and investment income have both increased substantially as a proportion of family wealth in recent years.<sup>17</sup> The introduction of the compulsory Superannuation Guarantee in 1992 means that 91% of employees now have a personal investment account dedicated to funding their retirement income.<sup>18</sup> In addition, home ownership has for generations functioned as a privatised system of income smoothing by delivering low housing costs in retirement.<sup>19</sup>

### **Rediscovering Self-Reliance**

Taken together, private insurance, loans and saving represent a viable 'privatised' alternative to government provision as a way of enabling

the majority of households to smooth out their lifetime income flows.<sup>20</sup> This alternative has been around for a long time but was undermined and stunted by the growth of the mass welfare state. More recently, as the problems in state welfare have become increasingly apparent, so the privatised alternative has begun to flower again.

The idea that individuals should put money aside in periods of relative affluence and draw upon it when the need arises is grounded in a traditional working class culture of mutualism and self-help. In the past, even though their real incomes were much lower than they are today, many working families organised their own access to things like health and unemployment insurance, often by pooling their purchasing power in friendly societies or other mutual aid organisations. Before World War I, nearly half of all Australians organised cover in this way and it was only when the medical profession and the government combined to limit the rights of friendly societies to negotiate with doctors and pharmacies on behalf of their members that the numbers began to dwindle.<sup>21</sup>

This kind of voluntary self-help generally required a secure job offering a steady income and not everybody could gain access to the benefits that friendly society membership could offer. For those who could not afford to buy the services they needed in the marketplace and who could not gain membership of a mutual aid society, the only remaining sources of welfare were charities, churches, benevolent employers or the government. Gradually, this 'gap' in the provision of welfare came to be filled by governments which were inevitably drawn into funding an increasing range of provisions. But the more they took on, the more alternative forms of provision got squeezed out. Over time, benefits and services aimed at supporting the needs of a minority evolved into today's mass system of state welfare.

The key point to take from this history is that nearly half of all Australians were able to finance their own basic welfare needs a century ago. Many more should be capable of doing so today. Chapter 1 showed that economic growth has transformed the purchasing power of ordinary workers and their families (it has been calculated that the average American's purchasing power has increased 3,000% in the last 200 years).<sup>22</sup> This means most people now earn enough money in the course of a lifetime to pay for most if not all of their basic requirements. What is stopping them achieving self-reliance today is not low wages; it is high taxation.

Even when people are forced to pay for the government's services through their taxes, many pay again in order to get access to a private alternative of their choosing. Two-thirds of the population own their

own house; only one in 20 live in state housing. Nearly half insure their own health care despite being having to pay for the government health scheme as well.<sup>23</sup> More than 90% save for their own retirement, albeit as a result of state compulsion. More than one-third pays for their children to be educated at a school of their choice, albeit one whose fees are subsidised to a greater or lesser extent by the Commonwealth government.<sup>24</sup>

In many of these examples, the government has not stopped helping those who opt for private sector solutions, but rather has changed its role from provider to facilitator. The Federal government offers grants to first-time home buyers, for example, rather than providing them with houses; it offers tax rebates on private health insurance premiums rather than financing places in government hospitals; it provides tax deductions on superannuation payments rather than paying out so much in age pensions; it subsidises fees at non-government schools rather than paying for places at public schools, and so on. Government is not disappearing out of our lives, but its function is changing. As we look less and less to government for services, we are increasingly buying what we want privately, and the state's role is being limited to boosting purchasing power where appropriate.

Elsewhere I have referred to this change in the state's function as a transition from a 'socialised mode of consumption', where government provides what we need, to a 'privatised mode of consumption', where we buy what we want with help as appropriate from the government. Once started, this transition is unlikely to stop.<sup>25</sup>

## What Role For Government?

The welfare state as a system of direct government provision for the mass of the population is in decline because it is no longer needed. The mass problems that brought the 20th century welfare state into being have been dissolving as people's real purchasing power has grown. Across the political spectrum this is leading to a fundamental rethink of what social policy is for and how government aid should best be provided.

As Chapter 15 shows, some of the most critical commentary has been coming from intellectuals who are drawn to so-called 'third way' thinking. The Cape York Aboriginal leader Noel Pearson, for example, states, 'The indigenous experience of the Australian welfare state has been disastrous', arguing for direct government provision of services to be scrapped on the grounds that it disempowers people rather than helping them. Vern Hughes, founder of the Social Entrepreneurs Network, writes scathingly of an 'old welfare paradigm' in which 'a

plethora of agencies dispense services to disconnected, passive and disempowered “clients” using standardised programs’,<sup>26</sup> and wants to see a resurgence of the older mutualist tradition of welfare. And ALP leader Mark Latham believes that we need to encourage people to become more self-reliant. In his view, ‘The entrenchment of welfare dependency reflects the greatest failing of welfare policy.’<sup>27</sup>

The search for an alternative to the mass welfare state is converging on the idea that, rather than taxing people to provide them with services and benefits, the government would do better enabling individuals to make these provisions for themselves.

### **Learning From Singapore and Chile?**

In 1955, Singapore established a compulsory retirement savings scheme under which workers and their employers were obliged to deposit a percentage of earnings into individually earmarked accounts run by a government-managed Central Provident Fund (CPF). As time passed, the permitted uses of these individual accounts have been expanded beyond retirement pensions to include medical care and illness insurance, house purchase, education and even purchase of equities on the Singapore Stock Exchange.<sup>28</sup> Today, workers have to deposit 20% of their gross earnings in the CPF (up to a monthly ceiling) and employers a further 12.5%. There is no direct government contribution. Funds administered by the CPF now amount to S\$8.5 billion—60% of Singapore’s GDP—and the scheme covers some 2.5 million wage and salary earners.

Under this ‘Singapore solution’, the government does two things. First, it *enables* people to provide for their own needs by setting up and overseeing the mechanism (the CPF) through which they can save and invest. Secondly, it *forces* people to take responsibility for themselves by requiring them to sacrifice a regular proportion of salary into their own personal account. With the exception of education and some housing, the Singapore government does not provide people directly with welfare services. This means that income taxes can be kept very low (the top rate of tax is just 22% and it does not start until workers have earned in excess of Australian \$300,000).<sup>29</sup> In Singapore, people can therefore afford to make substantial, regular payments into their own accounts because they do not also have to support a huge government scheme.

In 1981, Chile adopted the Singapore solution when its state retirement pensions scheme was threatening to collapse into insolvency. As in Singapore, workers were compelled to pay a proportion of their earnings (minimum 10%) into their own personal account, but unlike

Singapore, they could choose between as many as 20 competing fund management organisations (known as AFPs). As in Singapore, the government does not contribute to these funds, but unlike Singapore, it does use general tax revenue to make up any shortfall in people's accounts when they reach retirement age. Today, total assets in these schemes have grown to US\$34 billion—42% of Chile's GDP—and cover 95% of full-time workers.<sup>30</sup>

So successful has Chile's system of personal retirement accounts been that the government recently broadened it to cover unemployment insurance as well. Workers now pay 0.6% of their wages into an individual Unemployment Insurance account, and employers top this up with another 1.2% while also paying 1.2% into a 'joint account'. Unemployed individuals can draw up to 50% of their previous wages for up to five months from their own account, and those who exhaust their balances are then paid out of the joint account. Any money left in an unemployment account on retirement is added to the individual's retirement fund, providing a major incentive for people who become unemployed to find work quickly because they are effectively paying for their own benefits.<sup>31</sup>

Neither of these schemes is without its problems. In Singapore, withdrawals to pay for home ownership have depleted some people's accounts to a level that may be insufficient to purchase an adequate old age annuity (only 44% of people believe their fund is sufficient to cover their retirement needs).<sup>32</sup> Many retirees end up selling their homes and living with their children, although this is a cultural pattern with a long history in this part of the world.

The Chilean system, too, has had problems. Administrative costs soak up a substantial proportion of fund profits and effective coverage is patchy because unknown numbers of casual and temporary workers do not belong to any scheme.<sup>33</sup> Nevertheless, the architect of the reform, Jose Pinera, claims that old age pensions are 40 or 50% higher than under the old system, and the future burden of taxation has been reduced.<sup>34</sup> Meanwhile, a huge pool of enforced savings has been generated which has provided the investment capital needed to sustain rapid economic growth. In the mid-1990s, the savings rate in Chile was about 26% of GNP—almost double the South American average, and close to the level of the Asian tiger economies—and the economy was growing at an annual rate of about 6%.

Whereas the traditional, western-style, welfare state drains money away from investment, systems such as those developed in Singapore and Chile seem actively to *promote* growth and profitability. The dual feature of these systems—their capacity to deliver better benefits to

individuals while also generating economic prosperity at a society-wide level—has been proving particularly attractive to governments elsewhere.

### **Asset-based Welfare**

Many western politicians have been inspired by the success of the Singapore and Chile personal accounts, but some of the most important features of these schemes are forgotten when they are recast into a western mould. In Singapore and Chile, individuals are obliged by law to save but the government contributes nothing. By contrast, in emerging western versions of these models, the compulsory element has often been jettisoned while the passive role of government has been strengthened. The result has come to be called 'asset-based welfare'.

The basic principle of asset-based welfare is that the government should help individuals to accumulate capital that can be used to pay for their own welfare needs (income support, retirement income, education, housing, and so on). The idea is to replace or supplement the 'churned savings' function of the existing welfare state by requiring people to place a certain proportion of their own earnings into a personal account which can be used later for certain purposes. For low-income families who cannot afford or are disinclined to make regular and adequate payments into a personal fund, some provision is made for government to supplement their payments.

The main impetus behind the growing interest in personal accounts has been the looming crisis of publicly-funded retirement pensions in the OECD countries. In the United States, for example, there were 16 workers for every retiree receiving social security in 1950, but today there are three, and in 30 years there will be two.<sup>35</sup> Fears that the social security system for the elderly is running into a huge future deficit have prompted moves to replace the existing system with a new system of personal pension accounts. The introduction of compulsory superannuation in Australia in 1992 was similarly prompted by a concern to reduce the long-run demands on the Federal government's means-tested age pension scheme. However, the current level of mandated contributions is too low to deliver the level of retirement incomes that most people require, and welfare pensions will continue to bear much of the cost of retirement for many years to come.<sup>36</sup>

While the crisis in retirement pensions sparked the initial interest in asset-based welfare, the reform agenda has rapidly expanded to encompass other forms of saving. In America, the 1996 Personal Responsibility and Work Opportunity Reconciliation Act allowed states to set up 'Individual Development Accounts' (IDAs) aimed at

stimulating savings among poor families. Individuals were encouraged to save by matching their own contributions with federally-funded contributions. Proceeds were then used for specific purposes such as house purchase, funding a small business, post-secondary education or the purchase of a retirement annuity. By 2001, only about ten states had established IDAs under the 1996 Act, but another 20 or 30 states had developed other IDA initiatives outside of their TANF programmes.<sup>37</sup> Most initiatives have been fairly small-scale,<sup>38</sup> but there are plans to extend development accounts to many more people. According to two supporters of IDAs, 'We are talking about a policy funded in the tens and perhaps hundreds of billions of dollars.'<sup>39</sup>

The American experiments with IDAs have prompted similar developments elsewhere. In Taiwan, the Taipei City government offers matched funding for 'Family Development Accounts' aimed at poorer households, and in Sweden, 50 large firms have launched a system of voluntary 'Educational Savings Accounts', where employees and their employer each contribute between 1 and 5% of salary to a fund which can be used for later training and skills development. Sweden has also begun to develop personal superannuation accounts, diverting 2.5% of people's incomes into new 'premium pension' accounts and there is talk of launching 'health accounts' and 'unemployment savings accounts'.<sup>40</sup>

Australia does not have any equivalent of the American IDAs, but the principle of asset-based welfare has been picked up by Mark Latham. In a 2002 discussion paper, Latham advocated the expansion of compulsory superannuation, the development of employee share ownership schemes, the use of government grants and tax subsidies to encourage low income share ownership, the establishment of 'Lifelong Learning Accounts' (used by people seeking to retrain or return to education as they grow older), the creation of 'nest egg' savings accounts in which young people can build up financial assets with some matching help from the government, and the introduction of 'matched savings' accounts aimed at older people.<sup>41</sup> Some of these, notably the nest egg accounts, are now ALP policy.

A number of these ideas are already in operation in Britain where there is a mixed track record. A 14 month experiment with Individual Learning Accounts came to an end when a House of Commons committee found that much of the \$265 million paid out to 2.5 million participants went on 'fraud, misuse and abuse'.<sup>42</sup> The Blair government has also introduced an equivalent of Latham's 'nest egg' accounts in which every newborn child is provided with £250 in a special account, and additional, means-tested matching payments are

made to children of poor parents. There is also a new system of family savings accounts (the 'Saving Gateway') in which deposits made by poor households are matched pound-for-pound by government contributions.

As in the American IDA experiments, the idea of the UK savings accounts is that proceeds should be spent on approved purchases such as the deposit for a house, an adult education course, or the establishment of a small business. Policing this, however, is proving to be a problem, and there are concerns that existing asset means-tests in the welfare system may encourage people to spend their savings irresponsibly in order to qualify for income support.<sup>43</sup>

### **Could Asset-based Welfare Replace the Existing Welfare System?**

According to one senior minister in the Blair government, 'We are on the cusp of a different way of looking at the welfare state—one which focuses on capital and assets.'<sup>44</sup> As in America, however, government help with asset-building is not intended to displace existing state welfare spending. The London-based Institute for Public Policy Research describes asset-based welfare as a 'third pillar' of the welfare state, complementing the existing systems of cash transfers and direct service provision. The new Child Trust Fund is described as 'an opportunity to *expand* the welfare state' rather than replace it.<sup>45</sup>

In Singapore and Chile, by contrast, personal accounts have substituted traditional state welfare rather than reinforced it. Similarly in Australia, the Superannuation Guarantee is intended to *replace* some of the dependence on the government age pension. Although Mark Latham asserted when he launched his matched savings policy in 2003 that 'asset policies are not a substitute for income support; they are an add-on',<sup>46</sup> he has suggested in some of his other speeches and writings that asset-based welfare might in the future replace income support transfers. He says:

People who oscillate in and out of poverty need to be able to smooth out their income fluctuations, drawing on a range of assets during periods of disadvantage. We need to move from a system of recurrent income transfers to one based on asset accumulation.<sup>47</sup>

This idea of personal accounts as a replacement for conventional welfare is a much more radical approach than anything currently being attempted in the United Kingdom or United States. If it were to happen, three major problems would need to be overcome.

First, any system of personal accounts based on deductions from earnings will only cover those in regular work and their dependants. In Chile, some workers in casual or informal employment may have fallen through the net, and those with no jobs at all are obviously excluded. It is for this reason that left-wing critics believe these schemes lack the ‘capacity to furnish social security in any universal way’.<sup>48</sup>

In Britain, the Blair government has tried to overcome this difficulty by simply giving poor people cash in the form of contributions to their savings accounts. Predictably, this has encountered problems with fraud and may well prove counterproductive. Even if recipients are required to match government contributions with their own savings, government payments into individual accounts will soon be seen by recipients as just one more source of government largesse. The first problem for a radical policy of asset-based welfare to resolve is therefore the familiar question of how to get poorer households earning so that they can begin to accumulate capital.

The second difficulty concerns people’s reluctance to make provision for their own needs, particularly if the habits of self-reliance have been eroded over several generations of state provision. If asset-based schemes are to replace government welfare, they will almost certainly have to be compulsory like the Chilean and Australian superannuation systems which were intended to *substitute* for government transfers. Schemes like the Blair government’s Child Trust Fund, however, which are being developed as a *complement* to existing welfare entitlements, can be left to operate voluntarily.

Compulsory participation is unattractive to libertarians. David Green,<sup>49</sup> for example, queries why the state should require anybody to contribute to a pension plan. Compulsion undermines the individual competence and self-management which these schemes are supposed to be promoting. But as Green himself admits, without some element of compulsion, some individuals will fail to make adequate provision for themselves, and others will then feel obliged to make some sort of provision for them.<sup>50</sup> Compulsory participation may well be the price we have to pay to avoid the free-rider problem.<sup>51</sup>

The third problem is that people must learn new habits of independence and personal responsibility for these schemes to work. One of the more disturbing findings arising from the ‘American Dream’ IDA experiments was that despite extensive personal support and financial counselling, more than one-third of participants withdrew their savings for unauthorised purposes before their fund matured, even though this meant forfeiting the chance to receive matching funds.<sup>52</sup> In Australia, too, a Melbourne pilot scheme offering matched

savings to low income people aimed for 100 participants but attracted just 18.<sup>53</sup> The virtues of deferred gratification and self-sufficiency may not arise as spontaneously as some of the advocates of these schemes seem to imagine.

### **The Politics of Reform**

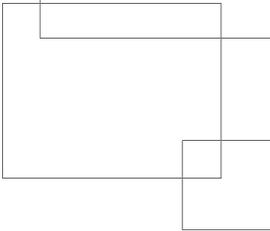
Together with an expansion in private health insurance and the continuing growth in the use of non-state schools, a system of personal retirement and unemployment accounts growing out of the existing superannuation system could over time displace much of the existing welfare apparatus. Economically there is no reason why this should not happen given that most of us are already funding most or all of the welfare services and cash flows that we receive from government. There is the potential to cut out the government middle-man and leave more of the resources under our own control.

Politically, however, any transition to a more privatised system of self-management of welfare will depend on the willingness of politicians to relinquish their control over taxpayers' money and to open up serious debate about what is possible and desirable in a society where the great majority of people are already funding their own lifetime benefits. In the end, the future of welfare will be determined, not by our economic capacity to self-provision, but by the willingness of politicians to make it happen.



# **The Honest Politician's Guide to Welfare Reform**

Chapter 15





'The time is now ripe to ask how we are going to organise welfare after the welfare state'

Maurico Rojas (Swedish economic historian)<sup>1</sup>

In one of Aesop's fables, a colony of mice, threatened and terrorised by a cat, come together to discuss what should be done to alleviate the tyranny that blights their lives. After lengthy debate, it is agreed that their problem could be solved by tying a bell around the cat's neck so they would all hear it as soon as it started to prowl and could therefore make good their escape. All the mice were delighted by this decision until a wise old mouse who had remained silent throughout the proceedings asked who among them was volunteering to tie the bell around the cat's neck.

Our analysis of Australia's welfare problem reflects the same dilemma as Aesop's mice. We face a serious and growing problem of welfare dependency, and if we do not do something about it soon, it will overwhelm us. Like the mice, we know, more or less, what sorts of policies would solve our problem: time limits on unemployment payments, a work expectation for single parents with school-age children, tighter access rules for the disability pension, financial penalties for those who abuse the welfare system, reduced taxation to encourage more people to work, a freer labour market to stimulate more jobs for lesser-skilled workers, and support and encouragement for more people to save and to insure for their foreseeable needs. The problem is, who will put these proposals into practice? Which politician is willing to bell the welfare cat?

### **Why Would Any Politician Try to Reform Welfare?**

Chapter 1 suggested that one reason welfare spending has increased so much over the last 40 years is that politicians find it easier to go along with rising expenditure than to try and stem the tide. Giving people money wins politicians votes, buys off adamant welfare pressure groups, placates the academic establishment, expands the minister's own office and generates good publicity in the media. The downside is that sooner or later taxes have to go up, but handled adroitly, this need not cause too many ripples. While new spending can be targeted on specific beneficiaries whose votes can be harvested, the costs can usually be spread thinly over a large number of taxpayers, each of whom loses only a small amount that is rarely enough to change their political loyalties.

The exact reverse logic also follows when it comes to cutting back on welfare. Cutting established programmes has little attraction for elected politicians because taking money away from people is a sure way to lose their votes and stir up controversy, while spreading the resulting benefits among all taxpayers has little immediate political pay-off.<sup>2</sup> Furthermore, given the utilitarian calculus that the pain of losing something far outweighs the pleasure of gaining it, people who lose from reduced welfare are likely to be much more outspoken than those who gain from any resulting cut in taxes. Not surprisingly, therefore, there has been no serious attempt in Australia to introduce a radical reform of social policy to match earlier radical reforms of economic policy.<sup>3</sup> The number of voters who have a finger in the welfare pie is simply too big to risk alienating them.<sup>4</sup>

In Australia, the veto power enjoyed by welfare recipients weighs particularly heavily on the deliberations of elected politicians due to the law on compulsory voting. As Michael Jones points out, 'With compulsory voting, governments seeking election must take account of the votes of those on benefits who now account for at least one-third of the voting population.'<sup>5</sup> No politician wants to antagonise one-third of the electorate when they know that all of them will turn up on election day.

This fear of alienating the recipients of government largesse explains why political parties get drawn into unseemly welfare auctions at every election in which each side competes with the opposition in offering to spend more money on more programmes aimed at more people. Courted and flattered by politicians of all persuasions, actual and potential recipients of government handouts could be forgiven for believing that the purpose of government is to give them more money, and that competing political programmes are to be evaluated in terms of how much politicians offer to 'give' them, or to 'do' for them.

Rather than expressing and reinforcing values of self-help and personal responsibility, this system of mass democracy encourages and rewards a 'cargo cult' of aggressive political rent-seeking. Using their monopoly taxing powers to the full, politicians fall over themselves to offer tribute to those whose votes are for sale to the highest bidder, and electors jostle and scramble to pick up the resulting spoils.

This unifying spectacle is reinforced by the interventions of the welfare lobby and social policy intellectuals. This book has shown how an ideologically monolithic social policy establishment exerts constant pressure on governments to raise taxes and increase welfare spending. Exaggerated claims about the extent of 'poverty' and 'deprivation' in the Australian population drive continual demands for large-scale

government spending programmes, the assumption being that it is always the responsibility of the government to put things right. Welfare claimants are represented as passive 'victims', 'behavioural poverty' is dismissed as a right-wing myth, and policies that make access to welfare conditional on discharging a reciprocal 'obligation' are passionately opposed.

The demands of the welfare lobby are for the most part grounded in a genuine desire to help the poor, but there is a failure to understand that there may be other and better ways of achieving this objective. Sometimes, the claims made are woefully misguided, and some arguments are very badly informed by social science evidence. The idea that high taxes and high levels of welfare spending contribute to greater 'social cohesion', for example, is constantly repeated, despite the fact that there is very little evidence to support it. The assumption that 'fairness' is the same thing as 'equality' has been challenged by ethical philosophers but is simply taken for granted in this discourse. The belief that 'social justice' is best served by taking money away from people who have earned it to redirect to those who have not reveals an uncritical and unbending commitment to a set of egalitarian principles which look increasingly archaic. The urge to follow the high spending continental Europeans seems to ignore the escalating crisis of the European welfare states, and the persistent condemnation of the United States pays no heed to their remarkable success in reversing a 40 year trend of rising welfare which other countries are still wrestling to contain.

Despite the evident holes in their arguments, the fact that the welfare pressure groups, policy experts, media pundits and academics generally speak with one voice on these issues makes it extremely difficult for any government to challenge the welfare orthodoxy or to open up a different kind of welfare discourse. It is perhaps not surprising that career politicians of all parties have so often ducked away from tackling the root causes of Australia's welfare problem. It is easier to stay quiet and pay up.

### **Public Support For Reform**

If they are not to be blown off course in the future as they have been in the past, honest politicians who recognise the need for radical welfare reform will have to arm themselves with clear, strong and coherent arguments to explain what they are trying to achieve and why it is so vital that they achieve it. They need to refute the basic assumptions driving the welfare establishment's high expenditure agenda by demonstrating to voters how ever-increasing spending has only

delivered ever-increasing demands for more to be spent. They must challenge the egalitarian interpretation of fairness which is used to justify so much of the welfare establishment's rhetoric by pointing to its contradiction to the ethic of hard work and just deserts to which most Australians are still strongly committed. They have to confront the exaggerated and alarmist claims the welfare lobby makes about poverty and hardship by exposing the fallacies in these arguments and refusing to give them credence. Furthermore they must link the arguments for reform to a clearly articulated philosophy of meritocracy, self-reliance and personal responsibility, exposing the tension between the values espoused by the social policy establishment and those expressed by most Australian voters.

