

How To Reduce Long Term Unemployment

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EXECUTIVE SUMMARY

More than half the people claiming unemployment allowances in Australia have been on benefits for more than a year. When we add the increasing number of unemployed people who are no longer counted in the statistics because they have transferred onto Disability Support Pension, we estimate Australia's long-term unemployed population at something over 600,000.

Social policy intellectuals and welfare lobby groups argue that the solution to long-term unemployment can be found in 'active labour market programmes' (government jobs and training schemes) but these rarely work. What is needed to reduce unemployment is reform of the awards system, reduction of the minimum wage, looser workplace regulation, lower taxes and a reshaped income support system.

In addition, the particular problem of long-term unemployment should be tackled by introducing time limits on receipt of unemployment allowances. Almost all other OECD countries have time limits in one form or another. Time limits in the US are one reason why the incidence of long-term unemployment is so low in America.

It is proposed that the existing Newstart Allowance be renamed 'Temporary Assistance for Jobseekers' and that it be limited to six months duration. Anybody still requiring support after that time would transfer onto full-time Work for the Dole until they secure paid employment.

This change could reduce the incidence of long-term unemployment by 200,000. It could save around \$2 billion of taxpayers' money every year as well as improving the quality of life for those leaving welfare. The proposal appears to have widespread support among the Australian public.

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Introduction

In recent years, Australia has been one of the world's strongest and best-performing economies (the OECD's *Economic Survey* published in March 2003 described Australia as 'among the top performers').¹ But despite the impressive growth statistics, our unemployment rate remains disappointingly high.

At first sight, our overall unemployment rate of 6% does not look too bad when compared with the OECD average of 7.2%.² But the OECD average has been inflated by the abysmal performance of some of continental Europe's more sclerotic economies (Italy, France and Germany all have unemployment rates around 9%). When we compare our unemployment with other, more liberal 'Anglosphere'³ countries, it looks less impressive.

New Zealand and the UK—two traditionally weak economies which are now enjoying the fruits of radical reforms back in the 1980s—both have unemployment rates of 5% or less. And although unemployment in the US is today about the same as it is in Australia, this is only because the US economy has been going through a downturn. Over time, the 'structural' rate of unemployment in the US is much lower than it is here (see Table 2, p.8), and it is no cause for celebration that our unemployment rate has only begun to match theirs when their economy is in a downturn while ours is still strong.⁴

Not only is our general unemployment rate too high, but we also have a high incidence of long-term unemployment. While it is important to reduce the overall rate of unemployment, a statistic of arguably greater concern is the number of people out of work for a year or more (so-called 'long-term unemployment').

This paper is in three sections. The first looks at why long-term unemployment is of concern and estimates how many people in Australia it affects. The second section reviews different policies for reducing unemployment in general and identifies five key areas for policy change. The third section then looks at the additional measures that are needed specifically to reduce the incidence of long-term unemployment, and here we set out the case for introducing time-limited unemployment benefits.

Time limits on receipt of unemployment assistance can help ensure that people are not left hanging around for months or years on unemployment benefits. They are not the whole answer, of course, and they should be understood as just one among a range of policies that should be adopted to get long-term unemployment down. But time limits are an important strand in any serious strategy aimed at reducing the amount of time people spend unemployed before finding another job.

I. THE PROBLEM OF LONG-TERM UNEMPLOYMENT

Why long-term unemployment is a special concern

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, some people will always be in a process of re-training, relocating, or simply searching for a job.⁵ We should not therefore be overly alarmed when we encounter workers who have been out of work for short periods. Most people who go looking for work find it within a relatively short period of time. Of people who looked for work in the year 1999-2000, more than one-third found a job within four weeks and half found one within eight.⁶

Unemployment becomes a much more serious problem the longer it lasts, for people's skills start to go rusty, they lose the habit of working and they become demotivated. A study carried out for the Department of Employment and Workplace Relations in 2002 found that 13% of unemployed welfare claimants had lost belief in their own ability to work and that another 15% had given up the idea of ever finding another job.⁷ There is also evidence that agencies whose job it is to help unemployed people find work tend to give up after a while and simply 'park' the long-term unemployed on perpetual benefits while focusing their energies on newer claimants.⁸

The danger, therefore, is that a stratum of long-term unemployed people becomes almost permanently 'detached' (the buzz word is 'socially excluded') from the world of

work and settles into a routine of life on welfare. To prevent this from happening, some sort of time limit is needed to establish a sense of urgency and priority, both for the unemployed themselves, and for agencies in the Job Network whose task it is to re-equip the unemployed for work and help them find a job.

As a society, we should commit ourselves to the clear principle that nobody who is capable of working should be left with no work to do for a period any longer than six months.

How many long-term unemployed Australians are there?

Long-term unemployment is generally defined as an unbroken period of unemployment lasting for more than one year. There are, however, two different ways in which this is estimated, and they produce very different statistics.

The first method is to ask people in a survey about their recent employment history. The Australian Bureau of Statistics (ABS) runs a Labour Force Survey which asks unemployed people how long it has been since they started looking for work or since they last had a job lasting for two weeks or more. The May 2003 survey found 22% of all unemployed respondents said they had been out of work on this definition for a year or more—a proportion that translates into an estimate of 137,000 long-term unemployed people nationwide.⁹

Although high, this figure of 22% is significantly better than the 30% figure recorded in 1998-99.¹⁰ And although Australia has a more serious problem of long-term unemployment than other 'Anglosphere' countries such as the US, New Zealand and Canada, the 22% figure is better than what many of the continental European nations have been achieving.¹¹ Thus, the ABS survey data suggest we have a significant problem, but it's not as bad as it was a few years ago, and it's not as bad as it is in some other countries.