It has to be acknowledged that some of the policy proposals developed in this book do not command strong popular support. There appears to be little enthusiasm among the public for further labour market reform, for example, according to the 2003 Australian Survey of Social Attitudes (ASSA) two-thirds of the population agrees that the award system is the best way of determining workers' wages and conditions, while only 13% disagree.<sup>6</sup> Nor is there any strong groundswell of public opinion favouring the further privatisation of core welfare state services like health and education. Even though most parents would prefer to send their children to private than to state schools, support for policies like education vouchers or tax credits is surprisingly muted.<sup>7</sup> Public enthusiasm for a switch to privatised health insurance away from Medicare is similarly modest—even if the privatisation of Medicare were coupled with lower taxes and help for lower income earners, only 42% of Australians would favour such a move with 46% opposed. Enthusiasm for replacing State unemployment benefits with a privatised insurance system is also lukewarm, with just 39% in favour and 43% against.<sup>8</sup>

The story is very different, however, when it comes to radical reform of the income support system. Earlier chapters have presented survey findings showing that 70% of voters support time limits on unemployment benefits, while only 22% are opposed. Some 84% think it is fair and reasonable that single parents should be expected to work part-time once their children start school (although many think it should be earlier than that). Support for tightening eligibility for receipt of a disability payment is running at 63% with just 22% against it. Eighty-five per cent think it is right that welfare claimants who breach the conditions of their benefit should suffer a financial penalty, and 70% want tougher action to be taken against those who breach for a third time. On every one of these policies, the welfare

establishment is out of step with the great majority of the Australian public.

The 2003 ASSA survey reveals other examples where public opinion runs directly counter to the social policy orthodoxy. Three-quarters of people think recipients of welfare benefits should be under more obligation to work than they are now. Asked if it is 'too hard' to qualify for welfare benefits, only 14% believe that it is. And only 20% think that unemployed people in their area would be unable to find a job if they really wanted one. Clearly, any programme of welfare reform that seeks to reverse the spiral of welfare dependency would resonate strongly with a large majority of voters.

There is also strong public support for tax reform, even though surveys of public opinion regularly claim that many voters oppose tax cuts and would prefer to have the government spend their money for them.

The ASSA survey gave respondents the choice between reducing income tax and increasing government spending on health and education and found just 28% opting for tax cuts while 48% wanted increased spending. The Australian Council of Trade Unions (ACTU) similarly ran a survey in 2003 which asked people whether they would prefer to have a tax cut or see surplus government funds spent on schools and hospitals. Three-quarters of those surveyed said they would prefer the government to spend the money rather than receive a tax cut.<sup>9</sup>

But we need to be clear what these surveys are telling us. They are not reporting any significant support for *increased* taxes (even though this is how they are often interpreted by the media and the welfare lobby). The choice people are offered is painless: they are asked to choose between *lower* taxes and *higher* spending on social services (a choice between two desirable outcomes). Many opt for the latter, but the real question is whether they would be willing to pay more tax for the higher government spending they say they want. Given the more realistic but painful choice between higher spending and higher taxes on the one hand, or lower spending and lower taxes on the other, only 12% of the population go for the tax increase while 39% go for the cut in government spending (the rest opt for the status quo).<sup>10</sup>

Most people are only willing to support higher government spending on the core welfare services from which they themselves expect to benefit. The ASSA survey found that only 34% of voters would be willing to pay higher taxes to fund increased welfare benefits, but 64% say they would pay more tax to fund some increase in education spending, and 68% would pay more to fund some increase in health spending.

The growing level of support the opinion polls are finding for increased government spending on health and education appears to be driven as much by negative sentiment about the quality of these services as by positive attachment to the principle of state provision. The ASSA data, for example, reveal a growing public belief that Medicare and public education have been declining in quality, and that those who think this are the most likely to support additional government spending intended to rectify it.<sup>11</sup> Evidence of a willingness to pay more to fund government provision does not therefore indicate a preference for public services, it simply shows that many people value health and education highly and want to ensure these services are of a decent standard when they come to use them. Given that they are already obliged to pay for the public health and education services through their taxes, many people evidently feel that it would be worth paying an additional tax premium to achieve a better quality of service than the one they currently receive.<sup>12</sup>

People are enthusiastically in favour of the sorts of tax reforms outlined in Chapter 12. Over 80% would support a policy of raising the tax-free threshold above the welfare floor,<sup>13</sup> and when they are told how much tax is currently being paid by people at varying levels of incomes, substantial numbers of people say it is too high while very few think it is too low. Even when asked to consider the tax levied on high income earners (those on \$120,000 per year), fewer than 10% of the public think it should be increased, while 45% think it should be cut to make it 'fairer' (Table 15.1). There is no sign here that the Australian public is convinced by the social policy establishment's arguments for higher taxation to create a 'fairer' or more cohesive society.

**Table 15.1: Fairness and Unfairness of Current Income Tax Levies<sup>14</sup>**

<b>Single Person's Annual Income</b>	<b>\$30,000</b>	<b>\$60,000</b>	<b>\$120,000</b>
Tax paid is unfairly high	41	46	45
Tax paid is fair & reasonable	58	51	45
Tax paid is unfairly low	1	3	9

N=464 to 466.

Source: Second CIS/ACNielsen opinion survey (August 2003).

## Who Will Bell the Cat?

Politicians committed to reforming the welfare system can therefore tap into a strong groundswell of public opinion supportive of most of what needs to be done. But where will these politicians come from?

Welfare reform is a difficult policy for right-of-centre governments to pursue. This is because voters traditionally trust the parties of the right on economic issues but not on social ones. The right is thought to lack compassion. It is 'economically rational' but socially heartless. Any serious attempt by the Coalition parties to restructure welfare would immediately run up against the suspicion that they were simply trying to 'save money' and that they did not 'care' about those who are less fortunate, and it would almost certainly get bogged down in a cacophony of outraged criticism and resistance.

The left, on the other hand, is strongly associated in the public mind with the welfare state brand. In most western countries, the mass welfare state was a product of the labour movement, and in Australia it was the Whitlam Labor government that introduced many of the elements of the welfare system that persist to this day. If this welfare system is to change, this is most likely to happen smoothly and successfully under social democratic governance, for the left has many more political resources to put behind a concerted reform effort.

Most of the major welfare reform initiatives around the world in recent years have happened under left-of-centre governments. Most spectacularly, the 1996 American welfare reform was the product of the Clinton Presidency (albeit under pressure from a Republican Congress). In the UK, the major impetus for welfare reform came from Blair, not Thatcher or Major,<sup>15</sup> and in Australia, the 'mutual obligation' policy had its origins, not in the Howard years, but in the Working Nation reforms of the Keating government which was the first to require welfare claimants to undertake some activity in return for their benefits.

It is also on the left in Australia that much of the serious re-thinking of social policy principles has been taking place, not within the social policy establishment, but on the fringes. Outside and beyond the university departments and the welfare pressure groups, increasing numbers of activists and intellectuals have been coming to terms with the failure of the mass welfare state and have begun to think the unthinkable.

These welfare heretics include people like Peter Botsman, former head of the Brisbane Institute and the Whitlam Institute (two left-of-centre think-tanks), and now Managing Director of *Australian Prospect* magazine. His bruising appraisal of the legacy of welfarism leaves us in no doubt about the necessity and the urgency of radical reform:

An entire underclass of Australians [has been] coached and encouraged to be inactive and incapable. Whose fault was the creation of the underclass? The progressive side of politics is as much to blame as the worst dole-bludger-bashing politician on the conservative side of politics because the supposed solution—increasing resourcing of a gut-wrenchingly bad system of disabling payments and disempowering social institutions—has, in effect, crippled generations of people and robbed them of their capacity to act for themselves.<sup>16</sup>

Noel Pearson, adviser to the Cape York Land Council, is another of the welfare heretics. His devastating critique of what he calls 'passive welfare' reflects his conviction that welfare dependency underpins much of the alcoholism, drug abuse, violence and criminality that now scars the Aboriginal community:

What is the exception among white fellas—almost complete dependence on cash handouts from the government—is the rule for us . . . Passive welfare has come to be the dominant influence on the relationships, values and attitudes of our society in Cape York Peninsular . . . The resources of passive welfare are fundamentally irrational. Money acquired without principle is expended without principle. When people have only one means of existence the nature of that income obviously influences their whole outlook. The irrational basis of our economy has inclined us to wasteful, aimless behaviours. Like other people who can't see any connection between their actions and their circumstances, we waste our money, our time, our lives.<sup>17</sup>

Although he is no longer marginal and no longer an outsider, Mark Latham too is one of the welfare heretics. Before he became Labor leader, Latham spent his years on the back benches rethinking many of the social policy orthodoxies to which his colleagues in the labour movement and in the welfare pressure groups were still uncritically devoted. Like Botsman and Pearson, he came to the conclusion that the system needed a radical overhaul:

The welfare sector has been well motivated but misguided . . . In effect it has had just one policy; shifting material resources around society under the banner of redistribution . . . Parts of the welfare bureaucracy have grown comfortable with the size of their welfare rolls, knowing that the easiest clients to serve are those whose circumstances and prospects never change. Failure has become their bread and butter . . . The welfare state

has grown accustomed to emphasising incapacity rather than capacity.<sup>18</sup>

People like Botsman, Pearson and Latham understand the 19th century working class self-help and mutualist traditions that led to the welfare state, and recognise just how far the modern, mass, bureaucratic welfare system has diverged from those values. When they look at modern welfare they see a mockery of almost everything the 19th century movements believed in. They are keen to restore the principles of community self-reliance and personal responsibility that have been compromised by mass dependency on government handouts.

If a future Labor government in Canberra were to take on the task of coaxing and cajoling Australia into kicking its welfare habit, it would enjoy the trust as well as the support of the great majority of voters. Such trust would be crucial in reassuring people about the necessity of the changes. A reforming Labor government could also expect a Liberal opposition to give its tacit assent to the reform agenda. This would help overcome the current standoff in the Senate and would extricate the two main parties from the Prisoner's Dilemma game in which they have hitherto been locked. The Coalition would have little option but to support the changes and could not therefore make much political capital from them.<sup>19</sup> A reforming Labor government would also be ideally placed to neutralise or marginalise the conservative forces in the social policy establishment, for those who sought to cling to the old high expenditure, bureaucratic, redistributionist welfare model would have nowhere else politically to go.

### **Kicking the Welfare Habit**

A recurring message in this book has been that allowing people to take what they 'need' out of the communal welfare pot is inherently unsustainable. No matter how much money gets put in, it all gets taken out, and people still end up complaining that their needs have not been met or that others have been given more than they have. For the last 40 years, welfare policy has handed over increasing sums of money to people deemed to be 'in need' of it, yet we have ended up with record numbers of Australians dependent on welfare, escalating tax bills, and persistent demands from a well-organised and highly vociferous welfare lobby for even more to be spent.

Faced with somebody who has insufficient money coming in, the easiest and most obvious response is to demand that the government provide them with an income. In cases where people cannot be expected to achieve self-reliance, this is an appropriate response, but

many welfare recipients today should be paying their own way and for them, the drip-feed of welfare dependency is a very poor solution.

Handing over a welfare payment rarely solves people's problems—it simply takes the pressure off politicians to be seen to be doing something. Welfare is rarely a good solution to financial hardship and only addresses the symptom and not the cause. Giving able-bodied people of working age an income support payment might make sense as a temporary stop-gap measure to allow them the opportunity to get back to financial independence, but when it becomes a semi-permanent feature of their lives, it turns into a cure that is worse than the malady it was intended to treat. This is what has happened to the Australian welfare state.

The welfare state was designed to meet the needs of an age that has past. It has now reached the point where it is starting to do more harm than good. The spiral of dependency is choking the spirit of self-reliance. A system which dispenses money to people who can demonstrate a 'need' for it is guaranteed to generate an ever-increasing supply of 'needy' claimants which is what has been happening since the 1960s. If these welfare trends continue for the next 30 years, the consequences would be catastrophic. By 2035, more than one-third of working-age adults would be living wholly on welfare payments, millions of children would be growing up in jobless households, income tax would be at a level that would cripple initiative and penalise effort right across the spectrum of incomes, and we would reach an unsustainable point with only two or three taxpayers supporting every welfare claimant.

On present trends, this is our future. It cannot be allowed to happen. It is time for Australia to kick the welfare habit. This will not be easy, for it is never easy to kick an addiction, but there comes a time when there really is no other sensible choice.





## ENDNOTES

To avoid confusion between the author of the current work and the Director of the Social Policy Research Centre at the University of New South Wales (who shares the same name), the former is referred to as P. R. Saunders and the latter as P. G. Saunders.

### Chapter 1. Welfare Isn't Working

- <sup>1</sup> M. Latham, 'Making welfare work', in P. Botsman and M. Latham (eds), *The Enabling State* (Annandale: Pluto Press, 2001), p.130.
- <sup>2</sup> See L. Sullivan, *Taxing the Family* (Sydney: The Centre for Independent Studies [CIS], 2001). Note that the main concern in this book is with the *working age* population rather than those who are retired. A great majority of retired people received the government age pension back in the 1960s and still do today. Taking the whole population over age 15, the proportion receiving any social security payments has increased from under 11% in 1965 to 27% by 1999. See P. Whiteford and G. Angenent, 'The Australian System of Social Protection: An Overview', *Occasional Paper 6*, 2nd edition (Canberra: Department of Family & Community Services [FaCS], 2001).
- <sup>3</sup> P. Whiteford and G. Angenent, 'The Australian System of Social Protection'.
- <sup>4</sup> P. Berger, *Exchange and Power in Social Life* (New York: Wiley, 1964).
- <sup>5</sup> It is interesting to see how the welfare bureaucracy has tried, unsuccessfully, to deny this basic anthropological truth. Chapter 6 shows how welfare recipients in Australia have been repeatedly relabelled in a futile attempt to escape stigma.
- <sup>6</sup> J. Pech and F. McCoull, *Transgenerational Welfare Dependency*, Paper to the National Social Policy conference (University of New South Wales, 21-23 July 1999). The 'welfare dependent' families are defined as those who had lived on social security benefits, either short-term (continuously for less than two years) or long-term (continuously for more than two years). Non-recipients received no benefits other than family allowances.
- <sup>7</sup> P. Ruthven, 'Jobs of the future', *The Bulletin* 119:44 (2002).
- <sup>8</sup> G. Hywood, 'Different chefs, but the result's a fiscal feast', *The Sydney Morning Herald* (6 May 2004).
- <sup>9</sup> New South Wales introduced widows' pensions and family allowances in the 1920s. See M. Jones, *The Australian Welfare State*, 4th edition (St Leonards: Allen & Unwin, 1996).
- <sup>10</sup> See D. Green & L. Cromwell, *Mutual Aid or Welfare State* (Sydney: Allen & Unwin, 1984). Doctors would also often cross-subsidise between their wealthier and poorer patients.
- <sup>11</sup> 'Bring on the big budget bucks', *The Weekend Australian* (8-9 May 2004). This increase occurred despite a substantial fall in unemployment. Over this same period, the cost of unemployment benefits fell from 4.8% to 3.4%.

- <sup>12</sup> Australian Bureau of Statistics (ABS), *Year Book Australia 2003*, Cat. 1301.0 (Canberra: 2003).
- <sup>13</sup> Australian Institute of Health and Welfare, *Australia's Welfare 2002* (Table A4.2) and *Australia's Health 2002* (Table S41) (Canberra: AIHW, 2002).
- <sup>14</sup> With an ageing population, the cost of the age pension is expected to increase to nearly 5% of GDP in the next 40 years, even though compulsory superannuation will reduce the proportion of elderly people who are eligible to receive it. See: Treasury, *Australia's Demographic Challenges*, Discussion Paper (Canberra: 25 February 2004); FaCS, 'Inquiry into long-term strategies to address the ageing of the Australian population over the next 40 years', *Occasional Paper 8* (2003).
- <sup>15</sup> These trends are described in detail in FaCS, 'Inquiry into poverty and financial hardship', *Occasional Paper 9* (2003), section 4.2.
- <sup>16</sup> S. Davidson, *Who Pays the Lion's Share of Personal Income Tax?*, Policy Monograph 63 (Sydney: CIS, 2004).
- <sup>17</sup> ABS, *Measures of Australia's Progress 2004*, Cat. 1370.0 (Canberra: 2004). These rates are based on equivalised disposable household incomes adjusted for changes in the Consumer Price Index. Data on reported incomes are known to be unreliable, especially at the bottom end where many people under-report their incomes. For this reason, many analysts believe surveys of what people spend (rather than what they say they receive) offer a much more reliable guide to what has been happening to living standards over time.
- <sup>18</sup> A. Harding and H. Greenwell, *Trends in Income and Expenditure Inequality in the 1980s and 1990s*, Discussion Paper 57 (Canberra: NATSEM, June 2002).
- <sup>19</sup> F. Argy, *Where To From Here? Australian Egalitarianism Under Threat* (St Leonards: Allen & Unwin, 2003), pp.43, 45, 49.
- <sup>20</sup> F. Fukuyama, *The Great Disruption* (New York: Free Press 1999).
- <sup>21</sup> The data that follow are taken from J. Buckingham (ed), *State of the Nation: An Agenda for Change*, 4th edition (Sydney: CIS, 2004).
- <sup>22</sup> 'Rent' in this context refers to any flow of revenue to individuals that is taken out of another's earned income stream rather than from a new source of value. Given the government's monopoly taxation powers, it is in a unique position to divert income from one group and give it to another as unearned 'rents'. Rent-seeking is simply the act of trying to have some of this revenue diverted to you.

## Chapter 2. How Many People Need Help?

- <sup>1</sup> M. Jones, *The Australian Welfare State*, 4th edition (St Leonards: Allen & Unwin, 1996), p.27.
- <sup>2</sup> See D. Gordon, 'Measuring absolute and overall poverty', in D. Gordon and P. Townsend, *Breadline Europe* (Bristol: Polity Press, 2000); D. Gordon, *Poverty and Social Exclusion in Britain* (York: Joseph Rowntree Foundation 2000). The estimate of 26% of the population in poverty is

based on the number of respondents who claimed to be unable to afford at least two from a list of 29 'socially necessary' items. The UN's absolute poverty line is defined by various life-threatening conditions such as unclean drinking water, lack of sanitation, shortage of food and absence of health and education services. It is extraordinary that 17% of Britons think they live at this level, and even more extraordinary that academics are willing to take such claims seriously.

- <sup>3</sup> On the variety of poverty estimates see P. R. Saunders and K. Tsumori, *Poverty in Australia: Beyond the Rhetoric*, Policy Monograph 57 (Sydney: CIS, 2002). On the Senate Poverty Inquiry report, see P. R. Saunders, *Lies, Damned Lies and the Senate Poverty Inquiry Report*, Issue Analysis 46 (Sydney: CIS, April 2004).
- <sup>4</sup> The terms 'welfare lobby' and 'social policy establishment' will be used more or less interchangeably in this book to refer to the research and policy wings of voluntary welfare sector organisations like the Smith Family, the Brotherhood of St Laurence, Mission Australia, the St Vincent de Paul Society, Anglicare, and UnitingCare, and to the various media commentators, academics and university-based research organisations which engage actively in social policy debate and advocacy. At the head of this lobby stands the Australian Council of Social Service (ACOSS) which represents around 11,000 organisations (charities, advocacy groups, social worker professional bodies, and specific user organisations) at both state and federal level. Many of our leading welfare charities have recently extended their traditional caring activities and are increasingly involved in political lobbying. The policies they favour generally aim at greater income equality, more government spending, higher taxes, increased minimum wages and more government regulation, an agenda traditionally associated with the political left. Some have embraced 1970s-style campus Marxism. For example, John Falzon of the St Vincent de Paul Society has written: 'The market exists as a structure for the generation of profit. It rewards those who have capital. It does not exist to serve the needs of those it exploits', from 'Third Way: Empty Promise', Paper to the Centre for Full Employment and Equity conference (University of Newcastle, 4-6 December 2002), p.2.
- <sup>5</sup> According to the ABS, the reported income of 'many people falling into the lowest decile . . . does not appear to be an appropriate indicator of the economic resources available to them. Their income tends to be significantly lower than would be available to them if they were reliant on the safety net of income support provided by social security pensions and allowances. At the same time, their expenditure levels tend to be higher than those in the second and third deciles'. See ABS, *Measures of Australia's Progress 2004*, Cat. 1370.0 (Canberra: 2004).
- <sup>6</sup> These problems shall be explored in more detail in Chapter 3. The Henderson line is regularly updated by the Melbourne Institute and latest poverty estimates are published on its website ([www.melbournainsstitute.com](http://www.melbournainsstitute.com)). For a discussion of issues regarding the method of updating,

- see H. Greenwell, R. Lloyd and A. Harding, *An Introduction to Poverty Measurement Issues*, Discussion Paper 55 (Canberra: NATSEM, 2001).
- <sup>7</sup> I have discussed this in more detail in P. R. Saunders and K. Tsumori, *Poverty in Australia*.
- <sup>8</sup> C. Whelan, R. Layte, M. Maitre, B. Nolan, 'Persistent income poverty and deprivation in the European Union' *European Panel Analysis Group Working Paper 17* (Dublin: Economic and Social Research Institute, 2001); T. Breusch and D. Mitchell, 'Australian family income dynamics', Paper to the 2003 Australian Institute of Family Studies conference (Melbourne), cited in FaCS, 'Inquiry into poverty and financial hardship', *Occasional Paper 9* (2003), p.67.
- <sup>9</sup> Melbourne Institute, *HILDA Survey Annual Report 2003* (University of Melbourne, 2003), pp.20-21.
- <sup>10</sup> See, for example, Charles Murray, *What it Means to Be a Libertarian* (New York: Broadway Books 1998): 'Do not substitute less coercive government programs for the ones we have now. Do not try to make the best of a bad situation. Dismantle every vestige of the state social insurance and welfare apparatus and constitutionally forbid its reappearance' (p.130). According to Murray, the result would be more self-reliance through saving, more personal responsibility and a flourishing of voluntary organisational activity.
- <sup>11</sup> FaCS, *Trends in Pension and Benefit Receipt*, Research Sheet 2 (1999); P. Whiteford and G. Angement, 'The Australian system of social protection: An overview', *Occasional Paper 6*, 2nd edition (Canberra: FaCS, 2001).
- <sup>12</sup> R. Bray, 'Hardship in Australia', *Occasional Paper 4* (Canberra: FaCS, 2001). Bray also finds that just 2.2% of the Australian population reports income and spending levels lower than 50% of the respective median values in the whole population (50% of median income and/or 50% of median expenditure are commonly recognised as two ways of measuring poverty. Putting them together allows a rather tighter definition to be drawn). See R. Bray, 'Poverty lines and living standards', Paper to FaCS seminar on 'Hardship in Australia' (Sydney, 2 September 2002). Other relevant Australian studies include a survey by Peter Saunders of the Social Policy Research Centre who finds that 5.9% of people claim to have insufficient income while also having a 'deprived' lifestyle, and work by Helen Hughes who suggests that around 5% of Australians may qualify as 'poor' on a relative definition once income from the 'black economy' is taken into account. See P.G. Saunders, *The Ends and Means of Welfare* (Melbourne: Cambridge University Press, 2002); H. Hughes 'The politics of envy', *Policy 17:2* (2001).
- <sup>13</sup> A. Harding, R. Lloyd, H. Greenwell, *Financial Disadvantage in Australia 1990-2000* (Sydney: The Smith Family, 2000).
- <sup>14</sup> The recent Senate Inquiry denies this, claiming that 'poverty is increasingly associated with low pay' and that over one million Australians in poverty are living in households where somebody has a job. See Senate Community Affairs References Committee, *A Hand Up Not a*

*Hand Out* (Commonwealth of Australia, March 2004), para 3.26. This claim is wholly unconvincing for a number of reasons. See P. R. Saunders, *Lies, Damned Lies and the Senate Poverty Inquiry Report*, Issue Analysis 46 (Sydney: CIS, April, 2004), pp.9-10.

### Chapter 3. Are Welfare Benefits Too Low?

- <sup>1</sup> David Ellwood, *Poor Support: Poverty in the American Family* (New York: Basic Books, 1988), p.43.
- <sup>2</sup> The Henderson poverty line is indexed to household disposable income per capita (HDIPC), derived from national accounts. This measure includes some items, such as the imputed rent from owner-occupied housing and earnings from superannuation funds which are not included in ABS income surveys and which have grown faster than other aspects of measured income which are measured in these surveys. The inevitable result is that HDIPC (and hence the Henderson poverty line) rises faster than ABS estimates of average income levels meaning the number of people estimated to be 'in poverty' inevitably increases each year. I am indebted to Peter Whiteford for explaining this.
- <sup>3</sup> P. R. Saunders and K. Tsumori, *Poverty in Australia* (Sydney: CIS, 2002).
- <sup>4</sup> ABS, *Measures of Australia's Progress 2004*, Cat. 1370.0 (Canberra: 2004). For more detailed discussion of some of the sources of error in the income data, see ABS, 'Upgrading household income distribution statistics', *Australian Economic Indicators*, Cat.1350.0 (Canberra: 2002), pp.3-8 and ABS, *Household Income and Income Distribution*, Cat.6523.0 (Canberra: 2003), Appendix 4.
- <sup>5</sup> The stark difference in hardship levels between age pensioners and other welfare recipients may partially be explained by the lower average housing costs of older households, but Bray shows that it also reflects the different ways people choose to spend and manage their money.
- <sup>6</sup> R. Bray, 'Hardship in Australia', *Occasional Paper 4* (Canberra: FaCS, 2001), p.vi.
- <sup>7</sup> There are many examples of these kinds of arguments. Philip Mendes (a Monash University academic) attacks the idea that 'people are poor or unemployed due to incompetence or immorality' and he is particularly critical of Liberal MP Tony Abbott for suggesting that alcohol, drugs and gambling might be factors in some people's deprivation. He asserts instead that 'structural factors such as social and economic deprivation' are 'significant influences on the prevalence of poverty'. See Mendes, *Australia's Welfare Wars* (Sydney: UNSW Press, 2002), p.5. Belinda Probert of RMIT University wrongly asserts that 'there is no evidence' to support the 'notion that it is attitudinal problems that prevent welfare recipients from getting off welfare' and she attacks the 'uncharitable' view of the 'petty bourgeoisie' that seeks to distinguish between 'the deserving poor and the undeserving poor'. In her view, the problem is simple: 'There are no jobs'. See B. Probert, 'Growing underclass demands a fairer Australia',

- The Sydney Morning Herald* (14 March 2001). Pamela Kinnear of the Australia Institute attacks 'the belief that poverty and unemployment is a result of the failure of personal morality' and denies that 'a selected group of social security recipients are not trying sufficiently hard to be self-reliant'. Instead, she argues that 'unemployed people have made an involuntary sacrifice for the economic well-being of employed people'. See P. Kinnear, 'Mutual obligation: A reasonable policy?', in T. Eardley and B. Bradbury (eds), *Competing Visions*, SPRC Report 1/02 (Sydney: 2001), pp.248-49, 255.
- <sup>8</sup> R. Havemen and A. Bershadker 'Self-reliance as a poverty criterion', *AEA Papers and Proceedings* 88:2 (1998), pp.342-47. Note that this study covered a period before the major welfare reform of 1996, since the time when voluntary unemployment is likely to have declined.
- <sup>9</sup> Mark Almond has written of a 'welfare consensus' in Britain which is completely resistant to behavioural policies to tackle poverty: 'Changing people's behaviour even where it is blatantly the cause of their distress is considered arrogant and undemocratic'. See 'Discretion', in Digby Anderson (ed), *The Loss of Virtue* (London: Social Affairs Unit, 1992), p.209.
- <sup>10</sup> A. Crabb, 'Latham fuels poverty row with unions', *Melbourne Age* (23 September 2003). Latham's Coalition opponent, Tony Abbott, had earlier made a similar observation.
- <sup>11</sup> Nic Francis of the Brotherhood of St Lawrence, quoted in M. Mellish, 'Matched savings scheme finds few takers', *The Australian Financial Review* (24 September 2003).
- <sup>12</sup> Bray, 'Hardship in Australia', p.67. See Ann Harding, Rachel Lloyd and Harry Greenwell, 'The spending patterns and other characteristics of low-income households', in G.Zappala (ed), *Barriers to Participation* (Sydney: The Smith Family, 2003), Table 1.2.
- <sup>13</sup> Most of them were on unemployment assistance, single parent payment or disability pension. See L. Sullivan, *Behavioural Poverty* (Sydney: CIS, 2000), p.7.
- <sup>14</sup> G. Jacobsen, 'Poorest area puts twice as much money into pokies', *The Sydney Morning Herald* (3 June 2003).
- <sup>15</sup> B. Bradbury, S. Jenkins and J. Mickelwright, 'Conceptual and measurement issues', in *The Dynamics of Child Poverty in Industrialised Countries* (UK: Cambridge University Press, 2001), p.57, find 'a notable association' in many western countries between family dissolution and the onset of child poverty.
- <sup>16</sup> J. Cox, 'The poverty line revisited', *Agenda* 9:2 (2002), p.109.
- <sup>17</sup> For example, I. Sawhill. 'The behavioural aspects of poverty', *The Public Interest* (Fall 2003), p.83: 'Those who graduate from high school, wait until marriage to have children, limit the size of their families and work full-time will not be poor.' See also L. Mead, *The New Politics of Poverty* (New York: Basic Books, 1992).
- <sup>18</sup> In a 1973 Adelaide survey, 91% of respondents thought 'lack of thrift and money management' was an important explanation of why people

are poor, 89% blamed 'lack of effort by the poor themselves' and 75% put it down to 'loose morals and drunkenness'. See P. G. Saunders, *The Ends and Means of Welfare* (Sydney: Cambridge University Press, 2002), p.153. Saunders compares these responses with his own 1999 survey, where only 14% agreed that 'people are poor mostly because they only have themselves to blame', and suggests that 'structural' explanations have become much more popular since the 1970s. A more likely explanation for the difference between responses to the two surveys is the difference in the way the questions were worded, although public attitudes have probably shifted during this period.

- <sup>19</sup> Writing of the cultural and behavioural causes of poverty in the United States, Myron Magnet notes: 'Poverty turned pathological . . . because the new culture that the Haves invented—their remade system of beliefs, norms and institutions—permitted, even celebrated behaviour that, when poor people practice it, will imprison them inextricably in poverty'. See *The Dream and the Nightmare* (New York: William Morrow & Co, 1993), p.19. When middle class kids drop out of school, for example, they know they can drop back into college later on, but when poor children drop out of school, they stay out. Similarly, single parenthood may seem workable—even desirable—for a middle class professional woman with money and a good career, but for an unskilled teenage girl, it spells disaster.
- <sup>20</sup> The British academic Paul Spicker, for example, accepts that 'poor people do act differently' but asserts that 'poverty is not a problem of the behaviour of poor people'. He claims without citing any evidence that 'marital breakdown is *clearly* a consequence of poverty', and falsely asserts that concerns about an inter-generational 'culture of dependency' have been 'demolished by research evidence'. See Spicker, 'Poverty and the welfare state: Dispelling the myths', *Catalyst Working Paper* (London: September 2002), pp.5,18, 15. This sort of thinking has become paradigmatic, and it leads to a refusal to consider contrary evidence and arguments. Another British social policy analyst, Alan Deacon, has shown how crucial British research on the cultural transmission of poverty and dependency was subverted, distorted and marginalised by social policy intellectuals who refused to admit the possibility that the poor could be responsible for their own condition. See A. Deacon, 'Learning from the US?', *Policy and Politics* 28 (2000), pp.5-18.
- <sup>21</sup> There are signs that this is now coming to be recognised by some policy analysts. Peter Botsman, for example, writes: 'The money measurement of poverty is only an indicator for a series of more profound problems . . . a diminishment of our renowned individual capacity for self-reliance and independence is what is causing our real poverty'. See *Job Zones*, Paper to The Path to Full Employment conference (University of Newcastle, December 2002), p.3. He goes on to make the point that 50 years ago, even in the poorest parts of Australia, there was no equivalent to the thousands of people living in caravan parks who have given up looking for work, nor or the alcohol epidemic in indigenous communities, nor of

the heroin addiction now blighting our cities. As he says, these problems will not be solved by 'giving more sit down money or welfare'.

- <sup>22</sup> An unfortunate 'proof' of this proposition came in the aftermath of the 2004/05 Budget that raised Family Tax Benefit for lone parents. Subsequent modelling by the Melbourne Institute suggested that this would cause about 24,000 recipients to withdraw from the labour market. See P. Dawkins, H. Buddelmeyer and G. Kalb, 'Wanted: Incentives to beef up the labour force', *The Australian* (14 May 2004), p.13.
- <sup>23</sup> Some people, of course, are not capable of working and should not be expected to. This is recognised in our existing welfare system in the distinction between unemployment allowances and pensions, although we shall see that this distinction has become increasingly blurred and that many people on pensions could and should arguably be expected to work. Responding to this blurring, the 2000 McClure Report recommended replacing the existing system of benefits with a single payment, however this would arguably make matters worse. See P. R. Saunders, CIS submission to House of Representatives Inquiry into *Reform of Income Support for Working Age Australians*, available from [www.cis.org.au](http://www.cis.org.au).

#### Chapter 4. Learning From America

- <sup>1</sup> 16 July 1996, Wisconsin, [www.cnn.com/ALLPOLITICS/1996/news/9607/16/welfare/clinton.shtml](http://www.cnn.com/ALLPOLITICS/1996/news/9607/16/welfare/clinton.shtml)
- <sup>2</sup> Some states went further in requiring proof of job search before allowing new claimants to register for welfare support. In Wisconsin, for example, claimants have to provide evidence of 60 hours of job search in the previous 30 days. This stipulation alone has had a major impact on the rolls. When Wisconsin introduced this requirement, 53% of existing claimants failed to re-register. In New York City, new claims fell by 75% when a prior job search rule was introduced. See M. Evans, 'Welfare to work and the organisation of opportunity', *CASE Report 15* (London: London School of Economics, 2001).
- <sup>3</sup> Some 17 states imposed tighter time limits than those mandated by the Act. See J. Waldfogel et al, 'Welfare reform and lone mothers' employment in the US', *CASE Paper 47* (London: London School of Economics, 2001).
- <sup>4</sup> All quoted in R. Rector and P. Fagan, 'The continuing good news about welfare reform', *Heritage Foundation Backgrounder* 1620 (February 2003).
- <sup>5</sup> 'Not even liberals are talking about whether welfare recipients ought to work. The main bone of contention now is how much money should go to child care so that the work requirement can be increased'. See 'The welfare watershed', editorial, *The Wall Street Journal* (13 May 2002). The follow-up legislation introduced into the House of Representatives in 2002 raised states' targets from 50% to 70% of welfare recipients in work, and increased minimum weekly supervised activities to 40 hours

- including at least 24 hours of actual work. Money was also allocated to promote marriage through advertising, counselling and high school courses. However, the legislation later got bogged down in the Senate. See J. Turner 'Radical changes to the welfare system in the US state of Wisconsin', in Stockholm Network, *Europe's Welfare Burden* (London: Civitas, 2002), fn.1; R. Pear, 'House passes a welfare bill with stricter rules on work', *The New York Times* (17 May 2002).
- 6 In 1935, 80% of recipients were widows, but by 1960, this was true of fewer than one in ten. As single parenthood became commonplace as a result of the growth of births outside marriage, so AFDC rolls ballooned, tripling from one to three million between 1964 and 1972. The cost of AFDC increased more than fourfold in real terms between 1960 and 1980. See J. Clark and J. Hein, 'The political economy of welfare reform in the United States', in J. Clark et al, *Welfare Work and Poverty* (London: Civitas, 2000).
  - 7 Food stamps are vouchers for purchasing food which are given to about 17 million recipients, some of whom are working in low-paid jobs, others of whom have no independent income.
  - 8 TANF accounts for only 3% of the total value of US income maintenance programmes. See M. Evans, 'Welfare to Work and the organisation of opportunity'.
  - 9 Old Age, Survivors and Disability Insurance were introduced in 1935. It is funded by a 12.4% payroll tax paid half by the employer and half by the employee (there is also an additional 2.9% payable for Medicare). See J. Stiglitz, *Economics of the Public Sector*, 3rd edition (New York & London: W. W. Norton & Co, 2000), ch. 14.
  - 10 Stiglitz, *Economics of the Public Sector*, ch. 15.
  - 11 Melanie Phillips suggests that many states ignored the parts of the Act promoting marriage (see *America's Social Revolution* [London: Civitas, 2001], p.10) but this figured more centrally in the debate over renewing the 1996 Act. Nevertheless, the increase in the rate of out-of-wedlock births has halted (see R. Rector and P. Fagan, 'The continuing good news about welfare reform') and the number of children under five living in single parent families actually declined from 21% to 17% between 1997 and 2002 (see G. Acs and S. Nelson, 'The more things change? Children's living arrangements since welfare reform', *Snapshots of America's Families III* 10, (Washington DC: Urban Institute, October 2003).
  - 12 C. Schafer and J. Clemens, 'Welfare reform in British Columbia', *Occasional Paper* 63 (Vancouver: Fraser Institute, 2002); D. Besharov, 'Welfare rolls on the rise again', *The Washington Post* (16 July 2002); R. Rector and P. Fagan, 'The continuing good news about welfare reform'; J. Bernstein and M. Greenberg, 'Reforming welfare reform', *The American Prospect* (1- 15 January 2001), pp.10-16.
  - 13 A. Sherman, 'Milwaukee after W-2' in D. Besharov et al, *Ending Dependency: Lessons From Welfare Reform in the USA* (London: Civitas, 2001); J. Turner, 'Radical changes to the welfare system in the US state

- of Wisconsin'; L. Mead, *Government Matters* (Princeton NJ: Princeton University Press, 2004). Wisconsin has the tightest of all rules regarding the work requirements imposed on single parents, requiring mothers to return to work just 12 weeks after a child is born. It also requires those with drug dependency problems, alcoholics and people with mild disabilities to participate in a transitional jobs programme. For a summary of different rules and sanctions applied in different states, see C. Schafer, J. Emes and J. Clemens, 'Surveying US and Canadian welfare reform', *Critical Issues Bulletin* (Toronto: Fraser Institute, 2001).
- <sup>14</sup> D. Besharov and P. Germanis, 'Welfare reform: Four years later', in Besharov et al, *Ending Dependency*, p.69. The Congressional Budget Office also thinks three-quarters of the decline is due to policy change and only one-quarter is attributable to the favourable economy. See R. Rector and P. Fagan, 'The continuing good news about welfare reform'. But 'policy change' covers not only the welfare reform but also a big increase in the minimum wage and in the value of Earned Income Tax Credits (in-work payments designed to top-up the earnings of low-paid workers). The total level of spending on the poor did not decline as a result of the reform, but it shifted from the unemployed to the employed. See D. Ellwood, 'The US vision of work-based reform', in T. Eardley and B. Bradbury (eds), *Competing Visions*, SPRC Report 1/02 (Sydney: 2002).
- <sup>15</sup> J. Clark and J. Hein, 'The political economy of welfare reform in the United States', p.7.
- <sup>16</sup> Michael New's regression modelling finds that the key predictors of a state's caseload decline are the stringency of its sanctions against those who fail to comply with work conditions (the most important factor) and the generosity of its benefits. A strong economy also helped but was a much less powerful influence on outcomes. Differences in sanctions could result in a 20% variation in caseload decline, as compared with less than a 5% variation between strong and weak economies. See M. New, 'Welfare reform that works', *Policy Analysis* 435 (Washington DC: CATO Institute, 2002); R. Rector and S. Youssef, *The Impact of Welfare Reform* (Washington DC: Heritage Foundation, 1999), pp.xi-xii.
- <sup>17</sup> C. Scahfer and J. Clemens, 'Welfare reform in British Columbia'; D. Ellwood, 'The US vision of work-based reform' similarly notes that the 1990s economic boom did nothing to reduce welfare dependency or stimulate greater employment among single parents in Britain, and he explains this as due to a generous system of welfare support which remained largely unchanged.
- <sup>18</sup> D. Besharov (ed), *Family and Child Well-Being After Welfare Reform* (Washington DC: American Enterprise Institute, 2003). In the last nine months of 2001, 47 states saw unemployment rise, but in 14 of them, welfare dependency continued to fall. See National Campaign for Jobs and Income Support, *End Poverty* (2002), [www.makeTANFwork.org](http://www.makeTANFwork.org). On 31 August 2002, *The New York Times* reported that unemployment in NYC had risen 20% since March but that the number of people receiving

- public assistance was still falling, down nearly 10% since the start of the year (L. Kaufman, 'Despite slump, cities see drop in welfare rolls').
- <sup>19</sup> J. O'Neill and M. Anne Hill, *Gaining Ground, Moving Up*, Civic Report 35 (New York: Manhattan Institute for Policy Research, March 2003), p.10.
- <sup>20</sup> R. Rector and P. Fagan, 'The continuing good news about welfare reform'.
- <sup>21</sup> The General Accounting Office, cited in C. Schafer and J. Clemens, 'Welfare reform in British Columbia'.
- <sup>22</sup> D. Besharov and P. Germanis, 'Welfare reform: Four years later', p.71. Similarly, J. Bernstein and M. Greenberg, 'Reforming welfare reform' estimate that 70% of leavers have worked in the last 12 months but that only 60% are working at any one time.
- <sup>23</sup> Cited in M. Gray and D. Stanton, 'Lessons of US welfare reforms for Australian social policy', *Research Paper* 29 (Melbourne: Australian Institute of Family Studies, 2002). p.14.
- <sup>24</sup> V. Lens, 'TANF: What went wrong and what to do next', *Social Work* 47 (July 2002), pp.279-91.
- <sup>25</sup> J. Bernstein and M. Greenberg, 'Reforming welfare reform'; M. Gray and D. Stanton, 'Lessons of US welfare reforms for Australian social policy'.
- <sup>26</sup> P. Loprest, 'How families that left welfare are doing', *New Federalism* Series B, No. B-1 (August 1999); J. O'Neill and M. Anne Hill, *Gaining Ground, Moving Up*.
- <sup>27</sup> S. Danziger et al, 'Does it pay to move from welfare to work?', *Journal of Policy Analysis and Management* 21:4 (2002), pp.671-692.
- <sup>28</sup> C. Schafer and J. Clemens, 'Welfare reform in British Columbia'; E. Vulliamy, 'US in denial as poverty rises', *The Observer* London (3 November 2002).
- <sup>29</sup> R. Rector and S. Youssef, *The Impact of Welfare Reform*.
- <sup>30</sup> 'The welfare watershed', *The Wall Street Journal* (13 May 2002); B. Riedl and R. Rector, 'Myths and facts' *Backgrounders* Heritage Foundation (12 July 2002); B. O'Connor, *Welfare Paternalism* Fulbright Symposium Paper (Griffith University, July 2003).
- <sup>31</sup> J. O'Neill and M. Anne Hill, *Gaining Ground, Moving Up*.
- <sup>32</sup> J. Waldfoegel, S. Danziger, S. Danziger, K. Seefeldt, *Welfare reform and Lone Mothers' Employment in the US*, CASE Paper 47 (London: London School of Economics, June 2001).
- <sup>33</sup> J.O'Neill and M. Anne Hill, *Gaining Ground, Moving Up*.
- <sup>34</sup> P. Loprest and S. Brauner, 'Where are they now?' *New Federalism* 6 (1999); L. Mead, 'Welfare reform and the family: lessons from America', in P. R. Saunders (ed), *Reforming the Australian Welfare State* (Melbourne: Australian Institute of Family Studies, 2000).
- <sup>35</sup> D. Besharov and P. Germanis, 'Welfare reform: Four years later', p.78; D. Green, *Poverty and Benefit Dependency* (Wellington: New Zealand Business Roundtable, 2001), p.67.
- <sup>36</sup> A. Sherman, 'Milwaukee after W-2', p.47.

- <sup>37</sup> M. Gray and D. Stanton, 'Lessons of US welfare reforms for Australian social policy'; C. Wetzstein, 'Working welfare moms' teens do worse in school', *The Washington Times* (6 April 2002); R. Gelles, 'Child maltreatment and foster care' in D. Besharov (ed), *Family and child Wellbeing After Welfare Reform*.
- <sup>38</sup> M. Gray and D. Stanton, 'Lessons of US welfare reforms for Australian social policy', p.9. Note that even families that have been terminated normally still receive food stamps, Medicaid and child care assistance. See D. Green, *Poverty and Benefit Dependency*, p.65.
- <sup>39</sup> T. Lindhorst, R. Mancoske and A. Kemp, 'Is welfare working?', *Journal of Sociology and Social Welfare* 27:4 (2000), pp.185-201.
- <sup>40</sup> 'When faced with the new work and behavioural requirements, mothers who had other sources of support sufficient to permit them to forgo welfare (predominantly those living in households with adequate economic resources) simply left welfare without looking for work.' See D. Besharov and P. Germanis, 'Welfare reform: Four years later', p.74.
- <sup>41</sup> P. Loprest, 'How families that left welfare are doing'; V. Lens, 'TANF: What went wrong and what to do next'.
- <sup>42</sup> M. Gray and D. Stanton, 'Lessons of US welfare reforms for Australian social policy'.
- <sup>43</sup> M. Evans, 'Welfare to Work and the organisation of opportunity'. It is clear that the culture of welfare offices in the US has shifted dramatically as the emphasis has changed from offering people money to getting them into work. As Besharov and Germanis ('Welfare reform: Four years later', p.63) explain: 'The culture of welfare offices has changed from places where mothers are signed up for benefits (with almost no questions asked) to places where they are helped, cajoled and, yes, pressured to get a job or rely on others for support.'
- <sup>44</sup> D. Ellwood, 'The US vision of work-based reform'.
- <sup>45</sup> 'Many progressives, ourselves included, fought hard against the programme that passed in 1996 . . . So far, the evidence reveals that many of our fears have not been borne out'. See J. Bernstein and M. Greenberg, 'Reforming welfare reform', pp.10-11); 'In many ways welfare reform is working better than I thought it would. The sky isn't falling any more. Whatever we have been doing over the last five years, we ought to keep going' (Wendell Primus, former Deputy Assistant Secretary for Human Services Policy under Clinton who resigned over the 1996 Act, quoted in R. Rector and P. Fagan, 'The continuing good news about welfare reform', p.10-11).
- <sup>46</sup> Mendes, *Australia's Welfare Wars*, p.63.
- <sup>47</sup> P. Henman, *What is Welfare Dependency and What are its Causes?*, Submission to the McLure Committee Inquiry into welfare reform ([www.facs.gov.au/internet/facsinternet.nsf/Aboutfacs/welfaresubmissions3.htm](http://www.facs.gov.au/internet/facsinternet.nsf/Aboutfacs/welfaresubmissions3.htm)) Submission No.270, pp.1, 13.
- <sup>48</sup> Many authors suggest, for example, that the Australian public would not have the stomach for imposing the sorts of work requirements on single

- mothers that now characterise many American states, and that the primary Australian focus is on the welfare of the children rather than the economic participation of the parent. See, for example, D. Ellwood, 'The US vision of work based reform', p.20; G. Burtless, 'Can supply-side policies reduce unemployment? Lessons from North America', *The Australian Economic Review* 35 (2002), p.25; G. Burtless, 'Making work pay: Lessons from the United States', in P. Dawkins and P. Kelly (eds), *Hard Heads, Soft Hearts*, (St Leonards: Allen & Unwin, 2003); A. Deacon, 'The realities of welfare reform: Some home truths from the USA?', in D. Besharov et al, *Ending Dependency*, pp.8-9; P. G. Saunders, 'Welfare reform, work and the labour market', *The Economic and Labour Relations Review* 12 (2001), p.156; G. Kalb, 'The impact of social policy initiatives on labour supply incentives', *Policy Research Paper* 18 (Canberra: FaCS, 2003), p.41.
- <sup>49</sup> D. Ellwood, 'The US vision of work based reform' and G. Burtless, 'Can supply-side policies reduce unemployment?', both make the point that the US reforms depended to some extent on a flexible labour market with fewer regulations and a lower minimum wage than in Australia. See also P. G. Saunders, *The Ends and Means of Welfare*, p.228.
- <sup>50</sup> Our much higher benefit levels reduce the scale of the rewards when people move from welfare to work. Ellwood, 'The US vision of work based reform', suggests that Australia might have to reduce benefits quite substantially (and/or cut taxes on low income workers significantly) in order to replicate the US results.
- <sup>51</sup> 'The US example illustrates . . . solutions to poverty not by treating the symptoms (lack of money), but rather by treating the causes (lack of work, low pay, and so on) . . . If one could create mechanisms whereby poor families achieved a higher standard of living through some combination of their own efforts and government support, there could be advantages'. See J. Lawrence Aber and D. Ellwood, 'Thinking about children in time', in B. Bradbury, S. Jenkins and J. Mickelwright (eds), *The Dynamics of Child Poverty in Industrialised Countries*, (UK: Cambridge University Press, 2001), p.294.
- <sup>52</sup> Welfare reform worked together with a big increase in the value of the Earned Income Tax Credit which enticed people into jobs and rewarded them for staying there. As David Ellwood notes, the combined effect offers 'rather compelling evidence that dramatic changes in incentives can affect behaviour'. See 'The US vision of work based reform', p.25. This conclusion offers considerable support for the analysis first developed by Charles Murray in *Losing Ground* (New York: Basic Books, 1984), where he argued that more generous welfare will generate higher levels of dependency.