The second way of measuring long-term unemployment is to inspect the Department of Family and Community Services (FaCS) income support records. When we do this we get a much bleaker picture. As of June 2001 (the most recent available date), the records show that 57% of people claiming unemployment allowances (either Newstart, which is paid to unemployed claimants aged 21 or over, or 'Youth Allowance Other', paid to those under 21) had been claiming benefits for more than one year.¹² Furthermore, while the ABS survey data report the average time people spend unemployed at less than one year, the FaCS records suggest it is more than two. If the FaCS figures are correct, they translate into a nationwide estimate of more than 350,000 long-term unemployed.

Which of these sources should we believe? It all depends how we choose to measure 'long-term unemployment'. Both sources define 'long-term' as one year or more, but they differ in how they measure duration. 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. The FaCS database, by contrast, dates it from when they first started receiving benefits, and for those who have been claiming for more than a year, FaCS disregards any intervening period of work lasting for fewer than 13 weeks. This means that some of those recorded as long-term unemployed by FaCS may have had some intermittent work during the period of their claim.¹³

We therefore learn from the Labour Force Survey that about 22% of unemployed Australians have been without *anypaid* work for at least a year. We learn from the FaCS records that 57% of unemployed Australians have been claiming unemployment allowances for at least a year, though some may have had short periods of paid work during this period.

The hidden long-term unemployed

Some 350,000 people have been claiming unemployment allowances for more than one year, but the 'actual' incidence of long-term unemployment is arguably much greater than even this FaCS estimate suggests. This is because the unemployment statistics exclude the large numbers of unemployed people (particularly men over the age of 50) who transfer from Newstart (the unemployment allowance) to the Disability Support Pension (DSP).

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Australia's system of income support provides a strong incentive for unemployed people to have themselves reclassified as 'disabled'. People on Disability Pension are not currently subject to mutual obligation requirements and they receive their payments without having to undertake any activity tests or sign up to any participation agreements. They also receive a higher rate of payment than those on Newstart and are subject to a more lenient income test. Once on the Disability Pension, they normally stay there, undisturbed, right through to retirement (rates of exit from DSP other than through death or retirement are tiny).¹⁴

In 1980, just 2% of the working-age population was receiving a disability payment; today it is 5% (659,000 people), and the proportion is still rising. Some disability pensioners suffer major impairments—1.6% of them have congenital abnormalities, 2.6% have acquired brain impairment, 3% have respiratory problems, 2% have cancer. The most common conditions, however, are 'musculo-skeletal' problems (for example, bad backs), which account for 32% of the total, and 'psychological/psychiatric' problems (not including intellectual disabilities and learning difficulties) covering another 22%.¹⁵ Such conditions can be debilitating, but they are rarely incapacitating. 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.¹⁶

Reviewing Centrelink file data, Bob Gregory has found that half of all disability pensioners in Australia are recruited directly from the unemployment rolls, and that the average time spent by these people on the Newstart Allowance before transferring to the Disability Pension is more than one year.¹⁷ This means that at least 300,000 of those claiming DSP have transferred out of long-term unemployment. Add these to the FaCS estimates for the numbers on unemployment assistance who have been claiming for more than a year and we end up with an estimate of around 650,000 people currently on welfare who might sensibly be regarded as 'long-term unemployed'.

II. REDUCING UNEMPLOYMENT IN GENERAL

Is unemployment due to a shortage of jobs?

It seems only commonsense. If lots of people are out of work, it must be because there are not enough jobs around. And if the problem is shortage of jobs, then the solution must be for the government to create more employment.

This, broadly, is the thinking that drives the arguments and recommendations of Australia's welfare organisations and social policy academics. Most of these commentators believe that unemployment is a result of the economy generating too few jobs and that government should create or stimulate more vacancies through what are known as 'demand-side' policy interventions (that is, policies designed to increase the demand for labour). While government is urged to 'create more jobs', little is said about the need to encourage people to take them (so-called 'supply-side' policies designed to improve work incentives and raise the motivation of unemployed people to find work). As we shall see, however, both supply- and demand-side policies are needed if we are to get unemployment down.

The welfare lobby's focus on demand-side interventions is fine, up to a point. It is true that it is more difficult to find work in certain parts of the country, and in certain sectors of the economy, than it used to be. It is also true that economic and technological change over the last 30 years has expanded the opportunities for some kinds of work (for example, female employment rates have soared, as have part-time and casual employment rates) but has reduced the opportunities for others (full-time employment for older males, for example, has become less plentiful). There is therefore a case for looking at how we might encourage more employment in areas where there seems to be a shortfall.