## Chapter 5. Dreaming of Sweden

- <sup>1</sup> 'Poverty and inequality since 1992', in *A Fair Society?*, Australian Bishops Conference, Catholic Social Justice Series 46 (North Sydney: Australian Catholic Social Justice Council, 2003), p.24.
- <sup>2</sup> Under the 'Australians Working Together' package introduced the previous year, Parenting Payment claimants whose youngest child is aged six to 15 years must attend one interview per year at Centrelink to discuss their future career plans, and those whose youngest child is aged 13 or more must in addition undertake six hours of 'approved activity' per week.
- <sup>3</sup> In 2004 the government announced a trial scheme to encourage some DSP recipients to join training or job search programmes run by the Job Network (and which offered significant payments to agencies which succeed in placing claimants into jobs), but it was emphasised that participation was to be entirely voluntary. The minister, Kevin Andrews, said he hoped 150,000 of the 650,000 claimants might end up in work if this scheme were adopted nationally. See Chapter 10 for further details.
- <sup>4</sup> Intensive Assistance is intended to offer personalised support to help claimants get back into work. Following assessment of skills, it aims to improve employability through tailored education and training. For an outline of the recent history of welfare reform, see P. Whiteford and G. Angement, 'The Australian system of social protection: An overview', *Occasional Paper 6*, 2nd edition (Canberra: FaCS, 2001).
- <sup>5</sup> Both arguments have some validity. Chapter 13 shows that proactive policies like these tend to be ineffective and/or extremely costly per job created.
- <sup>6</sup> See Reference Group on Welfare Reform, *Participation Support for a More Equitable Society* (Canberra: FaCS, July 2000). The key proposal was to integrate all existing benefits into a single Participation Payment, but the government has yet to act on this and has instead called for another round of consultation. Other ideas from the McClure Report have, however, been implemented, notably the working credit introduced as part of the Australians Working Together package which aims to ease the transition from welfare to work by allowing claimants to disregard part of their earnings for the purposes of benefit assessment for a limited period.
- <sup>7</sup> Tony Abbott, quoted in D. Shanahan and S. Lewis, 'Work and family package shelved', *The Australian* (3 April 2003). Opposition in the Senate has also been a major obstacle to reform (see Chapter 15).
- <sup>8</sup> Mark Davis, 'Hard work ahead on welfare', *The Australian Financial Review* (11 November 2003); Paul Kelly, 'Why are we still running scared from reform?', *The Australian* (12 November 2003). In place of legislation, there have been more inquiries and consultations: a Senate Inquiry into poverty; a House of Representatives inquiry into moving people into work, and a departmental consultative exercise (see *Building a Simpler System to Help Jobless Families and Individuals*, [Canberra: FaCS, 2002]). There is a well established literature in political sociology which analyses the ways those in power avoid making difficult decisions by

- engaging in so-called 'non-decision-making'. One of the most common strategies is to set up inquiries and consultations. See, for example, S. Lukes, *Power: A Radical View* (London: MacMillan, 1974). This appears to be what has been happening in this case.
- <sup>9</sup> J. Disney, 'Some future directions for Australia', in P. Duncan and R. Maddock (eds), *Aspire Australia* (Melbourne: Business Council of Australia, 2002), p.53; See P. G. Saunders, *The Ends and Means of Welfare* (Melbourne: Cambridge University Press, 2002), p.247; *Australia's Welfare Wars* (Sydney: UNSW Press, 2002), p.77; B. Probert, 'Growing underclass demands a fairer Australia', *The Sydney Morning Herald* (14 March 2001); M. Keating, 'The case for increased taxation', *Academy of the Social Sciences* 1 (2004), pp.1, 6; T. McCarthy and J. Wicks, *Greed, Poverty and Compassion: Where to Australia*, Presentation to ALP round table on poverty (Canberra: 18 October 2002), p.7.
  - <sup>10</sup> ACOSS, *Towards a Fair and Inclusive Australia*, ACOSS Paper 119 (February 2002); ACOSS media release (17 January 2002); Brotherhood of St Laurence media release (14 May 2001); P. G. Saunders, *Ends and Means of Welfare*. In a telling phrase, Saunders bemoans the fact that 'receipt of assistance has been equated with dependency, as something to reduce rather than promote' (p.57).
  - <sup>11</sup> See, for example: D. Brennan, B. Cass and M. Gatens, 'Mutual obligation and welfare states in transition', *Dialogue* 20 (2001), pp.11-14; National Welfare Rights Network, *Submission To Senate Community Affairs Reference Committee Inquiry into Participation Requirements and Penalties* (July 2002), p.7; A. Yeatman, 'Mutual obligation: What kind of contract is this?', in P. R. Saunders (ed), *Reforming the Australian Welfare State* (Melbourne: AIFS, 2000); P. G. Saunders *Ends and Means of Welfare*, p.264; F. Argy, *Where to From Here?* (St Leonards: Allen & Unwin, 2003), p.15.
  - <sup>12</sup> P. Kinnear, 'Mutual obligation: A reasonable policy?', in T. Eardley and B. Bradbury (eds), *Competing Visions*, pp.253 and 255. At the time when she wrote this, the author was with the Australia Institute. She subsequently moved to become Director of the government's 'Welfare Reform Task Force' in Canberra.
  - <sup>13</sup> N. Levy, 'Be thankful for dole bludgers', *On Line Opinion* article no.2048 (5 March 2004).
  - <sup>14</sup> K. Green, 'Welfare reform in Australia and the United States', *The Drawing Board, An Australian Review of Public Affairs* 3 (2002), p.24.
  - <sup>15</sup> S. Schooneveldt and J. Thompson, 'Does receiving a breach penalty from Centrelink coerce unemployed people to comply with the government's wishes?', Paper presented at The Path to Full Employment conference (University of Newcastle, 4-6 December 2002), p.188.
  - <sup>16</sup> F. Argy, *Where to From Here?*, p.15. 'Three decades ago', he says, 'welfare benefits were universally accessible to those in need and were viewed as a citizen's entitlement . . . developments in our social security system . . . strike at the very heart of egalitarianism—equal access to welfare benefits as a right' (p.14).

- <sup>17</sup> A. Yeatman, 'Social policy, freedom and individuality', in T.Eardley and B.Bradbury, *Competing Visions*, p.9
- <sup>18</sup> P. G. Saunders, *Ends and Means of Welfare*, pp.257-8. Levy has the same proposal, arguing that it would be appropriate to pay a 'modest income' to those 'who want to and are prepared to . . . withdraw from the labour market altogether'. See N. Levy, 'Be thankful for dole bludgers'.
- <sup>19</sup> P. Mendes, 'Empowering the poor: Towards a progressive version of welfare reform', *AQ* (March/April 2003), pp.23-26.
- <sup>20</sup> F. Field, *Neighbours from Hell* (London: Politico's Publishing, 2003), p.95, 98.
- <sup>21</sup> Interview on ABC Radio National *Life Matters* (30 June 2003).
- <sup>22</sup> In 2000 the US burglary rate was 1.8% (Australia = 3.9%); the robbery rate was 0.6% (Australia = 1.2%); the assault rate was 3.4% (Australia = 6.4%); car theft was 0.5% (Australia = 1.9%). See J. van Kesteren, P. Mayhew, P. Nieuwebeerta, *Criminal Victimization in 17 Industrialised Countries* (The Hague: Ministry of Justice, 2000), p.178.
- <sup>23</sup> 'Australian commentators are increasingly looking for alternative models for social reform. In the past, Sweden was seen as the exemplar of an alternative social democratic model.' See P.Whiteford, 'Is Australia particularly unequal?', in P. Smyth and B. Cass (eds), *Contesting the Australian Way* (Melbourne: Cambridge University Press, 1998).
- <sup>24</sup> G. Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Cambridge: Polity Press, 1990), p.23.
- <sup>25</sup> D. Grubb, 'Making benefits work', *OECD Observer* (26 September 2003).
- <sup>26</sup> D. Green, 'Work for those who can, security for those who cannot', *Economic Affairs* 19 (June 1999), p.55.
- <sup>27</sup> H. Disney, Foreword in Stockholm Network, *Europe's Welfare Burden* (London: Civitas, 2002).
- <sup>28</sup> B. Carlson, 'Welfare reform: Sweden', in *Europe's Welfare Burden*.
- <sup>29</sup> Quoted in *The New York Times* (10 October 1999).
- <sup>30</sup> J. Stephens, 'The Scandinavian welfare states', in G. Esping-Andersen (ed), *Welfare States in Transition* (London: Sage, 1996), p.55. In Norway, too, there are signs that the old statist model is coming under increasing critical scrutiny.
- <sup>31</sup> 'Krybbe to Grav: Is the much loved welfare state still affordable?', *The Economist* (14 June 2003). According to one commentator, 'What we are witnessing is fundamentally a conflict between, on the one hand, collectivist, standardised and nation-centred social forms and ideas, and on the other, increasingly individualised, diversified and trans-national ways of living and thinking'. See M. Rojas, *Beyond the Welfare State* (Stockholm: AB Timbro, 2001), p.108.
- <sup>32</sup> W. Prewo, 'Welfare reform: Germany', in *Europe's Welfare Burden*.
- <sup>33</sup> D. Smith, 'Reformers turn tide in battle to save Germany', *The Sunday Times* London (14 September 2003).

## Chapter 6. The Caring State?

- <sup>1</sup> M. Ignatieff, 'Citizenship and moral Narcissism', in G. Andrews (ed), *Citizenship* (London: Lawrence & Wishart, 1991), p.34.
- <sup>2</sup> This belief in the cohesive properties of state welfare is found throughout the academic literature. It is a core component of the dominant paradigm (what one commentator has identified as the 'Titmuss Paradigm', named after the influential British writer Richard Titmuss) which has dominated British and Australian social policy thinking since World War II. The other two principles at the heart of this paradigm are support for unconditional welfare rights and resistance to individualistic explanations of social pathologies. See A. Deacon, 'Learning from the US?', *Policy and Politics* 28 (2000). The idea that welfare produces social cohesion was also commonly expressed in Marxist analyses of welfare in the 1970s and 1980s by writers like James O'Connor, Manuel Castells, Claus Offe and Ian Gough. For a review, see P. R. Saunders, *Social Theory and the Urban Question*, 2nd edition (London: Hutchinson, 1986).
- <sup>3</sup> Quoted in A. Briggs, 'The welfare state in historical perspective', in S. Aiyer, *Perspectives on the Welfare State* (Bombay: Manaktalas, 1966), p.33.
- <sup>4</sup> See for example, A. Deacon, 'Concession and coercion: the politics of unemployment insurance in the twenties', in A. Briggs and J. Saville (eds), *Essays in Labour History 1918-39* (London: Croom Helm, 1977).
- <sup>5</sup> 'Citizenship and social class', in T. H. Marshall, *Citizenship and Social Class, and Other Essays* (New York, Doubleday, 1964).
- <sup>6</sup> Assar Lindbeck, quoted in M. Rojas, *Beyond the Welfare State* (Stockholm: AB Timbro, 2001), p.7.
- <sup>7</sup> During the Thatcher years in Britain, intellectuals commonly claimed that the attempt to halt the spiralling cost of welfare meant the country was 'rapidly losing its claim to be a civilised society'. See Alan Walker, quoted by D. Green, *Equalizing People* (London: IEA Health and Welfare Unit, 1990), p.8.
- <sup>8</sup> M. Albert, *Capitalism Against Capitalism* (London: Whurr, 1993). Albert illustrates the divergence between these two different capitalisms in various ways. He shows there is a much stronger emphasis on training in the Rhine model; that the neo-American model relies heavily on stock markets for raising capital while Rhine model companies depend more on close ties with banks; that neo-American countries are 'credit' cultures while Rhine model countries are 'savings' cultures; that Rhine model countries tend to pool insurance costs while neo-American countries levy different premiums on people who represent different levels of risk. Most importantly for our purposes, he also shows that the welfare state is much less fully 'developed' in the neo-American countries than in Europe (a distinction also noted in Esping-Anderson's taxonomy of welfare regimes).
- <sup>9</sup> M. Albert, *Capitalism Against Capitalism*, p.53. The book was, of course, published before the 1996 US reforms.

- <sup>10</sup> D. Fraser, *The Evolution of the British Welfare State* (London: Macmillan, 1973), p.1. Similarly, Jones notes that, 'Australia has developed a reactive ad hoc welfare state by incrementally creating new benefit categories as social problems arise'. See Jones, *The Australian Welfare State*, 4th edition (St Leonards: Allen & Unwin, 1996), p.1. There have been times, notably the period following World War II in Britain, and the Whitlam years in Australia, when welfare reform has been presented by politicians as a symbol of national unity, but these sentiments have soon ebbed away.
- <sup>11</sup> 'A survey of the Nordic region', *The Economist* (14 June 2003), p.12. There is a growing recognition of this link between strong welfare states and homogenous national cultures. A. Alesina and E. Glaeser in *Fighting Poverty in the US and Europe* (UK: Oxford University Press, 2004) find the racial heterogeneity of the US is a major factor explaining why welfare spending is so much lower there than in Europe. For a review, see 'Why welfare?', *The Economist* (11 March 2004). The authors also find a strong correlation within the US between the racial homogeneity of states and their level of spending on welfare. In a recent speech the British Conservative shadow minister, David Willetts, noted: 'You can have a Swedish welfare state provided that you are a homogenous society with intensely shared values . . . Progressives want diversity, but they thereby undermine part of the moral consensus on which a large welfare state rests' as quoted in David Goodhart, 'Discomfort of strangers', *The Guardian* (24 February 2004).
- <sup>12</sup> In Australia, stigmatised welfare perhaps remains most marked in relation to public housing. Guyonne Kalb speculates about 'the social stigma involved in accepting social assistance', but provides no evidence that this is still strong. See 'An Australian model for labour supply and welfare participation in two-adult households', *SPRC Discussion Paper* 82 (June 1999).
- <sup>13</sup> Real 'customers' exert power by purchasing services with their own money, but welfare recipients are given money by service professionals and are at the wrong end of an inherently asymmetrical and demeaning exchange.
- <sup>14</sup> David Selbourne points out that modern rights-based welfare rhetoric rarely recognises any serious corresponding responsibility on the part of claimants to fulfil social obligations as a condition of receiving support: 'The 'empowered citizen' . . . can lay claims to rights of every description . . . In this (amoral) Utopia, the state has correlative obligations to meet its Empowered Citizens' large-scale demands and expectations . . . But of citizen duties and state rights there is rarely more than a token mention'. See D. Selbourne, 'Who would be a socialist citizen?', in G. Andrews (ed), *Citizenship* (London: Lawrence & Wishart, 1991), pp.95-96.
- <sup>15</sup> P. Berger and R. Neuhaus, *To Empower People* (Washington: American Enterprise Institute, 1987); P. Botsman and M. Latham, *The Enabling State* (Annandale: Pluto Press, 2001).

- <sup>16</sup> Since 2000, the Federal government has been pumping money into its 'Stronger Families and Communities' strategy which among things is intended to foster 'social capital'. This strategy spent \$226 million in its first four years, and it included funding for 97 'Community Building Programmes', [www.facs.gov.au/internet/facsinternet.nsf/aboutfacs/programs/sfsc-sfcs.htm](http://www.facs.gov.au/internet/facsinternet.nsf/aboutfacs/programs/sfsc-sfcs.htm)
- <sup>17</sup> D. Green, *Working Class Patients and the Medical Establishment* (UK: Temple Smith/Gower 1985); D. Beito, *From Mutual Aid to the Welfare State* (Chapel Hill: University of North Carolina Press, 2000); D. Green and L. Cromwell, *Mutual Aid or Welfare State* (St Leonards: Allen & Unwin, 1984)
- <sup>18</sup> See, for example, R. Eckersley, 'Redefining progress', *Family Matters* 51 (1998), pp.6-12. The Australian Bureau of Statistics has also recently developed a series of indicators intended to measure 'social progress' which includes things like burglaries, imprisonment rates, divorce rates, suicide rates and drug-related deaths. See ABS, *Measuring Australia's Progress* (Canberra: 2002); ABS, *Measures of Australia's Progress 2004*, Cat. 1370.0.
- <sup>19</sup> P. Travers and S. Richardson, *Material Wellbeing in Australia* (Melbourne: Oxford University Press, 1993, p.73) report that the distribution of incomes became increasingly equal right up to 1981, after which inequality increased slightly. Most indicators of social pathology started moving upwards long before the 1980s, however property crimes, for example, lurched upwards from the 1950s and male youth suicides started rising significantly in the 1960s. See J. Buckingham, L. Sullivan and H. Hughes, *State of the Nation* (Sydney: CIS, 2001), pp.57, 96; J. Buckingham, *State of the Nation: An Agenda for Change* (Sydney: CIS, 2004), p.34.
- <sup>20</sup> The Gini coefficient, a summary measure of income inequality in which a lower figure indicates greater equality, fell in New Zealand from 0.36 in 1958 to 31.4 in 1966 and reached 30.0 in 1975. Since then it has increased to 35.8 in 1985 and 40.2 in 1990. Thus, income inequality reduced from the mid-1950s to the mid-1970s at a time when crime rates, for example, were rising steeply (from around 300 crimes per 1,000 population in the mid-1950s to about 700 some 20 years later. See P. R. Saunders and N. Billante, 'Does prison work?', *Policy* 18:4 (Summer 2002-03), pp.3-8.
- <sup>21</sup> M. Newman, 'A recipe for a successful welfare system' (21 May 2002), [www.act.org.nz/action/murielnewman.html](http://www.act.org.nz/action/murielnewman.html)
- <sup>22</sup> P. R. Saunders and N. Billante, 'Does prison work?'
- <sup>23</sup> Homicide is the only serious crime where US rates are still higher than those in Australia. It seems likely that this single exception reflects the easier availability of firearms in America.
- <sup>24</sup> [http://rulj287.leidenuniv.nl/group/jfct/www/icvs/data/i\\_VIC.HTM](http://rulj287.leidenuniv.nl/group/jfct/www/icvs/data/i_VIC.HTM). I have discussed these trends in more detail in P. R. Saunders and N. Billante, 'Does prison work?'

## Chapter 7. Principles of Reform

- <sup>1</sup> J. Howard, 'Strategic leadership for Australia', Speech at Four Seasons Hotel (Sydney, 20 November 2002).
- <sup>2</sup> J. Howard, 'Strategic leadership for Australia'.
- <sup>3</sup> For an excellent discussion of the issues involved in trying to identify an Australian 'national identity', see C. Kukathas, 'The idea of an Australian identity', in Kukathas (ed), *Multicultural Citizens* (Sydney: CIS, 1993)
- <sup>4</sup> This was essentially the point made by Charles Murray in *Losing Ground* (New York: Basic Books, 1984).
- <sup>5</sup> D. Ellwood, *Poor Support: Poverty in the American Family* (New York: Basic Books, 1988), p.6.
- <sup>6</sup> For example: 'The notion that it is attitudinal problems that prevent welfare recipients from getting off welfare . . . fail[s] to acknowledge that there are no jobs . . . We are dividing the underclass into the deserving poor and the undeserving poor again'. See B. Probert, 'Growing underclass demands a fairer Australia', *The Sydney Morning Herald* (14 March 2001).
- <sup>7</sup> G. Hofstede, *Culture's Consequences* (London: Sage, 1980), p.315.
- <sup>8</sup> T. Eardley and G. Matheson, 'Australian attitudes to unemployment and unemployed people', *SPRC Discussion Paper 102* (June 1999), pp.27-28. The Work for the Dole policy is explained and evaluated in Chapter 8.
- <sup>9</sup> T. Eardley and G. Matheson, 'Australian attitudes to unemployment and unemployed people', Figure 5.
- <sup>10</sup> T. Eardley, P. G. Saunders and C. Evans, 'Community attitudes towards unemployment, activity testing and mutual obligation', *SPRC Discussion Paper 107* (May 2000), Table 7.
- <sup>11</sup> Variables 224 and 225. *The Australia Survey of Social Attitudes* data set can be accessed directly at <http://ausstar.anu.edu.au/nesstarlight>. I return to these data in Chapter 15.
- <sup>12</sup> See, for example, ACOSS, *Closing the Gap*, Federal Budget Priorities Statement, Paper 112 (Sydney: February 2001); M. Keating, 'The case for increased taxation', *Academy of the Social Sciences* 1 (2004), p.2.
- <sup>13</sup> 'No Australians should get left behind', *The Daily Telegraph* (16 December 2002).
- <sup>14</sup> R. Fitzgerald, 'Keep the home fires burning', *The Australian* (13 March 2003).
- <sup>15</sup> C. Shevels, 'Enforced business will not do the job', *The Newcastle Herald* (19 September 2003).
- <sup>16</sup> P. G. Saunders, *The Ends and Means of Welfare* (Melbourne: Cambridge University Press, 2002), p.3.
- <sup>17</sup> P. Bone, 'Egalitarian politics aren't playing fair', *The Age* (8 July 2002).
- <sup>18</sup> P. G. Saunders, *The Ends and Means of Welfare*, p.5.
- <sup>19</sup> The term comes from Michael Young, *The Rise of the Meritocracy 1870-2033* (Harmondsworth: Penguin, 1958).
- <sup>20</sup> When pushed, most egalitarians recognise that *complete* equality of incomes or wealth is undesirable and unattainable. Fred Argy, for example, wrote a whole book warning of the 'threat to Australian egalitarianism',

but when he comes to analyse this threat he acknowledges that 'complete equality of outcomes across households . . . is neither achievable nor desirable'. See *Where To From Here?* (St Leonards: Allen & Unwin, 2003), p.166. Claiming to be 'pro-egalitarian' (p.ix), he defines egalitarianism as social policies that (a) prevent any increase in economic inequality and (b) create conditions which will result in less inequality in the future. In other words, he wants to move closer to complete equality of outcomes, even though he has no desire to arrive at the ultimate destination (which he says would be undesirable as well as impractical). He never explains how much inequality we should be prepared to tolerate (social policy intellectuals and welfare lobbyists can rarely tell us how much equality 'fairness' requires, but it is always a lot more than we currently have).