But having acknowledged this, there is a tendency among social policy lobbyists to exaggerate the scale of the demand-side problems. Some of our social welfare activists

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seem all too eager to put out the message that there are no jobs for unemployed people to do (a message that is hardly likely to raise the morale and motivation of the people they claim to represent), and time and again they repeat the mantra that unemployed people cannot be expected to find work because the number of job vacancies is much smaller than the number of people registered as unemployed.¹⁸ There are, however, at least four things wrong with this argument:

- First, it almost certainly underestimates the real availability of jobs. The ABS survey of employers (on which these claims are based) asks a sample of businesses about their current vacancies, but the survey ignores jobs that are filled internally, jobs that are filled immediately they become vacant, and vacancies for which no recruitment action has been taken. This rules out a lot of positions. As far as the ABS is concerned, a vacancy only exists where an employer has nobody on hand to fill it and is actively trying to find somebody, but many people get jobs without a vacancy ever having been created or formally notified (we know, for instance, that even among registered unemployed job seekers, one-third end up finding a job through networks and contacts).¹⁹ Furthermore, the official vacancy data clearly do not include work available in the 'black economy', nor do they include jobs offered by people or firms who do not qualify for an Australian Business Number (for example, vacancies for part-time domestic help).²⁰ Although the welfare lobby claims there are no jobs, most unemployed people say that there are.²¹
- Secondly, it is a static analysis which is blind to the new vacancies which are being created all the time as a result of rapid turnover of people and jobs. Job vacancies 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 arises every fortnight. Saying that jobseekers cannot be expected to find work because there are six people after every job is like saying that house hunters will never find a home to buy because there are half a dozen other people interested in each property they go to view. Even with 16 people chasing every job (a figure much higher than even the welfare lobby's worst estimate), Peter Dawkins calculates that there is a greater than even chance of an unemployed person becoming employed before six months have elapsed.²²
- Thirdly, it ignores the fact that, by changing the supply of labour, the current pattern of employer demand is also likely to change. This appears to have been the experience following the 1996 welfare reform in America. Before the change, many critics insisted there would be insufficient jobs to soak up the people coming off welfare, but as things turned out, millions of former welfare claimants found jobs that nobody knew existed.²³
- Fourthly, it fails to explain why unemployment remains high even when more vacancies do become available. The Productivity Commission has found, for example, that unemployment in Australia has varied by as much as 100% over periods when vacancy rates have remained more or less the same. This suggests that availability of jobs is not the only, or even main, factor driving unemployment—work motivation also matters.²⁴

The shortage of jobs is not as dire as the welfare lobby makes out.²⁵ Nor, for that matter, is it likely to be solved by the kinds of policies they advocate.

The false promise of 'active labour market programmes'

The welfare lobby generally puts its faith in a raft of policies known collectively as 'active labour market programmes', but these policies are rarely effective when implemented.

Active 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. Rather than rolling

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back the regulations and reducing spending, active labour market programmes have resulted in governments spending even more money by inventing or subsidising jobs for the unemployed, and/or by putting the unemployed through training programmes designed to improve their chances of getting a job.

International evidence suggests policies like these achieve little in practice.

- A review of *employment subsidies* in France, Germany and the Netherlands as well as the US and the UK found that they ‘tend not to be effective with harder-to-serve groups’ such as the long-term unemployed.²⁶ Employers are often reluctant to take up targeted subsidies, for they are primarily concerned to appoint the right candidate, and they often worry about the quality of people who need government subsidies to induce anybody to employ them. The OECD also reports that these schemes suffer from very substantial ‘deadweight effects’ (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 are then deprived of jobs they would otherwise have gotten). This means employment subsidies are a very expensive and inefficient way of expanding the demand for labour (net employment gains are typically as low as 10%).²⁷
- A different approach is to employ long-term unemployed people in specially-created *public sector jobs*. But international evidence suggests that giving people work experience by employing them in the public sector has a ‘negligible’ impact on their long-term job prospects and rarely provides them with the skills and experience that other employers are looking for.²⁸ Provided as part of a ‘Workfare’ strategy, government jobs can play a role in unemployment programmes, but they rarely lead to more permanent employment.²⁹ Some analysts see a permanent expansion of public sector employment as the way to soak up the unemployed, but this would end up destroying jobs in the productive economy. Creating jobs on a large scale in the public sector ‘crowds out’ investment in the private sector and results in a less efficient use of labour and capital. 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.
- A third strategy is to pump more money into *training* the unemployed, but this is rarely effective (even though it is repeatedly urged by Australian welfare lobbyists). OECD evidence suggests that only one group among the unemployed clearly benefits from training, and this is mature-age women seeking to return to the labour force after a period spent raising children. They are generally highly motivated and they benefit from the opportunity to brush up on their rusty skills. For others, training achieves little, and it is a complete waste of time and money when it is directed at the young unemployed.³⁰ While basic literacy and numeracy skills can help improve people’s employability, government training schemes rarely achieve more than a 5% to 15% return.³¹

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. The Productivity Commission concludes that ‘they have variable, but usually small, effects on the employment and earnings of participants’.³²

America, Europe and Australia’s social policy intellectuals

None of this evidence appears to have affected the thinking of Australia’s social policy intelligentsia, for most of our welfare pressure groups and social policy intellectuals are still committed to government-led, proactive employment strategies, even though results in practice have been disappointing and most of the western world has moved on.

In America in the 1990s, millions of new jobs were created and unemployment stayed low without the benefit of government job creation or training programmes.³³ Critics often claim that these were low-paid or casual jobs, but most were high-paying jobs in the service sector, and job growth in the US outstripped that in Europe at *all levels* of wages.³⁴ Not surprisingly, the OECD has for some time been advising governments to reduce reliance on active labour market intervention and to learn

instead from the extraordinary success of the US. But the OECD advice falls on deaf ears in Australia where our social policy establishment continues to press for a failed European strategy while resolutely ignoring the lessons from America.