One attempt to achieve greater rigour is John Rawls's distributional theory of justice. See J. Rawls, *A Theory of Justice* (UK: Oxford University Press, 1972). Rawls argues that an unequal distribution of resources is 'just' (that is, fair) only to the extent that the inequality increases the welfare of the least well-off (the so-called 'difference principle'). Put another way, distribution should be as equal as possible without damaging economic incentives. This 'difference principle' is often implicit in the writings of egalitarians like Fred Argy, but when it comes to practical policies, it is still unclear in Rawls how much inequality we 'need' in order to maintain economic growth.

- <sup>21</sup> This anti-meritocratic position not only leads the social policy establishment to favour high taxes and high welfare, but it also explains why they insist that welfare receipt should be made unconditional. A meritocratic conception of welfare would limit help to those who have done something to deserve it, that is, to people who have made an effort but who through no fault of their own have fallen upon hard times. But we have seen that the idea that only the 'deserving' should get help incenses most welfare activists and social policy intellectuals.
- <sup>22</sup> The anti-transportation movement of the 1840s argued in favour of free labour and against the use of indentured convict labour on the principle that everybody should have the same opportunity to work wherever and however they wanted. The 1851 New South Wales decision to partition the gold-bearing ground into equal lots was justified on the principle that every digger should have the chance to dig for gold and the anti-squatter movement of the 1860s emphasised that small family farmers should be able to compete with the big squatters who dominated access to the land. The early rise of compulsory and free education in Australia also helped reinforce this belief in individual opportunity by ensuring that everybody could accumulate what nowadays we call 'cultural capital'. I am indebted to Geoffrey Blainey for these insights.
- <sup>23</sup> M. Sawyer, *The Ethical State?* (Carlton: Melbourne University Press, 2003) ,p.36. According to Sawyer: 'Equal opportunity for self-development sounds individualistic but did not imply an atomistic view of the individual or the promotion of the individual and individual rights at the expense

of society. It did not mean the thin view of equal opportunity found in American versions of liberalism where equal opportunity means equal rights to compete for unequal rewards within an ethos of competition and minimal government intervention. Rather it was premised on the interdependence of individuals and the role of the community (with the state as its collective agency) in achieving equal opportunities for all its members' (p.23).

<sup>24</sup> There is a clear parallel here between Australia in the early years of the 20th century and the Scandinavian welfare states following World War II (discussed in Chapter 5). In both cases, a strong role for the state expressed cultural homogeneity within and resistance to outsiders.

<sup>25</sup> P. G. Saunders *The Ends and Means of Welfare*, p.202. Fred Argy makes a similar point in *Where to From Here?*, p.xii.

<sup>26</sup> A January 2000 Newspoll survey asked respondents whether, 'Compared with ten years ago, do you personally think the distribution of wealth in Australia currently is more fair or less fair?' Only 10% said it was more fair while 55% said less. But this is a leading question, for it implies a distributional (and therefore egalitarian) definition of 'fairness'. Ten years earlier, the 1989/90 National Social Science Survey asked a less biased question: 'Do you agree or disagree that differences in income in Australia are too large?' Again, support for egalitarianism was marked, with 55% agreeing and only 20% disagreeing. People were then asked if 'it is the responsibility of the government to reduce the differences in income between people with high incomes and those with low incomes', and 42% thought that it was while 33% thought it was not.

<sup>27</sup> The survey also offered a third alternative which defines any outcome as fair if it derives from the uncoerced sale and purchase of goods and services (a classical liberal ideal, corresponding roughly to Nozick's 'entitlement' theory of justice. See R. Nozick, *Anarchy, State and Utopia* (Oxford: Basil Blackwell, 1974). Some 60% of respondents opted for this definition, more than for the egalitarian definition, but fewer than for the meritocratic one. The survey (the second conducted by ACNielsen for CIS in 2003) was based on a probability sample of 1,850 individuals from a population of internet users and received replies from 467 (a 25% response rate). Although the target population was somewhat unusual as the basis for a national sample, and the response rate was fairly low, the final achieved sample appears representative of the Australian population as a whole when checked against national data on age, gender, income, state and region, and has not therefore been re-weighted.

<sup>28</sup> These principles have recently been acknowledged in the 2002 discussion document, *Building a Simpler System to Help Jobless Families and Individuals*, issued by two senior ministers in the Howard government. They identified 'self-reliance' and 'social inclusion' as the two primary objectives of any future reform of the welfare system. The document recognised that, to achieve legitimacy, welfare in Australia has to reflect community concerns with both 'fairness' and compassion on the one

- hand, and self-reliance and individual responsibility on the other.
- <sup>29</sup> D. Ellwood, *Poor Support: Poverty in the American Family* (New York: Basic Books, 1988), p.242.
- <sup>30</sup> ABS, *Australian Social Trends 2001: Income & Expenditure—Income Support: Income support among people of workforce age*, [www.abs.gov.au/ausstats/abs](http://www.abs.gov.au/ausstats/abs)
- <sup>31</sup> DSP recipients and most people on Parenting Payment are exempted. Among working-age welfare recipients, only one in six are required to look for work as a condition of receiving benefits. See Treasury Discussion Paper, *Australia's Demographic Challenges* (25 February 2004)
- <sup>32</sup> D. Ellwood, *Poor Support*, p.237.

## Chapter 8. Reforming Unemployment Benefits

- <sup>1</sup> L. Mead, 'From welfare to work: Lessons from America', in A. Deacon (ed), *From Welfare to Work* (London, IEA, 1997), p.34.
- <sup>2</sup> ABS, *Australian Social Trends 2002: Work—Underutilised Labour, Searching for Work*, [www.abs.gov.au/ausstats/abs](http://www.abs.gov.au/ausstats/abs), accessed 25 November 2002, page 5.
- <sup>3</sup> About 4% of people who had been employed in July 1999 had lost or left their jobs by August but 5% who had been jobless in July were in work by August. See J. Landt and J. Pech, 'Work and welfare in Australia: the changing role of income support', *Australian Social Policy* 2 (2000), p.35.
- <sup>4</sup> L. Mead, *The New Politics of Poverty* (New York: Basic Books, 1992), pp.143-45.
- <sup>5</sup> Productivity Commission, *Independent Review of the Job Network* (Canberra: 2002)
- <sup>6</sup> ABS, *Australian Labour Market Statistics*, Cat. 6105.0 (Canberra: July 2003), Tables 3.1, 3.2.
- <sup>7</sup> The actual proportion was 57% in June 2001 (the most recent available date). Department of Family & Community Services, 'Income Support Customers: A statistical overview 2001', *Occasional Paper* (Canberra: March 2003), Table 30.
- <sup>8</sup> I am grateful to Don Clark at the ABS, Edward Black at FaCS and Peter Whiteford at the OECD for helping clarify this. There are other reasons for the disparity between the two sets of figures, but they do not appear to be very significant. One is that ABS survey data are more recent than the FaCS records data—the latter relate to June 2001 while the ABS data are for May 2003—but trends in the ABS figures show that long-term unemployment hardly changed between 2001-03 (the big drop after 1998-99 occurred mainly between 1999-01, and the ABS figures for mid-2001 are within one percentage point of those for mid-2003). So the time difference is not the explanation. Other things being equal, we might assume that the FaCS data are likely to be more reliable than the ABS data because asking people retrospective details about their work and income

- in a questionnaire survey is a notoriously unreliable way of gathering such information. Administrative records are much less prone to error. If FaCS says somebody has been receiving payments for more than a year, then they almost certainly have been. But it is unlikely that error in the Labour Force Survey could have produced such a large difference in the two estimates, particularly since their estimates of the total number of people unemployed are actually quite similar.
- <sup>9</sup> Of all those leaving unemployment benefits and returning to work between 1998 and 2003, 27% were back on benefits within 6 months. See P. Karvelas, 'Jobseekers churned', *The Australian* (18 March 2004).
- <sup>10</sup> Long-term unemployment has been falling, down from 30% in 1999 to 22% in 2003 according to the labour force survey. While Australia's long-term unemployment rate is higher than America's, it is lower than in many continental European countries.
- <sup>11</sup> There are countless examples of this argument: 'If we are looking at the barriers to people finding work, one key issue is there simply aren't enough jobs around. There are eight to ten people for every job vacancy' as quoted by Stephen Ziguras of the Brotherhood of St Laurence in B. Arndt, 'Not just a small change', *The Sydney Morning Herald* (11 December 2002); 'Unemployment in Australia in recent years is overwhelmingly caused by a shortage in demand for workers, not by a lack of incentive to work . . . We've got 750,000 people registered unemployed . . . we have 70,000 job vacancies. I think that's all you need to know', as quoted by Sue Richardson, formerly of ACOSS, in *Rebuilding the Safety Net* (Melbourne: BCA, 2000), p.54; 'There are 700,000 plus unemployed people at any one time and only 100,000 or so jobs (many of which don't fit the location or skills of the unemployed)' as quoted by John Meahan, Acting President of St Vincent de Paul Society, in a media release (12 March 2002); 'At any one time in Australia there are only 100,000 jobs on offer, Looking for those jobs are 1.3 million people—13 people for every job', quoted by Terry McCarthy, interview on ABC Radio National *Life Matters* (30 June 2003)
- <sup>12</sup> One-third of registered unemployed job seekers find a job through networks and contacts; only 4% get a job through Centrelink and the Job Network. See ABS, *Australian Social Trends 2002: Work—Underutilised Labour, Searching for Work*, [www.abs.gov.au/ausstats/abs](http://www.abs.gov.au/ausstats/abs)
- <sup>13</sup> With 16 people chasing every job, Peter Dawkins estimates that there is a greater than even chance of an unemployed person becoming employed before six months have elapsed. See 'Labour market issues in welfare reform', in P. R. Saunders (ed.), *Reforming the Australian Welfare State* (Melbourne: AIFS, 2000), p.245.
- <sup>14</sup> Productivity Commission, *Independent Review of the Job Network*, p.2.7.
- <sup>15</sup> J. Roberts, "'Employ mothers, aged, disabled" to fix worker crisis', *The Australian* (12 June 2003).
- <sup>16</sup> 'Some politicians, academics and commentators claim that the long-term unemployed, single parents or people with disabilities actually prefer

- to live on social security rather than participating in the work force . . . . However, it doesn't make much sense to suggest people prefer to live on permanently fixed low incomes if decent, well-paid, secure work is available'. See St. Vincent de Paul Society, *Working Out of Welfare* (13 November 2000), pp.1 and 4.
- <sup>17</sup> 'This problem of high effective marginal tax rates (EMTRs) means that people receive little or no increase in disposable income from extra work and the resultant earnings. High EMTRs over wide ranges of income are particularly likely to reduce work incentives.' Interim Report of the Reference Group on Welfare Reform, *Participation Support for a More Equitable Society* (Canberra: March 2000), p.37. Of course, this problem would become even more acute if welfare benefits were made more generous, as the welfare lobby keeps demanding. The issue of high EMTRs is discussed in detail in Chapter 12.
- <sup>18</sup> F. Argy, *Where to From Here?* (St Leonards: Allen & Unwin, 2003), p.82.
- <sup>19</sup> When these claims are challenges, the response is often derisive. Robert Goodin, for example, dismisses concern about work avoidance among unemployed welfare claimants as nothing more than 'a good old-fashioned moral panic' and he tries to discredit this concern by poking fun at it ('People have simply taken fright-cum-offence at the sight of dole bludgers, welfare queens and the like'). He assures us that 'the panic is groundless', but he provides no evidence that this is the case. See 'False principles of welfare reform', *Australian Journal of Social Issues* 36 (August 2001), pp.189-206.
- <sup>20</sup> Colmar Brunton Social Research, *Job Seeker Attitudinal Segmentation: An Australian Model* (Canberra: Dept of Employment & Workplace Relations, 2002); and Labour Market Policy Group, *Job Seeker Attitudinal Segmentation* (Canberra: DEWR, May 2002).
- <sup>21</sup> A. Dockery, *Looking Inside the Unemployment Spell*, Paper to the National HILDA conference (University of Melbourne, 13 March 2003); ABS, *Australian Social Trends 2000*. According to Dockery: 'The unemployed largely determine their reservation wage on the basis of the wage received in their last job discounted by around 0.14 of a percentage point for each week of unemployment, or by about 7.5% after one year of unemployment' (p.34).
- <sup>22</sup> Grubb, cited in R. Goodin, 'False principles of welfare reform'.
- <sup>23</sup> DEWR, *Work for the Dole: A Net Impact Study* (Canberra: 2000), p.12. Dan Finn suggests as many as three-quarters of those called to Work for the Dole fail to turn up, although some of this shortfall is due to communication breakdown rather than deliberate non-compliance. See *A New Deal for Unemployed Australians?* (Melbourne: Dusseldorp Skills Forum, 2001).
- <sup>24</sup> Productivity Commission, *Independent Review of the Job Network*, p.5.14, emphasis in original. The report found that the compliance effect of Job Search Training is three times greater than the effectiveness of the programme itself in getting people into work. The compliance effect of JST is estimated

- to have produced a 10% reduction in the number of claimants.
- <sup>25</sup> A new computerised system for matching jobseekers' details with employment vacancies was introduced in July 2003 which could help identify those who are not seriously looking for work. According to Mal Brough, Employment Services Minister: 'There are a number, a considerable number, who are bludging on the public purse and we shouldn't tolerate that and I think this will flush those individuals out . . . For those people who are motivated this is a huge step forward', see V. Devai, 'Bid to weck out dole bludgers', *The Australian* (15 April 2003).
- <sup>26</sup> ACOSS plays down the problem by arguing that corporate tax avoidance involves more lost revenue than welfare fraud does as quoted by Andrew McCallum in T. Allard, 'Welfare blitz fits cheats to profile', *The Sydney Morning Herald* (16 January 2002). Similarly, Argy assures us that, 'The numbers found to have cheated are quite small . . . and efforts made to catch them are out of proportion to those made to catch tax cheats' (*Where to From Here?*, p.179-80). But Alan Deacon points to a persistent refusal in the literature to take the issues of welfare fraud and work incentives seriously ('Learning from the US?', *Policy and Politics* 28 (2000), p.10). Asked to comment on the rather extreme statement that 'most people on the dole are fiddling', only half of Australians disagree. See T. Eardley and G. Metheson, 'Australian attitudes to unemployment and unemployed people', *SPRC Discussion Paper* 102 (June 1999), Table 5, my emphasis.
- <sup>27</sup> Centrelink, 'Fraud Statistics' [www.centrelink.gov.au/internet.nsf/about\\_us/fraud\\_stats.htm](http://www.centrelink.gov.au/internet.nsf/about_us/fraud_stats.htm)
- <sup>28</sup> *The Australian* (29 March 2004)
- <sup>29</sup> DEWR, *Work for the Dole: A Net Impact Study*.
- <sup>30</sup> This supports Lawrence Mead's observation in America cited previously from *The New Politics of Poverty*, pp.143-45.
- <sup>31</sup> German, French and Dutch information from International Social Security Association, *Social Security Programs Throughout the World: Europe 2002* (Geneva: ISSA, 2002)
- <sup>32</sup> Social Security Administration, *Social Security Programs in the United States* (SSA Publication 13-11758, July 1997).
- <sup>33</sup> In the US, claimants tend to revise their expectations as the months slip by. With the expiry date looming, claimants become less picky and more motivated and exit rates from UI pick up. See W. Vroman and V. Brusentsev, 'Australian unemployment protection: Challenges and new directions', in T. Eardley and B. Bradbury (eds), *Competing Visions*, SPRC Report 1/02 (Sydney: April 2002), pp.348-86. The main problem in the American system, of course, is that not everybody has UI, and there is only a patchwork safety net for those whose UI benefits expire.
- <sup>34</sup> P. Whiteford and G. Angenent, 'The Australian System of Social Protection: An Overview', *Occasional Paper* 6, 2nd edition (Canberra: FaCS, 2001).
- <sup>35</sup> Job seekers who are referred to Work for the Dole but who do not commence it come off benefits at the same rate as those who complete

- the programme. This suggests that referral itself 'motivates job seekers to increase their job search activity'. See *Work for the Dole: A Net Impact Study*, p.12.
- <sup>36</sup> *Work for the Dole: A Net Impact Study*.
- <sup>37</sup> Due to the 'parking' of long-term claimants. See Productivity Commission, *Independent Review of the Job Network*.
- <sup>38</sup> J. Martin, 'What works among active labour market policies', *OECD Economic Studies* 30 (2000/01), p.105
- <sup>39</sup> D. Ellwood, *Poor Support* (New York: Basic Books, 1988).
- <sup>40</sup> D. Ellwood, 'The US vision of work-based reform', in T. Eardley and B. Bradbury, (eds), *Competing Visions* SPRC Report 1/02 (Sydney: 2002), p.30.
- <sup>41</sup> This period could possibly be extended for claimants living in high unemployment regions, those over 55 years of age, and 'special category' claimants, such as those on drug rehabilitation programmes extending beyond 6 months. The 1996 American welfare reform allowed states to exempt up to 20% of their caseload on the grounds that some people may simply be unemployable.
- <sup>42</sup> Department of Family & Community Services research, obtained by the press under the Freedom of Information Act, shows that job counselling has 'limited benefit' and that getting people engaged in social 'participation' like voluntary or community work has no positive impact at all on their subsequent job prospects. See D. Uren and M. McKinnon, 'Welfare plan fails the jobless', *The Australian* (1 April 2004); P. Karvelas, D. Uren and M. McKinnon, 'Case work is not way off the dole', *The Australian* (14 April 2004)
- <sup>43</sup> B. Riedl and R. Rector, 'Myths and facts', *Backgrounder* Heritage Foundation (12 July 2002), p.5.
- <sup>44</sup> In its review of unemployment policies in 12 countries, the OECD finds a lot of variation in the definitions of 'suitable work' which are applied to job search by the unemployed. Norway applies the strictest rules, requiring that unemployed claimants be willing to accept shift work, night work, work anywhere in the country, work at any wage, and work unconnected to the person's previous occupation. See OECD, *Employment Outlook* (Paris: 2000), p.133.
- <sup>45</sup> Centrelink, *Options for Your Future: Mutual Obligation*, [www.centrelink.gov.au](http://www.centrelink.gov.au)
- <sup>46</sup> The OECD warns that six-month programmes may do more harm than good, for participation simply renews eligibility for further benefits. In Denmark, where participation extends for three years at a time, the compliance effect is much stronger: 'Most unemployed drop their benefit claim in one way or another long before expiration of this three-year "active period of benefit"'. See OECD, *Employment Outlook* 2000, p.140.
- <sup>47</sup> S. Ziguas, G. Dufty, M. Considine, *Much Obligated* (Melbourne: Centre for Public Policy, May 2003), pp.35-8
- <sup>48</sup> As above. pp.41, 43.

- <sup>49</sup> People who have already used up their entitlement for TAJ and who become unemployed again within the five year eligibility period would immediately be referred to a work scheme.
- <sup>50</sup> B. Carlson, 'Welfare Reform: Sweden', in Stockholm Network, *Europe's Welfare Burden* (London: Civitas, 2000). In New Zealand the National Party recently floated the idea that people requiring work could turn up on a daily basis at a local Post Office or similar facility offering guaranteed minimum wage work.
- <sup>51</sup> The current WFD scheme succeeds in getting about one-third of participants off benefits and into a job or education. See *Work for the Dole: A Net Impact Study*.
- <sup>52</sup> Chapter 5 showed that the Keating Labor government's 'Job Compact' guaranteed a temporary job at minimum wage for anybody who had been out of work for an extended period (the government offered large wage subsidies to participating employers). Not only was this expensive, but it removed from participants the economic incentive to find an unsubsidised job for themselves during the period of the placement. The Labor-dominated Senate committee report, *A Hand Up, Not a Hand Out* (Senate Community Affairs References Committee, March 2004) has nevertheless recently argued for a similar system to be reintroduced, suggesting that the long-term unemployed could be given six month job placements at a 'training wage' in public sector or not-for-profit agencies (recommendation 5).
- <sup>53</sup> As at June 2001 there were 352,745 claimants who had been receiving benefits for more than one year. 'Income Support Customers: A statistical overview 2001', *Occasional Paper 7* (2001), Table 30. If only one-third of these left welfare, it would reduce the rolls by about 120,000 and this does not take account of falling numbers in the six to 12 month bracket.
- <sup>54</sup> In 2002-03, 55,500 places cost a total of \$147 million, or \$2,650 per head. See DEWR, *Work for the Dole—Numbers and dollars*, [www.workplace.gov.au](http://www.workplace.gov.au). Assuming around 350,000 people get referred to WFD under the new proposals, and that one-third do not turn up, approximately 170,000 more places would be needed at a total additional cost of between \$400 and \$500 million.
- <sup>55</sup> As at the December quarter 2002, the lowest unemployment payment is that for a single claimant who receives \$187.45 weekly unemployment allowance. See Melbourne Institute, *Poverty Lines Australia, December Quarter 2002* (May 2003), Table 4. They also receive \$46 per week rent assistance. Assuming 120,000 long-term claimants go off welfare, that all receive the minimum single person's allowance, and that all continue to receive rent assistance, the minimum annual saving works out at \$1,696,880. The actual saving would be higher since some would have been receiving a higher allowance, not all would continue to receive rent assistance, and the cost of processing these 120,000 claims would be saved.

## Chapter 9. Reforming Parenting Payments

- <sup>1</sup> J. Pech and H. Innes, 'Women in the Australian labour market 1966-96', *Social Security Journal* 2 (1998), pp.22-23.
- <sup>2</sup> P. Whiteford and G. Angement, 'The Australian system of social protection: An overview', *Occasional Paper* 6, 2nd edition (Canberra: FaCS, 2001), Table 9.
- <sup>3</sup> As at early 2004, Parenting Payment (Single) was worth a maximum of \$453 per fortnight for a parent with one child earning less than \$145 (add \$25 for each extra child). Part payment is payable if the parent is earning less than \$1,291 per fortnight (if she or he has one child, add \$25 for each extra child). Parenting Payment (Partnered) is worth a maximum of \$347 per fortnight (where the claimant earns less than \$62 and his/her partner earns less than \$581). Part payment is payable where the combined income of the couple is less than \$1,191 per fortnight, or is less than \$1,221 if the partner is on a pension.
- <sup>4</sup> FaCS, 'Income Support Customers: A statistical overview 2001', *Occasional Paper* 7 (Canberra: March 2003), Tables 42 and 44.
- <sup>5</sup> The United Kingdom and New Zealand are the other two.
- <sup>6</sup> D. Green, *Poverty and Benefit Dependency* (Wellington: New Zealand Business Roundtable, 2001), p.73.
- <sup>7</sup> See M. Evans, 'Welfare to Work and the Organisation of Opportunity', *CASE Report* 15 (London: London School of Economics, 2001).
- <sup>8</sup> T. Eardley, P. G. Saunders, C. Evans, 'Community attitudes towards unemployment, activity testing and mutual obligation', *SPRC Discussion Paper* 107 (May 2000), p.29.
- <sup>9</sup> OECD, *Employment Outlook* (Paris: 2002), statistical annex, Table B.
- <sup>10</sup> R. Gregory, Keynote address at the Australian Institute of Family Studies conference (Melbourne, February 2003); see also: A. O'Rourke, 'Seminar Reviews: Can this be the promised land?', *FaCS Research News* 13 (Canberra: September 2002), p.5-7.
- <sup>11</sup> Similarly, Labor's federal family and community affairs spokesman, Wayne Swan, opposes work requirements for lone parents on the grounds that: 'I don't want to be part of an agenda which says [lone parents'] choices to care for kids are any less worthy than anyone else's choices' as quoted by Bettina Arndt in 'Not just small change', *The Sydney Morning Herald* (11 December 2002).
- <sup>12</sup> Although under existing arrangements, single-earner couples with children may qualify for an additional family parent (Family Tax Benefit, Part B), up to a certain income limit, parents who choose to stay home are in a sense also affecting other taxpayers. However, the logic behind FTB (B) appears to be that the employed partner has to maintain two adults from his/her earnings, so the family should receive an additional tax allowance in respect of this. This balances the fact that two partners who work will each receive a tax-free earnings allowance (currently worth \$6,000). For further discussion, see T. Dwyer, *The Taxation Of Shared Family Incomes*, Policy Monograph 61 (Sydney: CIS, 2004).