The line taken by most Australian policy experts and advocates is remarkably hostile to any suggestion that we might learn anything from America's success. Appearing on ABC *Life Matters* on 30 June 2003, for example, Terry McCarthy of the St Vincent de Paul Society urged that we should 'follow the line of the European social democratic countries, the same way as we used to do . . . as opposed to the Americanisation of the Australian culture and the Australian economy'.³⁵ His sentiments seem almost wilfully perverse given the evidence on American and European unemployment levels.

Table 1 shows that America (despite its recent rise in unemployment) is the most successful western country when it comes to finding people jobs. The continental Europeans have achieved far worse unemployment records than the Anglo 'liberal' countries despite billions of dollars spent on employment-generation programmes, and the only reason that the Scandinavian countries and the Netherlands *appear* to have achieved low levels of unemployment comparable to those of the Anglo nations is that they have transferred huge numbers of unemployed people onto disability payments.³⁶

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Table 1: Unemployment and disability rates (rounded), selected countries, 2003

	Percent Unemployed	Percent claiming disability payments	Total
<i>The 'liberal welfare regimes' (the 'Anglosphere')*</i>			
USA	6	4	10
Australia	6	5	11
UK	5	6	11
Canada	8	4	12
<i>The 'corporatist welfare regimes' (Continental Europe)*</i>			
France	9	4	13
Germany	9	4	13
Italy	9	5	14
<i>The 'social democratic welfare regimes' (Scandinavia/Netherlands)*</i>			
Denmark	5	8	13
Netherlands	4	9	13
Sweden	5	8	13
Norway	5	9	14
OECD average	7	6	13

Sources: OECD, 'Standardized Unemployment Rates (SURs) July 2003', *Main Economic Indicators* (Paris: OECD, 2003); OECD, Disability Rates, *Policy Brief* (Paris: OECD, March 2003).

* The terms 'liberal', 'corporatist' and 'social democratic' are from G. Esping-Andersen, *Three Worlds of Welfare Capitalism* (Cambridge: Polity Press, 1990).

The same pattern is evident when we focus specifically on the incidence of long-term unemployment across the western world. Table 2 overleaf provides average figures for the period 1994 to 2001, based on labour force surveys in different OECD countries. It can be seen that the US stands out as having a remarkably low incidence of long-term unemployment (an 8% average over this period and as of 2001, only 6% of unemployed Americans had been out or work for more than a year).³⁷ Other liberal 'Anglo' countries did rather worse than this, but they still performed much better than the continental European countries. The Netherlands and Scandinavian nations again achieved figures similar to those of Australia, but again this reflects the large-scale displacement into disability payments in those countries. France and Germany had 43% and 52%

incidence of long-term unemployment respectively in 2001 (41% and 50% averages since 1994).

Table 2: Unemployment rates, replacement rates and maximum benefit duration, selected countries, 1994-2001

Country	Average unemployment rate ^(a)	Average long-term unemployment rate ^{(a) (b)}	Replacement rate (1999) ^(c)	Maximum benefit duration (1999, months)	
				Unemployment insurance	Unemployment assistance
Australia	7.7	29.8	24.8	-	No limit
Austria	4.0	26.6	32.9	10	No limit
Belgium	8.9	59.1	39.0	No limit	-
Canada	8.6	14.2	30.0	11	-
Denmark	6.0	25.4	65.5	60	-
Finland	12.4	30.6	39.7	25	No limit
France	11.2	40.7	36.9	60	No limit
Germany	8.6	49.6	30.3	12	No limit
Ireland	8.7	55.1	29.1	15	No limit
Italy	11.2	62.8	20.0	6	-
Japan	3.9	21.6	12.2	10	-
Netherlands	4.8	45.6	50.9	60	24
New Zealand	6.6	21.8	29.7	-	No limit
Norway	4.1	13.3	41.3	36	-
Portugal	5.8	46.2	44.5	30	24
Spain	18.7	52.7	30.8	24	18
Sweden	8.0	28.7	25.7	15	15
Switzerland	3.4	31.2	37.3	7	-
UK	7.0	35.7	16.6	6	No limit
United States	4.9	8.4	14.0	6	-

Notes: (a) The annual average; (b) The proportion of those unemployed for more than 12 months; (c) Refers to the OECD summary measure, that is, the average of the gross unemployment benefit replacement rates for two earnings levels, three family situations and three durations of unemployment; - means not applicable. *Sources:* OECD, 'Long-term Unemployment: Selected Causes and Remedies', *Employment Outlook* (Paris: OECD, 1993), Table 3.11; OECD, *Benefits and Wage: OECD Indicators* (Paris: OECD, 2002), Tables 2.2 and 2.3; OECD, 'The OECD Summary Measure of Benefit Entitlements', www.oecd.org

There is simply no support in these figures for the idea that European-style policies will help us reduce unemployment in general, or long-term unemployment in particular. Nevertheless, eminent figures in Australia's social policy establishment continue to argue for 'European-style' policies and to resist any move towards an American model:

- Julian Disney, Director of the UNSW 'Social Justice Project' and former President of the International Council on Welfare, suggests the Australian government should copy the French by introducing legal restrictions on overtime as a way of sharing out available jobs. Yet France has now rescinded this legislation. He also wants us to reinstate centralised industrial relations bargaining, expand public sector employment, increase government spending on training programmes, raise unemployment benefits, introduce more government subsidies for targeted industries, direct investment by superannuation funds, step up regulation of working conditions and 'substantially increase' taxation.³⁸
- Peter Saunders, Director of the Social Policy Research Centre (one of Australia's biggest social policy players) is another who argues for legally-enforced reductions in working hours. He also wants to see a radical strategy of income redistribution, a higher minimum wage, more central government intervention in the labour market, an end to deregulation of labour contracts, an expansion of public sector employment, an expansion of in-work welfare benefits, increased taxes on high income earners and an unconditional minimum welfare payment for anybody who wants it.³⁹

- Fred Argy, former Director of the Economic Planning Advisory Commission, is also attracted to legally-enforceable restrictions on working hours. He couples this with a demand for wage subsidies, more government spending on training, more government spending on regional development, government job creation programmes, more tax on superannuation and private health insurance, and new wealth transfer and inheritance taxes.⁴⁰

The welfare organisations argue much the same line as the social policy academics. The Australian Council of Social Service (ACOSS) has repeatedly argued for increased social expenditure, increased welfare benefits and higher taxes designed to narrow the gap between the top and bottom of the income scale.⁴¹ Welfare charities like Anglicare, UnitingCare, the Brotherhood of St Laurence and the St Vincent de Paul Society tend to be even more assertive in their demands for higher public spending, higher taxes, higher welfare benefits, more government subsidies and more government regulation.⁴² Taken together, the chorus of voices from the academics and the welfare activists calling for more money to be spent on policies that have repeatedly been shown to have failed is one of the biggest obstacles to progress on unemployment that Australia currently faces.

A five-point strategy to reduce unemployment

In previous publications, we have identified five key policy changes which together could help reduce unemployment. The first three influence the demand for labour, the last two influence its supply. Both demand and supply side reforms are needed if we are to make inroads on unemployment figures:

- First, although the *awards system* has been scaled back in recent years, we still impose a one-size-fits-all uniformity of wages and conditions on thousands of businesses facing very different local conditions. One in five of all Australian workers are formally on awards, and many more are in principle covered by them. The awards system still dictates 20 ‘allowable matters’ covering not only wages, but also add-on costs like holiday entitlements, hours worked and overtime payments. All this stifles job creation, particularly in companies facing higher-than-average costs or operating in the least advantageous locations.⁴³
- A second factor is that the awards system has given us an effective national *minimum wage* that is one of the highest in the OECD. Only France (with its 9.1% unemployment) has a higher minimum wage than we do—in Britain and the US it is much lower. A high minimum wage means employers will not find it profitable to employ as many workers in low-skilled positions where anticipated returns on investment are marginal.⁴⁴
- A third factor is that we impose many onerous regulations on companies, particularly on small businesses. The *unfair dismissal laws* are a classic example, for they deter small companies from taking on new employees lest they are unable to get rid of them later. Even the threat of litigation can be a major disincentive for a small company which cannot afford to retain experts in labour law. It is estimated that the unfair dismissal legislation alone is costing at least 70,000 new jobs in the small business sector, yet the Senate still refuses to amend the law.⁴⁵
- A fourth factor concerns our high *income tax* rates. In Australia we tax people on every dollar they earn beyond \$6,000 per annum. People on low incomes then have to be compensated with top-up welfare payments, but this means they get squeezed from both ends when they try to increase their earnings, for as their pay increases, so their tax rises and their welfare benefits fall, and they end up losing 70 cents or more from every new dollar they earn. We also tax higher income earners more viciously than almost any other OECD country (our top rate of tax is one of the highest, and our top rate threshold is the meanest). From the bottom to the top of the income ladder, we penalise effort and risk rather than rewarding it.⁴⁶

People on low incomes get squeezed from both ends when they try to increase their earnings, for as their pay increases, so their tax rises and their welfare benefits fall.

Forty years ago, there were 22 people working and paying income taxes for every one person reliant on welfare. Today, the ratio is 5:1.

- A fifth factor is that we run a *welfare system* which (despite the mutual obligation requirements on unemployed jobseekers) still demands little or nothing of most claimants. The result is that increasing numbers of people have become dependent on government as the main source of their income. As the proportion of welfare recipients rises, so the proportion of people paying for the system falls. Forty years ago, there were 22 people working and paying income taxes for every one person reliant on welfare. Today, the ratio is 5:1.⁴⁷

If we want to reduce unemployment, we need reform in all five of these areas. The awards system should be wound up so that employers and employees are free to agree on terms which reflect the specific conditions and requirements of each individual business, industry and region. This would increase jobs in the less profitable regions and in the lower skill sectors of the economy. A more realistic minimum wage would similarly raise demand for lower skilled workers and make it profitable for employers to take on more staff. The unfair dismissal laws need reforming so that small businesses in particular are not deterred from expanding their payroll. Income taxes should be cut (not increased, as the welfare lobby persistently recommends) so that it pays to work, even at lower wages. And the welfare system needs a thorough overhaul.

III. TACKLING THE PARTICULAR PROBLEM OF LONG-TERM UNEMPLOYMENT

Time limits: The overseas experience

Part of the overhaul of the welfare system should involve reform of unemployment benefits. This is particularly important if we want to do something effective about the high incidence of long-term unemployment in Australia.

Most western countries have insurance-based 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 they draw on the fund when they are out of work. Unlike Australia and New Zealand, where benefits are financed by taxation and are open-ended, workers in other countries qualify for benefits only if they have made contributions to the fund, and in nearly every case, the benefits to which they are entitled are of limited duration.⁴⁸ As Table 2 shows, only Belgium offers unlimited insurance-based benefits while all the others limit benefits and switch claimants to a tax-funded dole when their time expires.