- <sup>13</sup> In 1998, Jocelyn Pech and Helen Innes reported that a majority of mothers with children of school age were working and that three-quarters of women with older children are in the labour force. See 'Women in the Australian labour market 1966-96'. In Wave One of the Household Income and Labour Dynamics in Australia survey, the (rounded) percentage estimates are:

	Mothers with children 0-4	Mothers with children 5-9	Mothers with children 10-14	Total
Full-time employed	17%	28%	34%	24%
Part-time-employed	31%	42%	36%	35%
Not employed	52%	31%	30%	40%

*Note:* full-time here is defined as 35+ hours per week.

- <sup>14</sup> C. Hakim, 'Competing Family Models, Competing Social Policies', *Family Matters* 64 (2003), pp.51-61.
- <sup>15</sup> B. Maley, *Family and Marriage in Australia* (Sydney: CIS, 2001), pp.73-74.
- <sup>16</sup> Some of the evidence is reviewed in Maley, *Family and Marriage in Australia*, chapter 5. The new 'Growing Up in Australia' study should provide stronger data on the effects of institutional child care as well as the importance of parenting styles. See A. Sanson and R. Johnstone, 'Growing up in Australia takes its first steps' *Family Matters* 67 (Autumn 2004), pp.46-53.
- <sup>17</sup> I. Ku and R. Plotnick, 'Do children from welfare families obtain less education?', *Demography* 40 (2003), pp.151-70.
- <sup>18</sup> J. Pech and F. McCoull, 'Transgenerational welfare dependence: Myth or reality?', Paper to the Social Policy for the 21st Century conference (UNSW, 21-23 July 1999). On the US data, see S. McLanahan 'Family structure and dependency', *Demography* 25 (1988), pp.1-16.
- <sup>19</sup> FaCS data, quoted in Senate Community Affairs References Committee, *A Hand Up Not a Hand Out* (Commonwealth of Australia: March 2004), para 10.57.
- <sup>20</sup> Those who do find part-time work would (as now) continue to be eligible for some portion of Parenting Payment, depending on their earnings. The most sensible policy for those with a child over five who fail to find part-time work might be to allow them to register as part-time unemployed, in which case they would receive a 50% Temporary Assistance for Jobseekers Allowance and would be subject to the activity requirements applying to unemployed claimants, but only on a part-time basis. They could then continue to claim the means-tested Parenting Payment which would top up their TAJ allowance until they found paid employment, but after six months on benefits, they would start part-time WFD if they had not found a job. Parents would, of course, still be eligible for other family support payments and rent assistance.
- <sup>21</sup> This is discussed in more detail in Chapter 12.
- <sup>22</sup> Requiring parents of high school children to work full-time would

have implications for the organisation of after-school-hours supervision and would need to be thought through carefully before this could be enacted.

- <sup>23</sup> This assumes that all those who enter part-time work reduce their Parenting Payment by half as a result. FaCS was unable to supply a breakdown of the numbers of PPS claimants with children of different ages, so their numbers have been estimated from the HILDA Wave One survey. Looking only at lone parents who are described in that survey as having no employment (and who may therefore be assumed to be claiming full PPS), it is estimated that about 103,000 have a child under five, 62,000 with a child of primary school age, and 49,000 with a youngest child at secondary school. The total value of PPS paid to the first group is therefore \$2,108,000; the second group gets \$1,269,000; and the third group gets \$997,000. Halving the second of these figures and adding the third produces a total saving of \$1,632,000, that is, 37% of the \$4,374,000 2002-03 budget estimate for spending on Parenting Payment Single.
- <sup>24</sup> Lacking data on the ages of children of current PPP claimants, it is difficult to derive a reliable estimate of potential savings. However, the total cost of PPP is currently around \$1.3 billion per annum paid to 191,576 claimants, 64% of whom receive the full rate (FaCS *Annual Report* 2001-02). If the age distribution of the children of these claimants is similar to that of the lone parents on PPS, then about 52% of these full-rate claimants would go on to half payment (those with children aged five to 15). Even if we take only those currently receiving PPP at the full rate, this suggests a saving of around \$430 million per year. There would also be some savings from those currently on part-rates. Of course, some of these people may not find work, and if they decided to switch to (temporary) unemployment assistance, net savings would be lower (at least for the first six months). Against this, however, the estimated savings are based only on the number of people who are currently claiming their full PPS or PPP entitlement. This does not take into account additional savings accruing from parents who currently work a few hours a week but whose total work commitment would increase under these proposals. Currently, 26% of lone parents on PPS report having other earnings (M. Gray and D. Stanton, 'Lessons of US welfare reforms for Australian social policy', *Research Paper* 29 (Melbourne: Australian Institute of Family Studies, 2002), p.19). None of these are included in these calculations which are based on numbers of lone parents claiming to have no employment. Nor have these estimates factored in the additional revenues realised as a result of thousands of former claimants entering work and starting to pay income tax. Overall, the net financial gain from these proposals could be in the range of \$1.5 billion to \$2 billion per annum.
- <sup>25</sup> Federally-funded child care spending by states increased from \$2.1 billion in 1997 to \$7.4 billion in 2000. M. Gray and D. Stanton, 'Lessons of US welfare reforms for Australian social policy'.

- <sup>26</sup> Tasmanian sociologist and former Centrelink social worker, Maggie Walter, suggests that requiring sole parents to undertake work or training would make them worse off. She reaches this implausible conclusion by assigning a monetary value to the time sole parents currently spend at home, arguing that 'the extra income . . . earned through part-time work doesn't make up for their lost time'. She insists that, even when their children reach their teens, many sole parents find that time spent 'managing parenting' is more valuable than time spent earning a wage. This bit of whimsical nonsense was quoted by Adele Horin, 'Work does not pay for solo mothers', *The Sydney Morning Herald* (15 August 2002). A telephone request to Ms. Walter for a copy of the paper on which the article was based went unmet.
- <sup>27</sup> P. R. Saunders and K. Tsumori, *The Tender Trap*, Issue Analysis 36 (Sydney: CIS, June 2003).
- <sup>28</sup> Letter, *The Australian Financial Review* (27 June 2003).
- <sup>29</sup> Letter, *The Australian* (13 June 2003). She did not explain how a proposal which would only apply to parents whose youngest child is at least five years of age could possibly result in infants starving. This is yet another example of how emotion and rhetoric routinely displaces reason and evidence in social policy discourse, even among academics.
- <sup>30</sup> Quoted in P. Dawkins and P. Kelly (eds), *Hard Heads, Soft Hearts* (St Leonards: Allen & Unwin, 2003), p.67.
- <sup>31</sup> C. Carlile, M. Fuery, C. Heyworth, M. Ivec, K. Marshall, M. Newey, *Welfare Reform Pilots*, Occasional Paper 5 (Canberra: FaCS, 2002), p.159.
- <sup>32</sup> V. Pearse, 'Parents, participation and planning—The Parenting Payment Intervention Pilot', *Australian Social Policy* 2 (2000), pp.87-106.
- <sup>33</sup> T. Eardley, P. G. Saunders and C. Evans, 'Community attitudes towards unemployment, activity testing and mutual obligation', *SPRC Discussion Paper* 107 (May 2000), Table 9.
- <sup>34</sup> This was the first of the two ACNielsen/CIS surveys and was conducted in March 2003. This one was based on a sample of 5,721 Australian residents linked to the Australian Internet User Survey. They are made up internet users who are invited to participate through online advertising banners, hyperlinks, newsgroups and online news items. The sample was achieved in two ways: (a) Between 12 and 27 March 2003, people completing the internet user survey were invited at the end to also do the CIS survey (4,369 people did so); and (b) Of those completing the internet user survey before 12 March, a random sample of 4,369 were contacted again later to ask if they would like to do ours (1,352 agreed to do so).

This sampling strategy introduces three potential sources of bias. First, this is not a probability sample design, for it is based on self-selection. This means that inferential statistics (including standard errors) are inappropriate for analysing these data. Second, the target population consists of all Australian internet users, but this diverges from our

theoretical population of all adults in Australia. There are good reasons to believe that people who use the internet are a peculiar and specific section of the whole population, not a cross-section of it. Third, there is the normal survey bias problem that those in the target population who agree to participate in the survey may be quite unlike those who refuse.

These three problems can be rectified to some extent by weighting. The final sample was weighted by gender, age, state of residence and annual income to bring it into line with population estimates by the Australian Bureau of Statistics. This is a standard survey procedure for correcting sample biases, but there is no guarantee that the sample will turn out to be representative on other, uncontrolled characteristics. To check for this, it is important to run various tests of 'external validity' (that is, to check sample distributions for uncontrolled variables against other, external sources).

One such test compares our respondents' stated voting intentions and reported past voting behaviour with opinion poll data for the same period. Roy Morgan polls conducted in March and April 2003 gave the Coalition between 39.5% and 45.5% support (the AC Nielsen/CIS survey gives 44.9%); similarly, Morgan gave the ALP 36% to 42% support (AC Nielsen/CIS gives the ALP 33.4%). It seems from this that there may be a small skew against Labor supporters in our final, weighted sample, and this is borne out by our data on how people claim to have voted in the November 2001 Federal election: Roy Morgan gives 43% to the Coalition, 38% to the ALP and 19% to minor parties, while AC Nielsen/CIS gives 45.6%, 34.3% and 20.1%, respectively.

A second external validity test is to compare our data on marital status with that recorded in the first wave of the Household Income and Labour Dynamics (HILDA) survey. The HILDA survey shows: 21% had never been married, 56% were married, 8% had been either divorced or separated, 10% were in a de facto relationship, and 2% had been widowed. The AC Nielsen/CIS survey gives 26.2%, 48.4%, 12.8%, 11.1% and 1.6%, respectively. Thus, the two surveys appear broadly consistent, although our survey slightly overestimates those who had never been married and those who had been divorced/separated, and slightly underestimates those who are married.

Overall, the weighted survey appears to generate reasonably valid population estimates.

## Chapter 10. Reforming Disability Support

- <sup>1</sup> D.Grubb, 'Making benefits work', *OECD Observer* 239 (September 2003).
- <sup>2</sup> Media release, (2 July 2002), <https://imp.newsnet.com/MediaGMS/menu/MSN/4155175/generalinfo.cfm>. The poll was prompted by a government proposal, later withdrawn, to transfer DSP recipients who were capable of 15 hours work or more per week onto Newstart allowance (which is worth less than DSP).

- <sup>3</sup> Since 1991, claims for DSP from unemployed people over 55 years old have been accepted if officials believe there are no jobs in the vicinity for which they could be trained.
- <sup>4</sup> OECD, 'Disability programmes in need of reform', *Policy Brief* (March 2003), p.2.
- <sup>5</sup> G. McIntosh and J. Phillips, 'Disability support and services in Australia', *Department of the Parliamentary Library Online E-Brief* (16 October 2002), [www.aph.gov.au/library/intguide/sp/disability.htm](http://www.aph.gov.au/library/intguide/sp/disability.htm)
- <sup>6</sup> 'Why has the disability program grown so much?', *FaCS Research News* 15 (March 2003); FaCS, *Characteristics of Disability Support Pension Customers* (Canberra: June 2003).
- <sup>7</sup> *Characteristics of Disability Support Pension Customers*; R. Gregory, 'Our real and stubborn social and economic crisis', Paper to the Pursuing Opportunity and Prosperity conference (University of Melbourne, 13-14 November 2003). According to Gregory, in 1980 there were 20% fewer DSP claimants than unemployed ones; by 2003 there were 50% more.
- <sup>8</sup> Commonwealth of Australia, *Budget Overview* (14 May 2002), p.15.
- <sup>9</sup> ACOSS claims that the number of people of workforce age with a 'specific activity restriction' increased by 400,000 in the ten years to 1998. The source for this claim is a series of ABS surveys in which respondents were asked to identify their own disabilities. ACOSS recognises that these data are entirely subjective but claims there is no better source, and proceeds to use the results as if they were objective (p.17). But if the number claiming to be disabled has gone up by 400,000, this is more likely to reflect an increased willingness to complain about relatively trivial ailments than to indicate any real decrease in the nation's fitness for work. ACOSS, *Key Causes of the Rise in Disability Pensioners*, Info 322 (16 September 2002).
- <sup>10</sup> E.Healy, 'Disability or disadvantage?', *People and Place* 10 (2002), p.70.
- <sup>11</sup> Healy charts an increase from 3,325 to 21,574 in the number of women aged 60-64 receiving DSP between 1996 and 2001.
- <sup>12</sup> ABS, *Australian Social Trends 2002: Trends in Disability Support*, see "<http://www.abs.gov.au/ausstats/abs>"; G. Argyrous and M. Neale, 'The 'disabled' labour market', *Journal of Australian Political Economy* 51 (June 2003), p.19.
- <sup>13</sup> 'Often, disability benefit systems function as early retirement programmes, providing a route for quasi-permanent exit from the labour market . . . Unreformed disability programmes are likely to attract applicants who may find it difficult to comply with the stricter obligations of unemployment schemes'. See OECD, 'Disability programmes in need of reform', *Policy Brief* (March 2003), p.7.
- <sup>14</sup> G. Argyrous and M. Neale, 'The disabled labour market', p.21.
- <sup>15</sup> As above, Table 4. The authors construct a simple least squares regression model in which self-reported disability rates explain 29% of the variance in DSP dependency between areas. Adding the full-time employment rate raises this to 39%. The former is a stronger predictor than the latter (beta coefficients = 0.54 and -0.31 respectively) but both are statistically

significant. One drawback with this study is that it does not control for the socio-economic status (SES) of an area, yet we know that both health and employment vary with SES. It is possible, therefore, that the correlation between high disability claims and low employment is at least partially explained by SES.

- <sup>16</sup> R. Gregory, *Our Real and Stubborn Social and Economic Crisis*.
- <sup>17</sup> D. Leonhardt, 'Out of a job and no longer looking', *The New York Times* (29 September 2002).
- <sup>18</sup> See H. Hoogervorst, 'Welfare reform: The Netherlands', in B. Carlson et al, *Europe's Welfare Burden* (London: Civitas, 2002).
- <sup>19</sup> See, for example, the letter from head of ACOSS Andrew McCallum, in *The Australian Financial Review* (29 July 2003), and my reply (30 July).
- <sup>20</sup> 'Why has the disability program grown so much?', *FaCS Research News* 15 (March 2003).
- <sup>21</sup> R. Karvelas, 'Disabled wary of work push', *The Australian* (13 January 2004). In the FaCS Annual Report 2002, the estimated budget for 2003/04 was \$7.2 billion on DSP, plus \$175 million on mobility and sickness allowances (Table 50), with total spending on support for people with a disability coming to \$8.75 billion (Table 41)
- <sup>22</sup> Reference Group on Welfare Reform, *Participation Support For a More Equitable Society, Final Report* (July 2000), p.19. Prime Minister Howard promised that 'Nobody's benefit will be cut as a result of changes to the social security system', but Mike Keating, economics professor and former head of the Department of Prime Minister and Cabinet, says: 'This is megabucks stuff. To change these incentives without detriment to anybody will cost multi, multi megabucks'. See Bettina Arndt, 'Not just small change', *The Sydney Morning Herald* (11 December 2002). Ministers Vanstone and Abbott floated the idea that to reduce costs, the new system could be implemented for new claimants while leaving existing claimants on the old, categorical system, although they admitted this could create an incentive for existing claimants to stay on welfare. See *Building a Simpler System to Help Jobless Families and Individuals* (Canberra: FaCS, 2002), p.19. More recently, Peter Dawkins (who served on the McLure Committee) has tried to cost the proposal, putting it together with a new earned income tax credit, and claiming an overall cost of \$2.2 billion. See P. Dawkins, A. Duncan, J. Freebairn, *Modifying Income Support in the Australian Tax and Transfer System*, Paper to the Pursuing Opportunity and Prosperity conference (University of Melbourne, 13-14 November 2003).
- <sup>23</sup> ACOSS welcomed the idea of a single payment: 'ACOSS's top priority is to remove the most glaring anomaly from the current system, the disparity in payments between unemployed people, students and pensioners' as quoted in *The Australian* (12 December 2002).
- <sup>24</sup> Reference Group on Welfare Reform, *Participation Support*, p.9.
- <sup>25</sup> 'There are growing disparities between the entitlements of workforce-age people receiving allowance payments and those receiving pensions . . .

We are disposed to implement the McLure Report recommendation of an income support structure comprising a base rate of payment [with additional add-ons]. See *Ministerial Statement on Welfare Reform* (2001), p.6, [www.facs.gov.au](http://www.facs.gov.au). The same message was reiterated in the follow-up discussion document, *Building a Simpler System to Help Jobless Families and Individuals*.

- <sup>26</sup> The change was outlined in FaCS, *Announcement and Proposed Changes to Disability Support Pension* (Canberra: May 2002).
- <sup>27</sup> In February 2004 the government insisted it was still committed to tightening the eligibility rules, but it was clear that nothing could be done while the Senate was still controlled by Opposition parties. See Commonwealth of Australia Treasury Discussion Paper, *Australia's Demographic Challenges* (February 2004), p.10.
- <sup>28</sup> B. Haslem, 'Jobless hidden in ranks of disabled', *The Australian* (13 January 2004).
- <sup>29</sup> L. Mead, 'From welfare to work: Lessons from America', in A. Deacon (ed), *From Welfare to Work* (London, IEA, 1997), p.34.
- <sup>30</sup> Both quoted in E.Healy, 'Disability or disadvantage?', p.80.
- <sup>31</sup> *The Australian* (2 October 2002). An ACOSS spokesperson was quoted as saying, 'It's wrong to imply that it has become easier to get the DSP; in fact it's become progressively harder over the last 20 years.'
- <sup>32</sup> Roy Morgan Research, *Community Attitudes Towards Unemployed People of Workforce Age*, report to FaCS (Melbourne, November 2000).
- <sup>33</sup> Senate Community Affairs References Committee, *A Hand Up Not a Hand Out* (Commonwealth of Australia, March 2004), para 16.20 and recommendation 81.
- <sup>34</sup> R. Gregory, *Our Real and Stubborn Social and Economic Crisis*, p.13.
- <sup>35</sup> The single person's weekly allowance in June 2003 was \$190.05, that is, \$30.10 less than that for a single pensioner over age 21. This amounts to \$1570 per annum per claimant, which generates a saving of \$517,935,000 if 330,000 people transferred.

## Chapter 11. Sticks. When People Don't Want To Work

- <sup>1</sup> St Vincent de Paul Society media release (12 March 2002).
- <sup>2</sup> Mutual obligation requirements apply almost entirely to people claiming unemployment benefits (Newstart or the Youth Allowance), although since September 2003 they have been extended to older unemployed workers and to people claiming Parenting Payments whose children are in their teens (see Chapter 9).
- <sup>3</sup> Some of the major welfare organisations campaigning against the breaching system are themselves members of the Job Network. Some, like the Brotherhood of St Laurence and Anglicare, have won contracts through an umbrella grouping called Job Futures; others, like Mission Australia and the Salvation Army, have contracted directly. As employment service contractors, they are expected to report to Centrelink

any clients who do not fulfil the tasks required of them. For organisations whose traditional role and rationale has been helping people in need, this new involvement in penalising rule-breakers may be causing some discomfort. The Productivity Commission report on the Job Network found that non-profit service providers are more reluctant than others to report breaches, and that this has more to do with their indulgence of transgressions than with any over-zealousness of other service providers. Pamela Kinnear suggests that non-profit agencies 'often push their contractual obligations to the legal limits in order to avoid reporting a client to Centrelink for breaching'. See 'Putting obligation in its place', *Impact* (February 2002), p.9.

- 4 National Welfare Rights Network data reported in K. Walsh, '\$1bn in welfare stripped from poor', *The Sun Herald* (23 March 2003). A quarter of all breaches related to people aged between 21 and 25, and non-whites were over-represented as compared with whites.
- 5 Figures for 1997 through 2001 are from S. Ziguras and C. Flowers, 'The community expects . . . Public opinion about breach penalties for unemployed people' (Fitzroy: Brotherhood of St Laurence, June 2002). The 2001-02 figures are from ACOSS media release, '\$200m in fines push unemployed and students deep into poverty' (5 August 2002).
- 6 R. N. McLeod, *Social Security Breach Penalties—Issues of Administration* (Canberra: Commonwealth Ombudsman Australia, 2002), p.ii.
- 7 For example, one important change, introduced in July 2002, allows Centrelink temporarily to suspend payments when jobseekers fail to meet their obligations and cannot be contacted, rather than breaching them. The idea is that suspension of payments will encourage claimants to re-establish contact, and if they can provide a reasonable excuse for their lapse, payments are fully restored and backdated. This procedure does not weaken the insistence on compliance but it can avoid the use of breaching penalties.
- 8 A group called Disability Action told the Senate Poverty Inquiry in 2003 that 'young people have actually acquired disabilities as a result of breaching'. See *A Hand Up Not a Hand Out*, p.113. The Pearce report in 2002 claimed that some people 'have felt compelled to resort to illegal or unsafe income-earning activities' as a result of being breached (as quoted in the National Welfare Rights Network submission to the Senate Community Affairs Reference Committee Inquiry into Participation Requirements and Penalties, p.15), and Stephen Ziguras and Charne Flowers report a Salvation Army claim that 11% of its emergency relief cases 'said they had to turn to crime to survive' ('The community expects . . .', p.3). The claim that people have no choice but to commit crimes betrays the familiar Marxist belief that material circumstances determine individual behaviour and it denies the responsibility that individuals have for their own actions.
- 9 D. Pearce, J. Disney, H. Ridout, *Making it Work*, Report of the Independent Review of Breaches and Penalties in the Social Security System, Summary (2002). The inquiry was sponsored by The National

- Welfare Rights Network, ACOSS, the Brotherhood of St Laurence, Jobs Australia, Job Futures, Mission Australia, the Salvation Army, the Smith Family and the CPSU.
- <sup>10</sup> *Making it Work*, paras. 16, 17, emphasis added.
- <sup>11</sup> As above, paras. 18-21.
- <sup>12</sup> An employment service provider, faced with an apparent breach, should spend 14 days contacting the jobseeker, investigating whether they have an acceptable excuse, and attempting to arrange future compliance. If all that fails, Centrelink should then make up to three additional approaches to the jobseeker, should investigate possible extenuating circumstances, and should consider referring the individual concerned to a social worker or occupational psychologist. Only then should the matter be determined by a senior official.
- <sup>13</sup> A. Horin, 'The blunderbuss approach leaves jobless stranded', *The Sydney Morning Herald* (16-17 March 2002).
- <sup>14</sup> ACOSS media release (5 August 2002).
- <sup>15</sup> Media release (12 March 2002). Arguably, financial penalties are not 'fines', any more than losing a day's wages for failing to turn up for work without good reason is a 'fine' rather than a deduction or withholding of wages. Welfare payments are made with conditions attached. If you fail to discharge the requirements, you fail to be eligible for the money. To say somebody is being 'fined' when they are given less money than they would otherwise get is an illegitimate redefinition of the word designed to elicit the maximum emotional response.
- <sup>16</sup> Senate Community Affairs Committee, *Report on Inquiry into Participation Requirements and Penalties* (Commonwealth of Australia, September 2002).
- <sup>17</sup> Penalties for administrative breaches were reduced from 13 to eight weeks (since July 2002, claimants in breach of administrative requirements can have their payments suspended to force them to attend an interview).
- <sup>18</sup> D. Wroe, 'Democrat deal on work bill', *The Age* (28 March 2003).
- <sup>19</sup> At a Department of Family & Community Services consultation meeting held in Sydney (8 May 2003) to discuss the next steps in welfare reform, one prominent welfare rights activist said that, although the penalties had been 'tweaked', they were still 'harsh and unjust'. Most of the other welfare lobbyists assembled in the room appeared to concur with this judgement.
- <sup>20</sup> *A Hand Up Not a Hand Out* (Commonwealth of Australia, March 2004), p.113.
- <sup>21</sup> As above, recommendation 14.
- <sup>22</sup> The key variable explaining variations in the reductions of welfare caseloads across different US states is the willingness to impose sanctions against those who fail to perform their mandated activities. The toughest states got the best results: 'differences in sanctioning policy could lead to differences in caseload decline that exceeded 20 percentage points'. See M. New, 'Welfare reform that works', *Policy Analysis* 435 (Washington DC: CATO Institute, 2002), p.8.