- In Germany, for example, unemployed workers who have paid contributions into the insurance system receive 60% of their previous net earnings for between 180 and 960 days, after which they revert to open-ended but means-tested unemployment assistance at the lower rate of 53% of net earnings.
- 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 programme.'
- 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 70% of the minimum wage.⁴⁹

In these and most other OECD countries, there is therefore a cut-off point which is built into the unemployment payments system. When you become unemployed, the clock starts ticking. When the time limit expires, your unemployment status changes—you switch from an entitlement to a means-tested benefit, and your payments fall (albeit in continental Europe, not by very much).

The US also operates an insurance-based unemployment assistance system which is time-limited (Unemployment Insurance, or UI). Unemployed Americans who are insured can claim no more than 26 successive weeks of benefits (or 39 weeks during

periods when unemployment levels rise above a certain threshold). Not only is this time limit much tighter than in Europe, but unlike the European systems 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.⁵⁰

The use of time limits is something which Australia should copy, although both the European and American systems have problems which we should seek to avoid. In Europe, high earnings-related benefits paid by unemployment insurance weaken work incentives by narrowing the gap between earnings from employment and receipts when unemployed. There is also the problem that the open-ended dole paid when insurance runs out means that there is nothing to prompt the long-term unemployed back into work once they pass this point. In the US, the time limit on insurance benefits works well in that it encourages claimants to revise their behaviour and expectations as the months slip by. Claimants become less picky and more motivated and exit rates from UI pick up as the time limit looms into view.⁵¹ The main problem in the American system, however, is that not everybody has UI, and there is only a patchwork safety net for those whose UI benefits expire.

Reviewing the strengths and weaknesses of these overseas systems, we might conclude that an ideal system would involve two elements. First, people should have access to time-limited benefits which can tide them over for short periods (no more than six months) when they are between jobs, and which can offer them services like training or job search where these are likely to be useful. Secondly, when these time-limited benefits expire, a back-up safety net system needs to cut in which offers a minimum income but which does not substitute for employment outside the welfare system. What follows is our attempt to devise a system that meets these specifications.

A time-limited unemployment assistance system for Australia

In Australia, we currently have no time limits because we have only one form of unemployment assistance. When you register as unemployed, you go straight onto Newstart or Youth Allowance, and that is where you remain, indefinitely, until you find a job or exit to a disability or age pension. True, younger claimants may be required to undertake part-time and limited-duration Work for the Dole after six months have elapsed, but for most 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.⁵²

There is little doubt that this open-ended system of unemployment assistance tends to inflate the incidence of long-term unemployment here, just as America’s time-limited system helps explain why its long-term unemployment rates are so low. 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 case for time limits is that they make clear to claimants and their service providers that assistance should be treated as temporary and that return to work sooner rather than later is the expectation.

We can see the effect that introduction of time limits into a previously open-ended income support system can have by looking at the results of the US Federal government’s reform of funding for single mothers in 1996. Dependency on the old Aid for Families with Dependent Children (AFDC) benefit had been increasing steadily for 40 years before the system was replaced by Temporary Assistance for Needy Families (TANF). The new system limited federal funding to a lifetime maximum of five years per recipient, with no more than two years for any one claim period.

Across America, the number of people claiming welfare has more than halved since 1996, and much (though not all) of this reduction has been a direct result of the reform.⁵³ Different states have varied in the way they have applied the federal time limits—17 states imposed a tighter time limit of less than five years, but some have no time limit at all.⁵⁴ The tighter the time limit imposed, the greater has been the effect of the change.⁵⁵

Time limits make clear that assistance should be treated as temporary and that return to work sooner rather than later is the expectation.

If unemployment assistance in Australia were time-limited, Work for the Dole or some equivalent system would have to be made available for those whose time limits expire.

It is, of course, one thing to push people off welfare, but quite another to find them alternative sources of income. But in the US, most of those leaving welfare have found jobs, and although they are often low-paid, they have ended up significantly better-off than before (single mothers who moved off welfare improved their incomes by an average of 60%).⁵⁶ Follow-up surveys have found that most former-claimants are pleased to be off welfare and say their lives are better than before.⁵⁷ Their children, too, seem to have benefited—the poverty rate among black children and single parents is at its lowest in recorded US history.⁵⁸

Both the UI and TANF programmes in the US demonstrate that time limits can have a major impact in getting people off welfare and into work. This is not only because they raise the motivation of claimants, and reinforce their understanding that assistance is only temporary, but also because they help change the culture of welfare officials by forcing them to put more time and effort into placing their more problematic clients.⁵⁹

What happens when the time limit expires and you haven't found work?

The big question-mark against time limits is what happens to those who reach their limit without having secured a job?

In the reformed US welfare system, time limits do not necessarily mean that financial assistance simply disappears for those who fail to find work. Different states handle the Federal government's time limits on TANF funding in different ways, and there is much fudging going on as states suspend people before they reach their limit, or extend them beyond the limit, or transfer them onto other programmes as they reach the limit.⁶⁰ But when eligibility expires, some other form of assistance generally kicks in.

One of the original architects of time limits in the US, David Ellwood, has always argued that some 'last resort' work provision has to be made for time limits to be credible, for nobody really believes that the government will simply cut off the cash and let people starve. In his 1988 book, Ellwood proposed that time limits of between 18 and 36 months should be imposed on receipt of AFDC, and that those who exhaust their eligibility should be offered government-sponsored jobs.⁶¹ Reflecting on the 1996 reforms, he is still 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 subsidized jobs in cases where people cannot find work.'⁶²

Following Ellwood's logic, there is a compelling case for recommending that if unemployment assistance in Australia were time-limited, Work for the Dole or some equivalent system would have to be made available for those whose time limits expire.⁶³

Proposal for a new two-tier system⁶⁴

We propose that any individual's access to the existing unemployment payments system should normally be limited to a total period of six months in any five year period. In certain cases, it may be necessary to extend this period for up to a further six months (this might apply, for example, to claimants living in high unemployment regions, to claimants over 55 years of age who have difficulty finding work, or to special category claimants, such as those on drug rehabilitation programmes lasting more than six months) but the basic principle should be that nobody who is capable of working should remain without work for more than a year at most, and that most should be back in some form of work within six months of registering.⁶⁵

The system of payments and support services covering the first six months of a claim period could function much as it does now, with claimants receiving their payments from Centrelink and their employment services from a Job Network provider of their choice. The main role of the Job Network provider is to help claimants find jobs. It would also organise training or other forms of Intensive Assistance if appropriate, but the principal emphasis would be on finding a job, and wherever possible, new claimants should be deflected straight into work rather than starting training. As two American observers have noted, 'The best job-training program is a job.'⁶⁶

As now, claimants would be expected to apply for a given number of jobs every fortnight and would maintain a Jobseekers Diary. They would also sign a 'Preparing for Work Agreement' with their Job Network provider which would commit them to a programme of appropriate activities aimed at helping them to find work and a timetable for returning to work. Most claimants could be expected to exit payments fairly quickly, but as the six month cut-off date comes closer, pressure should build on remaining claimants to apply for a wide range of jobs, including work at lower rates of pay than their previous employment, jobs in other sectors of the economy, and positions in other locations where relocation or commuting is not an unreasonable expectation.⁶⁷ The emphasis throughout should be on the temporary nature of the payment, and to reinforce this, the payment could be renamed 'Temporary Assistance for Jobseekers' (TAJ).

In the event that claimants fail to find employment within the six (or exceptionally, 12) months eligibility period, participation in the TAJ programme would cease. If somebody has failed to find work after six (or even 12) months of job search, skills training and Intensive Assistance, more of the same is unlikely to do much good, and the programme should terminate. On expiry, claimants would be offered the opportunity to transfer into a Work for the Dole (WFD) scheme enabling them to work for their benefits until they find a job.⁶⁸ This back-up WFD support system would offer employment at dole rates for four and a half days per week.⁶⁹

It would not therefore be possible for anybody who is capable of working to remain on unemployment assistance beyond six (or exceptionally 12) months without working. In this way, many of the corrosive effects associated with extended periods of unemployment—notably the erosion of time-work discipline, the boredom of prolonged inactivity, and the collapse of self-esteem—should be avoided.

It is important to recognise, however, that WFD is not intended in these proposals to function as a stepping stone to employment. It might furnish some participants with new skills, but this would not be its prime objective (remember that those who lack skills would already have spent six to 12 months on TAJ where intensive assistance would have been available to boost their employability). Participation in WFD would obviously help people gain work experience and re-establish the routines and discipline of a working life, but we should not necessarily expect that the 'work experience' gained through WFD would help them find another job. We saw earlier that schemes like this have a poor record in getting people into jobs, and this would not be the role of WFD in this scheme. Rather, it offers a temporary safety net by providing work and a subsistence income for those who cannot find alternative employment.

Some readers may see some parallels between this proposal and the last Labor government's commitment under its 'Job Compact' to providing jobs for anybody who had been out of work for an extended period. There are, however, two important differences.

- One is that the Labor government's job guarantee did not kick in until after 18 months of unemployment. In our view, this is much too late. Most unemployed people find another job within a few months. If somebody has failed to find a job (or to become job-ready) after six or 12 months of assistance, further assistance will in all probability be a waste of time. Eighteen months of inactivity is too long.
- A second difference is that our proposal would limit the value of payments to welfare benefit levels, plus employment-related expenses, just as under the existing WFD scheme. Working Nation's 'job compact' guaranteed a six to 12 month job placement with an employer at the prevailing wage rate (the government offered large wage subsidies to participating employers). But this was likely to prove extremely expensive, and it threatened to displace other workers. It also removed from participants the economic incentive to find an unsubsidised job for themselves during the period of the placement.⁷⁰

If somebody has failed to find work after six (or even 12) months of job search, skills training and Intensive Assistance, more of the same is unlikely to do much good.

Three-quarters of young people who are referred to current Work for the Dole schemes fail to attend the first session, preferring to leave welfare altogether rather than undertake part-time work.

In the US, David Ellwood recommends that back-up jobs for those who exceed their time limits should be paid at the minimum wage, but this would be inappropriate in Australia where the incidence of long-term unemployment is much higher than in the US and the minimum wage is much more generous.⁷¹ It is essential that the WFD back-up remain a *temporary* safety net and that people do not come to see participation as an acceptable alternative to finding real employment in the real economy. To maintain the incentive to find employment, the work performed should be rewarded at welfare benefit rates.

How much would long-term unemployment fall?