- <sup>23</sup> Roy Morgan Research, *Community Attitudes towards Unemployed People of Workforce Age*.
- <sup>24</sup> Abstracted from T. Eardley, P. G. Saunders and C. Evans, 'Community attitudes towards unemployment, activity testing and mutual obligation', *SPRC Discussion Paper 107* (May 2000), Tables A4 and A5. The questions were: (First/second breach): 'At the moment, if unemployed people fail to meet their requirements under the social security regulations they could lose up to 24% of their basic payment for 26 weeks. How does this penalty seem to you?' And (third breach): 'At the moment, if unemployed people fail to meet their requirements under the Social Security regulations three times in two years, they could lose their payment altogether for 8 weeks. How does this penalty seem to you?'
- <sup>25</sup> Cited by S. Ziguras and C. Flowers, 'The community expects . . .', p.4.
- <sup>26</sup> As above, p.9.
- <sup>27</sup> A. Horin, 'Public "doesn't back punitive Centrelink"', *The Sydney Morning Herald* (17 June 2002).

## Chapter 12. Carrots. Rewarding People Who Work

- <sup>1</sup> 'Taxation reforms are needed now', *The Weekend Australian* (21-22 February 2004).
- <sup>2</sup> J. Buckingham (ed), *State of the Nation: An Agenda For Change*, 4th edition (Sydney: CIS, 2004).
- <sup>3</sup> 'Taxation' in ABS, *Year Book Australia 2003*, Cat. 1301.0 (Canberra: 2003), Table 27.19
- <sup>4</sup> There is some argument about whether GST should be included as a federal tax given that most of the proceeds are distributed to the states, but even excluding GST it seems the Howard government was taxing more highly than any other Federal government in Australia's history. See *The Australian Financial Review* (2 April 2004). For more detailed discussion of rising tax levels, see P. R. Saunders and B. Maley, *Tax Reform To Make Work Pay*, Policy Monograph 63 (Sydney: CIS, 2004) and N. Warren, *Tax: Facts, Fiction and Reform* (Sydney: Australian Tax Research Foundation, 2004).
- <sup>5</sup> P. Whiteford and G. Angenent, 'The Australian System of Social Protection: An Overview', *Occasional Paper 6*, 2nd edition (Canberra: FaCS, 2001), p.50
- <sup>6</sup> The Australians Working Together package has tried to ameliorate this problem by introducing the new Working Credit which allows benefits to be phased out over a period of time when people begin work. This does not really solve the problem, however, so much as delay and spread its impact.
- <sup>7</sup> This claimant would be eligible for \$452.80 per fortnight in PPS, plus \$130.48 in Family Tax Benefit (Part A) and \$112 of Family Tax Benefit (Part B). See Centrelink, *Parenting Payment Rates 1 January—19 March 2004* (C0032.0401), Chart C.

- <sup>8</sup> The PPS rules allow claimants to earn \$169.20 per fortnight (\$4,411 per annum), but any job paying between \$4,411 and \$34,302 per annum incurs a reduction in PPS of 40 cents in every dollar earned. Family Tax Benefit (Part A) also falls as earnings rise. Before the 2004/05 Budget, the maximum rate tapered off at 30 cents in every dollar earned beyond \$31,755 per year, but this was reduced to 20 cents in the dollar in the budget changes.
- <sup>9</sup> Low income earners qualify for a small, means-tested rebate to set against this tax liability, but this too phases out as earnings rise. As of early 2004, those earning less than \$21,600 (the 17% marginal tax rate ceiling) were eligible for a rebate of \$235, which then reduces by four cents for every dollar earned, phasing out completely at \$27,475.
- <sup>10</sup> G. Beer, 'Work incentives under a new tax system', *The Economic Record* Special Issue 79 (2003), pp.S14-S25. A report prepared by the Office of Status of Women in 2003 estimated that almost one million people were losing at least 60 cents in the dollar of additional earnings (S. Marris and M. McKinnon, 'Howard battler tax slug revealed', *The Australian*, 18 September 2003). Although recent reforms have ameliorated the worst problems, some extreme cases remain where people can actually end up worse off if they increase their earnings. See Bettina Arndt, 'Not just small change' *The Sydney Morning Herald* (11 December 2002).
- <sup>11</sup> L. Chipman, 'A just society repays effort', *The Australian* (6 January 2004). The May 2004 budget eased high EMTRs to some extent by reducing the FTB taper from 30% to 20% but this of course meant that even more people were now caught in the welfare trap because FTB payments had to be extended even further up the income scale.
- <sup>12</sup> A. Duncan and M. Harris, 'Simulating the behavioural effects of welfare reforms among sole parents in Australia', *The Economic Record* 78 (2002), pp.264-76. The taper was further reduced to 20% in 2004.
- <sup>13</sup> H. Buddelmeyer et al, 'Bracket creep, effective marginal tax rates and alternative tax packages' (Melbourne: Melbourne Institute/*The Australian*, 2004), p.20.
- <sup>14</sup> '21% of those in the first income decile have EMTRs in excess of 50%, 19% have EMTRs in excess of 70%. The situation in the second income decile is even worse with 31% having EMTRs over 50% and 27% facing EMTRs in excess of 70%. Across all deciles about 16% have EMTRs in excess of 50% and only 8% are on EMTRs over 70%'. See H.Buddelmeyer et al, 'Bracket creep', p.18.
- <sup>15</sup> For the original proposal, see P. Dawkins, 'A plan to cut unemployment in Australia', *Mercer-Melbourne Institute Quarterly Bulletin of Economic Trends* 1/99 (1999), pp.48-59.
- <sup>16</sup> P. Dawkins, A. Duncan and J. Freebairn, *Modifying Income Support in the Australian Tax and Transfer System* Paper to the Pursuing Opportunity and Prosperity conference (University of Melbourne, November 2003).
- <sup>17</sup> H. Buddelmeyer et al, 'Bracket creep', p.22.
- <sup>18</sup> G. Burtless, 'Can supply-side policies reduce unemployment? Lessons from North America', *The Australian Economic Review* 35 (2002),

suggests that the number of middle earners in the US discouraged by the tax credit taper far outweighs the number of welfare recipients who are encouraged to move into work. Philip Collins and Roger Wicks in 'Special Report on means-tests and tax credits', *Prospect* (May 2003), pp.50-55, talk of a new 'middle income trap' in Britain, showing how a couple with two children earning \$250 (Check on previous version) per week now gain only a 6% increase in net income from a 20% rise in earnings as a result of the tapering of tax credits.

- <sup>19</sup> In Britain, the proportion of households eligible for means-tested government support rose from 17% in 1997 to 29% in 2003 due largely to the introduction of tax credits. See P. Collins and R. Wicks, 'Special Report on means-tests and tax credits', p.54.
- <sup>20</sup> In the UK, the credits originally introduced by the Blair government, the Working Families Tax Credit and Child Care Tax Credit, were replaced in April 2003 by a more generous and more extensive Child Tax Credit, and a new Working Tax Credit (for low earners with no children) was also introduced for the first time. See M. Brewer, T. Clark, M. Wakefield, 'Social security in the UK under New Labour', *Fiscal Studies* 23 (2002), pp.505-37. The Institute for Fiscal Studies as quoted in F. Field, *Welfare Titans* (London: Civitas, 2002), pp.5, 54, put the proportion of families with children eligible for the old Working Families Tax Credit at 83%. Donald Hirsch in 'Poverty: The uphill struggle', *New Statesman* (16-30 December 2002), p.26, puts the proportion eligible for the newly introduced Child Tax Credit at 85%. All families with a household income under UK£50,000 get at least £10 per week in addition to £26.50 child benefit.
- <sup>21</sup> F. Field, *Welfare Titans*, p.5.
- <sup>22</sup> David Smith, 'Welfare and Work', in D. Smith (ed), *Welfare Work and Poverty* (London: Civitas, 2000), p.31, writes, 'Families . . . who had never been near the social security system, apart from receiving child benefit, could qualify for the new credit . . . it is extending dependency to those on higher incomes'.
- <sup>23</sup> See F. Field, *Welfare Titans*; P. Collins and R. Wicks, 'Special report on means-tests and tax credits'; FaCS, *International Comparisons and the International Experience With Welfare Reform* (Canberra: 6 September 2002). Both ACOSS and the recent Senate poverty Inquiry point out that tax credits can end up subsidising low-paying employers who rely on the government to supplement the wages paid to their employees.
- <sup>24</sup> See P. Dawkins, A. Duncan and J. Freebairn, *Modifying Income Support in the Australian Tax And Transfer System*; S. Richardson, 'Reducing unemployment', in *Rebuilding the Safety Net* (Melbourne: BCA, 2000), pp.44-46.
- <sup>25</sup> M. Brewer, T. Clark, M. Wakefield, 'Social security in the UK under New Labour', *Fiscal Studies* 23 (2002). p.510.
- <sup>26</sup> FaCS, *International Comparisons and the International Experience With Welfare Reform*.

- <sup>27</sup> H. Buddelmeyer et al, 'Bracket creep', p.22.
- <sup>28</sup> Family Tax Benefit (Part B), is intended for families where there is only one earner to try to compensate them for the disadvantages they suffer through the tax system, but it has increasingly been extended to families with one part-time as well as one full-time earner, and the result is a tangle of money transfers in which people get tax taken from them only to have some or all of the cash returned in the form of welfare payments. This is not only costly but it is also wrong in principle.
- <sup>29</sup> T. Dwyer, *The Taxation Of Shared Family Incomes*, Policy Monograph 61 (Sydney: CIS, 2004).
- <sup>30</sup> Under Dwyer's proposals, it would be for each family to choose how it wants to be assessed. Many working couples would probably prefer to continue filing separate tax returns so that each can retain their own tax-free threshold. They would be free to do so. Couples where there is only one earner, however (and especially those who also have dependent children) might prefer to transfer part of the threshold of the non-working partner to the working partner.
- <sup>31</sup> ACTU, *2004 Minimum Wages Case Fact Sheet*, www.actu.asn.au
- <sup>32</sup> For example, B. Maley, *Family and Marriage in Australia* (Sydney: CIS, 2001).
- <sup>33</sup> Reimbursement could be through an annual rebate or by adjusting weekly PAYG calculations.
- <sup>34</sup> L. Sullivan, *Taxing the Family* (Sydney: CIS, 2001).
- <sup>35</sup> In early 2004, total spending on Family Tax Benefits was \$10,912,110,000. Maternity Allowance (now superceded by a new maternity payment) cost \$216,634,000 and child care support cost another \$1,692,371,000. The low income tax offset (a means-tested rebate aimed at raising the tax-free threshold for low income earners to \$7,382) cost another \$392,020,884. Sources: 'Actual expenses 2002-03' *Budget and Additional Estimates 2003-04*; *2003-04 Budget Paper No.1*, Part 3, Statement 5; Australian Taxation Office, *Taxation Statistics 2000-2001*. I am grateful to Caspar Conde for his work in producing these and subsequent calculations.
- <sup>36</sup> The cost of raising the threshold assumes current tax rates of 17% up to \$21,600. There are 8,343,000 income tax payers. I estimate that 967,681 of these would opt for the shared couple threshold of \$19,500 (this includes all the 621,681 taxpayers currently receiving FTB (Part B), plus 346,000 couples where there is a single earner but no children). The remainder is assumed to opt for the individual threshold of \$12,500. The total cost is therefore:  
 $(12,500-6,000) * 0.17 * (8343000-967681) + (19,500-6,000) * 0.17 * 967681 =$   
 $\$10,370,555,390.$   
 There are 3,984,178 children under the age of 15. A tax credit worth \$3,000 would therefore cost \$11,952,534,000 per year.
- <sup>37</sup> L. Taylor, 'PM's \$1bn public service blow-out', *The Australian Financial Review* (6 May 2004).
- <sup>38</sup> There is anyway a case for shifting the balance between direct taxation on incomes and indirect taxation on consumption. Currently, GST raises

- \$32 billion (4% of GDP) while personal income tax raises \$95 billion (12%). See Treasury Discussion Paper, *Australia's Demographic Challenges* (25 February 2004), p.25.
- <sup>39</sup> For more detailed calculations of winners and losers, see P. Saunders and B. Maley, *Tax Reform to Make Work Pay*, Policy Monograph 63 (Sydney: CIS, 2004).
- <sup>40</sup> A one-earner couple with two children on the average wage would end up with 13% more in net earnings than they do at present, while the same couple on the minimum wage would get more-or-less the same as they do now. A single parent with two children earning the average wage would take home 10% more than at present, although the same parent earning the minimum wage would end 5% worse off than currently. It is worth noting, however, that our current tax and benefits system seems to treat low income single parents more generously than other household types, so this adjustment might not be as unacceptable as it might appear. See OECD, *Taxing Wages 2001-02*, Table 4.
- <sup>41</sup> J. Pech and J. Landt, 'Work and welfare in Australia: the changing role of income support', *Australian Social Policy* 2 (2000).
- <sup>42</sup> The minimum rate is payable on incomes over \$91,035 (for one child in child care), \$98,709 (for two children) and \$112,136 (for three children), [www.centreforlink.gov.au/internet/interbet.nsf/payments](http://www.centreforlink.gov.au/internet/interbet.nsf/payments)
- <sup>43</sup> Jobless families with two young children would then gain \$1,160, rather than losing \$2,840, and families with two young children where a parent works part-time at a minimum wage job would go from losing \$1,878 to gaining \$1,122. The principle of targeting extra help on families with pre-school children (the 'early years') is also a feature of Peter McDonald's recent proposal, see 'Reforming family support policy in Australia', *People and Place* 11 (2003), pp.1-15.
- <sup>44</sup> Rather than losing nearly \$3,000, a single parent or couple living on benefits with two children would come out \$162 ahead. Those combining benefits with part-time work would also be fully compensated.
- <sup>45</sup> The survey was based on a sample of 5,721 Australian residents linked to the ACNielsen Australian Internet User Survey. See Chapter 9 n. 34 for more details.
- <sup>46</sup> A. Wood, 'Way to voters' hearts is via big tax cuts', *The Australian* (20 April 2004).

### Chapter 13. Opportunities. Ensuring There Are Jobs

- <sup>1</sup> J. Martin, 'Labour market programs', in *New Directions: Rebuilding the Safety Net* (Melbourne: Business Council of Australia, 2000), pp.94-95.
- <sup>2</sup> There are serious concerns that an American-style welfare reform would not work in Australia because our rigid labour market would not generate enough jobs to soak up former welfare recipients. Noting that the American economy was strong and flexible enough to generate new jobs for those leaving welfare following the 1996 reform, Matthew Gray

and David Stanton think it is 'unlikely that the Australian labour market would be able to generate enough jobs if there was a sudden increase in the number of lone mothers entering the labour market'. See *Lessons of US Welfare Reform for Australian Social Policy*, Research Paper 29 (Melbourne: AIFS, November 2002) p.14, 19.

- <sup>3</sup> M. Wade, *The Sydney Morning Herald* (14 May 2004).
- <sup>4</sup> FaCS, 'Inquiry into poverty and financial hardship', *Occasional Paper 9* (Canberra: 2003), p.55.
- <sup>5</sup> According to the ABS, it was 59.6% in 2001, the same as in 1990. See ABS, *Australian Social Trends*, Cat. 4102.0 (Canberra: 1998), p.98; ABS, *Australian Social Trends*, Cat. 4102.0 (Canberra: 1998), p.124. But later figures suggest it had risen to 63.9% by May 2004. See M. Wade, *The Sydney Morning Herald* (14 May 2004).
- <sup>6</sup> P. Robinson, 'Wealth of a nation fails to bridge the divide', *Melbourne Age* (13 June 2003).
- <sup>7</sup> A. Preston, *The Changing Australian Labour Market: Developments During the Last Decade*, Discussion Paper 16 (Perth: Women's Economic Policy Analysis Unit, Curtin University of Technology, August 2001), Table 1.
- <sup>8</sup> Forty-four per cent of female employment is part-time, compared with just 12% of male employment. See J. Pech and J. Landt, 'Work and welfare in Australia: the changing role of income support', *Australian Social Policy 2* (2000), pp.22-27.

The work of Catherine Hakim has been important in emphasising that most women want to combine work with family responsibilities. See C. Hakim, 'Competing Family Models, Competing Social Policies', *Family Matters* 64 (Autumn 2003).

- <sup>9</sup> ABS, *Australian Social Trends 2001: Work—Under-utilised Labour* (Canberra: 2001), [www.abs.gov.au/ausstats](http://www.abs.gov.au/ausstats). ACOSS thinks the real rate of unemployment, taking account of under-employment, is probably double the official rate. See A. Horin, 'Study points to legions of truly jobless', *The Sydney Morning Herald* (13 November 2003).
- <sup>10</sup> ABS, *Australian Social Trends 2001: Work—Under-utilised Labour* (Canberra: 1999), [www.abs.gov.au/ausstats](http://www.abs.gov.au/ausstats).
- <sup>11</sup> J. Pech and J. Landt, 'Work and welfare'. Note that the labour force participation rate refers to the proportion of the working-age population who are either employed or unemployed. This is different from the employment-to-population ratio which is expressed as a proportion of the whole population.
- <sup>12</sup> In 1971 nearly two-thirds of male jobs were blue collar. M. Keating, 'The case for increased taxation' in *Academy of the Social Sciences in Australia*, Occasional Paper 1, Policy Paper 1 (Perth: Academy of the Social Sciences in Australia, 2004), p.13.
- <sup>13</sup> J. Disney, 'Some future directions for Australia', in P. Duncan and R. Maddock (eds), *Aspire Australia* (Melbourne: Business Council of Australia, 2002); P.G. Saunders, *The Ends and Means of Welfare* (Port Melbourne: Cambridge University Press, 2002), ch. 9; F. Argy, *Where to From Here?* (St Leonards: Allen & Unwin, 2003).

- <sup>14</sup> According to P. Delves Broughton, 'France scraps 35 hour week in bid to help business', *The Daily Telegraph* London (21 December 2002) the attempt to impose a maximum 35 hour working week in France 'caused havoc' among small businesses. If an employee worked more than 130 hours overtime per year, they had to be given time off rather than more pay.
- <sup>15</sup> Submissions to the Senate *Inquiry into Poverty and Financial Hardship* at [www.aph.gov.au/Senate/committee/clac\\_ctte/poverty/submissions/sublist.htm](http://www.aph.gov.au/Senate/committee/clac_ctte/poverty/submissions/sublist.htm).
- <sup>16</sup> Labor has backed a plan to allow unions to apply to the AIRC to allow casual workers to convert to permanent status after 6 months. Business groups are opposed and warn it will cause job losses because it will make employers think twice about expanding their workforces. See T. O'Loughlin, 'Business slams ALP casuals plan', *The Australian Financial Review* (20 April 2004).
- <sup>17</sup> Senate Community Affairs References Committee, *A Hand Up Not a Hand Out* (Commonwealth of Australia, March 2004), pp.93-94.
- <sup>18</sup> *A Hand Up Not a Hand Out*, p.64. The chief political correspondent of *The Australian Financial Review* (26 March 2004) thought the Report represented 'much of the Labor Party's social and industrial relations blueprint in office' and that a future Latham government would 'reassess . . . the deregulatory swing in labour markets of the last couple of decades'.
- <sup>19</sup> J. Freebairn, 'Labour market programs', in *New Directions: Rebuilding the Safety Net* (Melbourne: BCA, 2000), p.100.
- <sup>20</sup> J. Martin, 'What works among active labour market policies', *OECD Economic Studies* 30 (2000/01), p.98. I have discussed the Australian evidence on how work requirements can be effective in reducing fraud and deterring those who are not genuinely looking for jobs in P. R. Saunders, 'Do people on welfare really want to work?', *Policy* 19:2 (2003), pp.8-14.
- <sup>21</sup> D. Perkins and P. Angley, *Values, Unemployment and Public Policy*, Discussion Paper (Fitzroy: Brotherhood of St Laurence, 2003); N. Frances, 'Why we need a government with bigger vision and bolder leadership', *Policy* 19:3 (2003), pp.60-62.
- <sup>22</sup> To the extent that we genuinely need certain tasks to be fulfilled, it obviously makes sense to try to enrol unemployed people to carry them out. There may be some scope, for example, for using mature-age men in low-level regulatory roles in public spaces where civility has become a problem. For example, as park-keepers, conductors on school buses, wardens and so on. See P. Saunders and N. Billante, 'Six Questions About Civility' (Sydney: CIS, 2002). These may also be the sorts of tasks that could be undertaken by full-time WFD participants who exhaust their 6 month entitlement to TAJ (see Chapter 7).
- <sup>23</sup> M. Evans, 'Welfare to Work and the Organisation of Opportunity', *CASE Report* 15 (London: London School of Economics, 2001), p.49.

- <sup>24</sup> See J. Martin, 'Labour market programs'; J. Martin, 'What works and for whom?', Paper to the Knowledge Wave conference (Auckland, February 2003), [www.knowledgewave.org.nz](http://www.knowledgewave.org.nz).
- <sup>25</sup> J. Martin, 'Labour market programs do work for adult women, but not for many other groups' in 'Labour market programs', p.94; G. Kalb, 'The impact of social policy initiatives on labour supply incentives', *Policy Research Paper* 18 (Canberra: FaCS, 2003), p.35, reviews experience in France, the US and the UK and concludes that young adults 'benefit little from training and employment programs'. See also D. Kalisch, *Welfare to Work: A Review of International Practices and Outcomes*, Paper delivered at Melbourne Institute seminar on welfare reform (25 January 2000).
- <sup>26</sup> J. Freebairn, 'Labour market programs', p.100.
- <sup>27</sup> Productivity Commission, *Independent Review of the Job Network* (Canberra: 2002), p.1.3.
- <sup>28</sup> M. Jones, *The Australian Welfare State*, 4th edition (St Leonards: Allen & Unwin, 1996), p.171.
- <sup>29</sup> OECD, 'The characteristics of quality of service sector jobs', *OECD Employment Outlook* (Paris: 2001).
- <sup>30</sup> As of 2001, only 6% of unemployed Americans had been out of work for more than a year. See J. Sloan, 'Solving unemployment: some of the remedies', in P. Dawkins and P. Kelly (eds), *Hard Heads, Soft Hearts* (St Leonards: Allen & Unwin, 2003), p.63.
- <sup>31</sup> D. Smith, 'Reformers turn tide in battle to save Germany', *The Sunday Times* London (14 September 2003), Business section, p.13.
- <sup>32</sup> The proposals that follow are more fully outlined in a series of papers by my CIS colleague, Kayoko Tsumori: *Poor Laws (3): How to Reform the Award System and Create More Jobs*, Issue Analysis 41 (Sydney: CIS, November 2003); *Poor Laws (2) The Minimum Wage and Unemployment*, Issue Analysis 28 (Sydney: CIS, December 2002); *Poor Laws (1) The Unfair Dismissal Laws and Long-Term Unemployment*, Issue Analysis 26, (Sydney: CIS, August 2002). See also K. Tsumori, *Labour Market Regulation and its Unintended Consequences* (Sydney: CIS, forthcoming). These arguments also echo those of M. Wooden, 'Is the industrial relations reform agenda complete?', and G. Burtless, 'Can supply side policies reduce unemployment?', in P. Dawkins and P. Kelly, *Hard Heads, Soft Hearts*.
- <sup>33</sup> ABS, *Australian Social Trends 2002: Work—Paid Work, How Pay is Set* (Canberra: 2002), [www.abs.gov.au/ausstats](http://www.abs.gov.au/ausstats). In 2002, 21% of employees were on awards, 38% were on collective agreements (many of which are underpinned by awards) and 41% were on individual agreements. Among low-skilled workers, however, 42% of service workers and 35% of unskilled manual workers were on awards only. See K. Tsumori, *Poor Laws (3): How to Reform the Award System and Create More Jobs*, Table 1.
- <sup>34</sup> D. Moore, 'An alternative to the Australian Industrial Relations Commission', in *Australian Bulletin of Labour* 26 (2000), pp.140-41.

- <sup>35</sup> FaCS, 'Inquiry into poverty and financial hardship', Figure 22. The Australian minimum wage system also covers many more people than in other countries—23% of Australian workers are on award wages, but less than 6% of American workers are on the minimum wage. See P. Reith, 'Address to the BCA New Directions conference', in *Rebuilding the Safety Net* (Melbourne: BCA, 2000), p.57.
- <sup>36</sup> See D. Moore, *Minimum Wages: Employment and Welfare Effects* (Melbourne: Institute for Private Enterprise, 2002); also A. Wood, 'Tax and welfare change more help than a wage rise', *The Australian* (23 March 2004).
- <sup>37</sup> P. Dawkins, 'Rebuilding the safety net: reducing unemployment', in *Rebuilding the Safety Net* (Melbourne: BCA, 2000), p.8.
- <sup>38</sup> *The Australian Financial Review* (23 March 2003).
- <sup>39</sup> This trade-off is explored by M. Keating, 'Economic issues, policies and processes', in *Rebuilding the Safety Net*, pp.81-83.
- <sup>40</sup> In 2004 the Industrial Relations Commission awarded the highest ever minimum wage increase of \$19 per week. After tax and benefits, however, a worker with a dependent spouse and two young children would end up retaining just \$3.99 of this increase. See S. Balough, 'Working poor fall through safety net', *The Australian* (6 May 2004).
- <sup>41</sup> The highest incidence of minimum wage earners is in the middle decile of the income distribution. See P. Dawkins and M. Keating, *Full Employment: The Five Economists' Plan Revisited*, Paper to the Towards Opportunity and Prosperity conference (Melbourne, 4-5 April 2002), p.7.
- <sup>42</sup> It is disturbing that recent trends have been towards even more regulation. In April 2004, for example, the Australian Industrial Relations Commission ruled that small businesses must for the first time in 20 years pay severance payments worth up to eight weeks wages to sacked employees. See M. Priest, 'Redundancy law faces defeat', *The Australian Financial Review* (5 April 2004). Labor's proposal to allow casual workers to convert to permanent status after 6 months would also hit many smaller businesses in sectors such as hospitality.
- <sup>43</sup> K. Tsumori: *Poor Laws (3): How to Reform the Award System and Create More Jobs*.
- <sup>44</sup> D. Harding, *The Effect of Unfair Dismissal Laws on Small and Medium Sized Businesses* (Melbourne: Melbourne Institute of Applied Economic and Social Research, 29 October 2002).
- <sup>45</sup> See G. Burtless, 'Can supply side policies reduce unemployment?', p.21.
- <sup>46</sup> The London *Sunday Times* reported (D. Smith, 'Reformers turn tide in battle to save Germany', 14 September 2003) that new German government proposals 'address an ever-present complaint from business that once workers have been taken on, the cost of making them redundant is prohibitive. Now job protection rules are to be relaxed, allowing easier dismissal.'

## Chapter 14. Getting Our Money Back

- <sup>1</sup> N. Pearson, *Our Right to Take Responsibility* (Cairns: Noel Pearson & Associates, 2000), p.43.
- <sup>2</sup> I do not consider here the age pension system, leaving this for more detailed analysis in future publications.
- <sup>3</sup> D. Marsland, 'Renewing British welfare', *Economic Affairs* 22 (March 2002), pp.5-11.
- <sup>4</sup> J. Cox, *Middle Class Welfare* (Wellington: NZ Business Roundtable, 2001); A. de Jasay, *The State* (Oxford: Basil Blackwell, 1985).
- <sup>5</sup> Again, Cox here draws on the work of de Jasay in *The State*: 'The state grants some aid, immunity, differential treatment or other gain to a person or an interest, and (quite possibly willy-nilly, only because no other way is more practicable) meets the resource cost by inflicting a more or less equivalent loss, normally in a different form, upon the same person or interest . . . The net balance of redistribution, if any and if it can be ascertained, will be submerged under large flows of gross gains and gross losses impinging on much the same people: 'direct' churning will be going on', pp.236-37.
- <sup>6</sup> ABS, *Government Benefits, Taxes and Household Income 1998-99*, Cat. 6537.0 (Canberra: 2001).
- <sup>7</sup> D. Moore, 'Election on jobs a good wager', *The Australian Financial Review* (22 January 2003); ABS, *Government Benefits, Taxes and Household Income 1998-99*.
- <sup>8</sup> A. Harding, *Lifetime Income Distribution and Redistribution* (Amsterdam: North-Holland, 1993); A. Harding, 'Lifetime versus annual tax-transfer incidence', *The Economic Record* 69: 205 (June 1993) pp.179-91.
- <sup>9</sup> A. Harding, *Lifetime Income Distribution*, p.168, emphasis in original. Most of the inter-personal redistribution that does occur in the Australian welfare system takes place between men and women, rather than between higher and lower income earners *per se*. This is mainly because women retire earlier and live longer (so they receive more in age pension payments). They also benefit more from various family payments. Among males, even the lowest lifetime income decile pays out more than it receives back.
- <sup>10</sup> Health is modelled in a later paper. See A. Harding, R. Percival, D. Schofield and A. Walker, *The Lifetime Distributional Impact of Government Health Outlays*, Discussion Paper 47 (Canberra: NATSEM, 2000).
- <sup>11</sup> Longer term, chronic incapacity would, however, still have to be covered by public funding. For an example of such a scheme in operation, see the discussion below of Chile's personal unemployment insurance accounts.
- <sup>12</sup> Private Health Insurance Administration Council (PHEAC) 2003: *Industry Statistics*, [www.phiac.gov.au/statistics](http://www.phiac.gov.au/statistics)
- <sup>13</sup> Mark Latham sees HECS as a positive move away from the traditional welfare model of direct state provisioning towards a more facilitative or 'enabling' role for government. See M. Latham, 'Stakeholder welfare: An asset-based approach to Australian welfare', in S. Regan and W. Paxton (eds), *Asset-based Welfare: International Experiences* (London: Institute for Public Policy Research, 2001).

- <sup>14</sup> Most developed countries have seen a fall, though few have had a fall of this magnitude. Australia's savings ratio is now lower than that of Canada, the UK, Germany, Japan and France, although it is higher than the United States and New Zealand. See R. Tiffen and R. Gittens, *How Australia Compares* (Port Melbourne: Cambridge University Press 2004).
- <sup>15</sup> FaCS, 'Inquiry into poverty and financial hardship', *Occasional Paper 9* (Canberra: 2000), p.42.
- <sup>16</sup> *Profile of a Private Housing Investor*, www.realestate.com.au. Two-thirds of landlords say they bought into residential property to provide a secure long-term investment.
- <sup>17</sup> S. Kelly, *Trends in Australian Wealth: New Estimates for the 1990s*, Paper to the 30th Annual Conference of Economists (University of Western Australia, 26 September, 2001).
- <sup>18</sup> Department of the Treasury, *Australia's Demographic Challenges* (Canberra: Treasury, 25 February 2004), p.10. Employers are currently required to pay 9% of each employee's total remuneration package into a recognised superannuation fund.
- <sup>19</sup> 'It is impossible to understand the adequacy of Australian income support provision . . . without some consideration of the role of home ownership . . . Menzies' Liberal Party offered the housing subsidies that made it possible for the working class to invest in old age security through home ownership and was rewarded with 23 years of continuous rule'. See F. Castles, 'The institutional design of the Australian welfare state', *Social Security Review* 50 (1997) pp.33-34.
- <sup>20</sup> Even those who want to boost government spending on welfare reluctantly accept that there is a serious, privatised alternative to state welfare. Michael Keating, for example, accepts that 'increased reliance on user charges, in combination with income contingent loans and private insurance, potentially offers a way of reducing the demands for higher taxation', but he argues against this strategy on the grounds that it would erode social cohesion. See M. Keating, 'The case for increased taxation', *Academy of the Social Sciences in Australia Occasional Paper 1, Policy Paper 1*, (Perth: Academy of the Social Sciences in Australia, 2004), p.21. As we saw in Chapter 6, there are no good grounds for believing that high taxes promote social cohesion, even though it is repeatedly asserted by defenders of high social spending.
- <sup>21</sup> In 1913, nearly half of the Australian population was covered by friendly society benefits, but this had fallen to 29% by the start of World War II as doctors successfully mobilised against the use of lodge contracts. See D. Green and L. Cromwell, *Mutual Aid or Welfare State* (St Leonards: Allen & Unwin, 1984).
- <sup>22</sup> P. R. Saunders, *Capitalism: A Social Audit* (Buckingham: Open University Press, 1995).
- <sup>23</sup> Most of this is financed by general taxation. The 1.5% Medicare levy only covers one-eighth of the total cost of Medicare with the rest paid out of general tax revenues.

- <sup>24</sup> Some 37% of parents now send their children to non-government secondary schools, 21% to Catholic schools and 16% to independent schools. See J. Buckingham (ed), *State of the Nation: An Agenda for Change*, 4th edition (Sydney: CIS, 2004), p.46.
- <sup>25</sup> See P. R. Saunders, *Social Theory and the Urban Question* (London: Unwin Hyman, 1986) where I talk of a shift from a 'socialised' to a 'privatised' mode of consumption. I argued in that book that the socialised system of direct state provision evolved at a time when the mass of the population was financially incapable of providing for its core needs, but that economic growth has since enabled increasing numbers of working class as well as middle class people to aspire to private solutions in transportation, housing, retirement, health and education. I emphasised that this transition does not mark a return to a 19th century 'market' mode, in which basic needs were met by private purchasing and shortfalls had to be covered by private philanthropy, for privatised consumption today still involves considerable state subsidy. The change that has been taking place affects the *form* of government support (a shift away from direct provision to subsidies) as much as its extent (the total level of spending), although the scope certainly exists for reducing the overall level of state expenditure. I argued further that the factors driving this transition—the financial strains generated by the constant upward pressure on welfare spending, the growing popular demands for greater personal control, the growth of real incomes and the cycle of decline in the quality of public services—would almost certainly mean the shift to a privatised mode would continue into the future.
- <sup>26</sup> V. Hughes, 'Welfare model serves providers, not the clients', *The Australian Financial Review* (7 November 2003).
- <sup>27</sup> N. Pearson, 'On the human right to misery, mass incarceration and early death', *Quadrant* XLV (2001), p.15; M. Latham, 'Making welfare work', in P. Botsman and M. Latham (eds), *The Enabling State* (Annandale: Pluto Press, 2001), p.116. Elsewhere Latham writes: 'The welfare state has yet to adjust to these [changed] circumstances. It continues to be based more on the old world than the new. This is why its original goals are no longer being met'. See 'Stakeholder welfare', in S. Regan and W. Paxton (eds), *Asset-based Welfare* (London: IPPR, 2001) p.56.
- <sup>28</sup> D. McCarthy, O. Mitchell and J. Piggott, *Asset Rich and Cash Poor: Retirement Provision and Housing Policy in Singapore*, Pension Research Council Working Paper (Wharton School, University of Pennsylvania, 2001).
- <sup>29</sup> KPMG estimate published in D. Tevens, 'Unfinished business at the margins', *The Australian* (24 February 2004). This compares with a top rate in Australia of 48.5% starting at just \$62,500 (\$70,000 from July 2004).
- <sup>30</sup> L. Rodriguez, *Chile's Private Pension System at 18*, Social Security Privatization Paper 17 (Washington: Cato Institute, July 1999).

- <sup>31</sup> See W. Conerly, *Chile Leads the Way With Individual Unemployment Accounts*, Brief Analysis 424 (Washington: National Center for Policy Analysis, 12 November 2002).
- <sup>32</sup> *South China Morning Post* (25 August 2000).
- <sup>33</sup> E. Huber, 'Options for social policy in Latin-America', in G. Esping-Andersen (ed), *Welfare States in Transition* (London: Sage, 1996).
- <sup>34</sup> J. Pinera, 'The success of Chile's privatised social security', *Cato Policy Report* 18:4 (July/August 1995), pp.1, 10-11.
- <sup>35</sup> W. Block, D. Lorch, B. Midkiff, and K. Reed, 'Let's end, not mend, social security', *Economic Affairs* 22:1 (London: Blackwell, March 2002), pp.17-23.
- <sup>36</sup> 'In the long term the compulsory nature of the Superannuation Guarantee will have a significant impact on the retirement incomes of the aged. However, its impact is not significant on the baby boomers'. See S. Kelly, A. Harding, R. Percival, *Live Long and Prosper?*, Paper to the Australian Conference of Economists (4 October 2002), p.17.
- <sup>37</sup> R. Friedman and M. Sherraden, 'Asset-based policy in the United States', in S. Regan and W. Paxton (eds), *Asset-Based Welfare: International Experiences* (London: Institute for Public Policy Research, 2001). In 2002 it was estimated that there were only 10,000 IDA savers in the US. See P. Tufano, 'Are assets only for America's wealthy?', *HBS Working Knowledge* (25 February 2002), <http://hbsworkingknowledge.hbs.edu>
- <sup>38</sup> M. Schreiner, M. Sherraden, M. Clancy, L. Johnson, J. Curley, M. Grinstein-Weiss, M. Zhan and S. Beverly, *Savings and Asset Accumulation in Individual Development Accounts* (St Louis: Center for Social Development, Washington University, 2001), <http://gwbweb.wustl.edu/csd>
- <sup>39</sup> R. Friedman and M. Sherraden, 'Asset-based policy in the United States', p.17. The 2000 *Savings for Working Families Act* (subsequently incorporated in the 2002 *Charity Aid, Recovery and Empowerment Act*) aimed to provide 1:1 matched savings for all Americans whose household income does not exceed 80% of the area median income, the proceeds to be spent on first home purchase, post-secondary education or business start-up (US Senate 2023/H.R. 4106). Clinton's 1999 Presidential address envisaged establishment of Universal Savings Accounts (USAs) would provide matched savings for 73 million people who lack employer-provided retirement pension plans. See G. Kelly and R. Lissauer *Ownership for All* (London: Institute for Public Policy Research, 2000).
- <sup>40</sup> See A. Wallace-Green, 'The Swedish retirement income system', *Australian Social Policy* 2000:2 (Canberra: FaCS), pp.109-21. See also S. Foelster, 'Asset-based social insurance in Sweden', in S. Regan and W. Paxton (eds), *Asset-based welfare: International Experiences* (London: Institute for Public Policy Research, 2001).
- <sup>41</sup> M. Latham, 'Owning the means', Address to NSW Fabian Society (3 July 2002), [www.alp.org.au/media](http://www.alp.org.au/media). In a speech later that month, Latham confirmed that a future Labor government would consider introducing

- both ‘nest egg accounts’ (for poorer children) and matched savings accounts (for poor adults), and that both would be means-tested (B. Norington, ‘ALP hatches nest-egg plan to aid 18 year olds’, *The Sydney Morning Herald*, 23 July 2002). This was followed in September by a report from the Chifley Research Centre outlining plans for matched savings accounts to be offered to workers earning less than 150% of the Henderson Poverty Line, plus people on welfare. See Allen Consulting Group, *Asset-Based Policies: Matched Savings Accounts* (Sydney, September 2003), and by a proposal in November to fund ‘nest-egg’ accounts with an initial government deposit of \$3,000, followed by further top-ups as the child grows older (M. Wade, ‘Latham hatches a nest-egg’, *The Sydney Morning Herald*, 10 November 2003).
- <sup>42</sup> ‘Learning voucher plan “invited fraud”’, *Weekly Telegraph* (8-14 May 2002).
- <sup>43</sup> HM Treasury, *Delivering Saving and Assets: The Modernisation of Britain’s Tax and Benefit System*, No. 9 (London, November 2001), [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk). One problem is that in a means-tested welfare system, there will be a huge incentive to recipients to spend the money as soon as possible so as to remain eligible for benefits. See T. Congdon, ‘How the welfare state encourages the poor to spend, spend, spend’, *Economic Affairs* 24:1 (March 2004). This would also be a major problem in Australia.
- <sup>44</sup> D. Blunkett, ‘On your side: The new welfare state as an engine of prosperity’, Speech, Dept of Education and Employment (London, 7 June 2000).
- <sup>45</sup> W. Paxton and S. Regan, *Progressing Asset-based Policies in the UK* (London, Institute of Public Policy Research, 2002), section 5, [www.policylibrary.com/essays](http://www.policylibrary.com/essays)
- <sup>46</sup> M. Latham, ‘Matched Savings Accounts research report’, media statement (21 September 2003).
- <sup>47</sup> M. Latham, *The Myths of the Welfare State*, Paper to the Towards Opportunity and Prosperity conference (Melbourne, 4-5 April 2002), p.13.
- <sup>48</sup> G. Esping Andersen, ‘After the golden age?’, in G.Esping-Andersen (ed), *Welfare States in Transition*, p.26.
- <sup>49</sup> D. Green, ‘Welfare and civil society’, in A. Deacon (ed), *Stakeholder Welfare* (London: Institute of Economic Affairs, 1996).
- <sup>50</sup> Some libertarians suggest this could be avoided if the government made a clear announcement in advance that people who fail to save will not be aided later on (for example, see W. Block, D. Lorch, B. Midkiff and K. Reed, ‘Let’s end, not mend, social security’, *Economic Affairs* 22:1, pp.17-23) but it is scarcely credible that any democratic government would allow elderly people to starve without intervening.
- <sup>51</sup> Having said this, there is no reason why individuals should not have a free choice of funds in which to invest (the Chilean rather than Singaporean model) and it should also be possible to save in different

ways. For example, by buying property, accumulating a share portfolio or developing a business as alternatives to saving in a personal account. All that government needs to do to avoid free-riding is to ensure that all individuals build up sufficient assets to enable them to maintain themselves and their dependents without recourse to public support, and this could be done with a relatively light regulatory touch. See G. Hogbin, 'Beyond the workers' entitlements Mess', *Quadrant* XLV (December 2001), pp.38-42.

- <sup>52</sup> M. Schreiner, M. Sharraden, M. Clancy, L. Johnson, J. Curley, M. Grinstein-Weiss, M. Zhan and S. Beverly, *Savings and Asset Accumulation in Individual Development Accounts*, p.v.
- <sup>53</sup> M. Mellish, 'Matched savings scheme finds few takers', *The Australian Financial Review* (24 September 2003).

## Chapter 15. The Honest Politician's Guide to Welfare Reform

- <sup>1</sup> M. Rojas, *Beyond the Welfare State* (Stockholm: Timbro, 2001), p.9.
- <sup>2</sup> Treasurer Peter Costello discovered this to his cost in his much-derided 2003 'milkshake and a sandwich' tax cuts.
- <sup>3</sup> The same is true in Britain (where Thatcher famously failed to reform welfare) and in much of continental Europe (where governments are finding it difficult to bring in even very modest reductions in their crippling levels of social expenditure). Only in America has radical welfare reform so far been attempted.
- <sup>4</sup> This is precisely the situation that democratic theorists like John Stuart Mill warned us about back in the mid 19th century. Mill argued passionately in favour of extending the franchise, but he thought that people who depended on government aid should not be allowed to vote. His reasons had to do with fairness and responsibility. Giving recipients of government aid the right to vote would mean giving them the right to decide how much of other people's money should be transferred to them. It would be like giving children the right to determine how much pocket money their parents should give them. Not only would this prove ruinous to the parents, but it would also encourage hugely irresponsible behaviour from the children. See J. S. Mill, 'Representative government' in J. S. Mill, *Utilitarianism and Other Essays* (Dent: Penguin, 1972).
- <sup>5</sup> M. Jones, *The Australian Welfare State*, 4th edition (St Leonards: Allen & Unwin, 1996), p.230.
- <sup>6</sup> Marginal frequencies can be downloaded from <http://ausstar.anu.edu.au/nesstarlight>
- <sup>7</sup> The first CIS/ACNielsen survey asked: 'Do you agree or disagree with the idea that governments should provide a mechanism to help parents send their children to a school of their choice, irrespective of whether it is public or private?' Opinion was evenly divided with 42% agreeing and 42% disagreeing, although households with an income under \$40,000 were slightly more inclined to agree (46%).

- <sup>8</sup> Second CIS/ACNielsen survey (August 2003). The proposals to which respondents were invited to respond were: 'Currently we have a taxpayer-funded Medicare system. An alternative way of funding health care would be that every family buys health insurance, their taxes and levies are reduced to cover the cost, and the government helps pay the premiums for families on low incomes. Currently unemployment and sickness benefits are funded by taxpayers. Some have suggested a new approach where we would all buy our own unemployment and sickness insurance, taxes would be reduced accordingly, and the government would help pay the premiums for people on low incomes.' The question on health care was designed to replicate a similar question in a 2003 UK survey which gauged opinions on replacing the National Health Service with private insurance. It found 46% in favour and 30% against. See ICM, *Report on Reform Research Into Attitudes to Public Policies and Services* (Watford, Feb-March 2003).
- <sup>9</sup> [www.actu.asn.au](http://www.actu.asn.au)
- <sup>10</sup> The second CIS/ACNielsen survey asked: 'Some people want to government to increase income tax rates and to spend the extra money on welfare and social services. Other people say we are already over-taxed and that the time has come to reduce taxes even if this means reducing total welfare spending. Which do you think the government should do?' 12% favoured raising taxes to increase welfare/social spending; 39% wanted to reduce taxes & reduce welfare/social spending, and 41% wanted to leave things as they are. One suspects that many of the 12% who favour tax increases may not themselves be income tax payers.
- <sup>11</sup> 'The more services voters believe are declining, the more they are inclined to support spending'. See S. Wilson and T. Breusch, 'After the tax revolt', *Australian Journal of Social Issues* 39 (May 2004), p.109.
- <sup>12</sup> The fact that the decline in service quality has been going hand-in-hand with rising levels of government spending suggests they are likely to be disappointed.
- <sup>13</sup> This idea is gradually gaining support among politicians and commentators too. The Australian Democrats have now endorsed this idea. See A. Bartlett, 'Fair tax cuts would be for all, not just high income earners' [www.onlineopinion.com.au/view.asp?article=2193](http://www.onlineopinion.com.au/view.asp?article=2193) (7 May 2004). So too has Australia's leading demographer, Peter MacDonald, see 'Incentive fades at the point where tax kicks in', *The Australian* (2 June 2004).
- <sup>14</sup> Questions: 'A single person with no dependents who earns \$30,000 a year loses about 20% of this (\$5,830) in taxes and levies. In your view is this tax deduction (a) Unfair (they should pay less); (b) Fair and reasonable; (c) Unfair (they should pay more)?'
- A single person with no dependents who earns \$60,000 a year loses about 30% of this (\$17,080) in taxes and levies. In your view is this tax deduction (a) Unfair (they should pay less); (b) Fair and reasonable; (c) Unfair (they should pay more)?

- A single person with no dependents who earns \$120,000 a year loses about 40% of this (\$46,780) in taxes and levies. In your view is this tax deduction (a) Unfair (they should pay less); (b) Fair and reasonable; (c) Unfair (they should pay more)?
- <sup>15</sup> Albeit some reforms had already begun under the Conservatives prior to 1997, such as work requirements and working tax credits.
  - <sup>16</sup> P. Botsman, 'Master to servant state' in P. Botsman and M. Latham (eds), *The Enabling State* (Annandale: Pluto Press, 2001) p.6.
  - <sup>17</sup> N. Pearson, 'On the human right to misery, mass incarceration and early death', *Quadrant* XLV (2001), p.14-15.
  - <sup>18</sup> M. Latham, 'The enabling state', in Latham and Botsman (eds), *The Enabling State*, p.252.
  - <sup>19</sup> The Prisoner's Dilemma arises when two parties both stand to gain from an agreed but dangerous course of action, but neither can risk committing itself in case the other defects and takes all the benefits for itself. See I. McLean, *Public Choice* (Oxford: Blackwell, 1987).