The longer a period of unemployment lasts, the weaker the motivation becomes to find a job. As time passes we start to 'rationalise' our continued failure to find or keep a job, concluding that we are 'too old', or we 'cannot find suitable child care', or employers 'discriminate' against us because of our age or race, or the jobs 'do not pay enough', or we are 'under-qualified' (or 'over-qualified'), or the job is 'dead-end' and demeaning, or we lack 'experience', or we suffer from a 'drug habit' or some other 'barrier' that stops us from working. In this way, we become accustomed to a life without work, and we start to think of ourselves as the kind of person who cannot get a job. The expectation of failure becomes self-fulfilling.⁷²

Introduction of time limits helps counter this drift into fatalism and disillusionment. Time limits would have their biggest impact on those who are 'drifting' (who would find their minds focused by a looming deadline), the 'job snobs' (who would be more willing to take a less-than-perfect position rather than end up working full-time for welfare wages) and the 'cruisers' who make a deliberate lifestyle choice to stay on welfare rather than find a job (for they would be unlikely to take up the offer of full-time WFD). These three groups alone account for more than four in 10 of all those currently on the unemployment rolls.⁷³

Time limits reduce long-term unemployment by strengthening what the Productivity Commission calls the 'compliance effect.' Reporting that unemployed people sent to Job Search Training tend to drop out of welfare rather than attend the course, the Productivity Commission notes: '[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.'⁷⁴ The OECD calculates that merely requiring unemployed claimants to attend an initial interview at the employment office results in a reduction in the welfare rolls of between 5% and 10%.⁷⁵ Work for the Dole has a very strong compliance effect. Dan Finn reports that three-quarters of young people who are referred to current Work for the Dole schemes fail to attend the first session, preferring to leave welfare altogether rather than undertake part-time work.⁷⁶

Time limits linked to an extension of WFD could, therefore, be expected to have a substantial compliance effect, resulting in a significant reduction in the numbers of people unemployed for more than six months. 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. We might realistically expect a fall of up to 50% in the numbers of long-term unemployed under this proposal (more if the change were coupled with some of the labour market and tax reforms mentioned earlier in this paper). This adds up to nearly 200,000 claimants (and this is not counting the 200,000-300,000 'hidden' long-term unemployed people currently claiming disability pensions).

The savings would be considerable (we estimate an initial net saving of around \$2 billion dollars per year),⁷⁷ but this is not 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; the savings are a bonus.

Is it politically feasible?

The government's 'mutual obligation' policy has always commanded strong public support. A 1999 Social Policy Research Centre survey found that three-quarters or more of the population supports compulsory activities like re-training, community work and Work for the Dole for young and long-term unemployed claimants, and that between one-third and two-thirds favour extending these requirements to unemployed people over 50, parents with pre-school-age children and people with disabilities.⁷⁸ A 1996 survey found that 58% of the population thought that unemployed people should be expected to take any available job, and a Morgan Poll found 72% approval for the Work for the Dole policy when it was introduced in 1997.⁷⁹

The current proposal strengthens the mutual obligation system in a number of ways. First, it extends Work for the Dole to everybody of working age who has been unemployed for more than six months (currently, older workers are exempted). Secondly, it establishes Work for the Dole as a full-time and continuing activity for those who remain jobless (currently it operates as a part-time activity and stops after six months).⁸⁰ Thirdly, it removes the options of further training or other mutual obligation activities once people pass the six-month deadline (currently Work for the Dole is only one among a number of activities which claimants can undertake to meet their obligations).

Would these revisions to the existing system be acceptable to the Australian electorate? In July 2003, ACNielsen conducted an opinion poll on behalf of The Centre for Independent Studies in which 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.*⁸¹ Seventy percent 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. It seems from this that time limits would meet with the approval of a large majority of Australians.

IV. CONCLUDING COMMENT

A recent report on long-term unemployment co-sponsored by the Brotherhood of St Laurence and the St Vincent de Paul Society advocates policies almost exactly the opposite of those developed here. The two charities claim that even the existing mutual obligation system is making life unnecessarily difficult for the long-term unemployed, and they call for a relaxation in the requirements that are made of those who are out of work for a long period. Rather than demanding more of the long-term unemployed, they think we should demand less. While understandable, however, this kind of thinking is fundamentally flawed.

The report contains some important qualitative evidence about the experience of the long-term unemployed in our existing welfare system. Based on interviews with 45 people around Melbourne who had been out of work for an average of more than two years, the report states that 'a substantial minority' found the mutual obligation system was 'complex, confusing and highly stressful'. Most complained that having to keep a Jobseeker Diary was 'depressing', and having to obtain evidence from employers certifying that they had applied for jobs was 'not seen as helpful at all'. The compulsory Preparing for Work Agreement was criticised for failing to 'respond to their own needs or goals', and was widely dismissed as a 'formality'. Their job search requirements were 'experienced only as an annoyance, not an aid', and many of them 'expressed great dissatisfaction with, even hostility towards, Centrelink'.⁸² Many expressed a desire to get off unemployment allowances and onto disability payments where they would be left alone.

None of this is surprising. After an average of more than two years out of work, the routines of living with the unemployment bureaucracy would doubtless strike anybody as tiresome and irritating. These people were clearly dispirited and the continued

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round of obligations was seen—quite realistically—as ritualistic and a waste of everybody’s time and energy. As the report concludes: ‘The emphasis on compulsion in the Australian mutual obligation regime appears to generate avoidance and resentment among those who need most assistance.’⁸³

The authors of the report, however, draw precisely the wrong conclusion from this bleak evidence. They want to make life better for the long-term unemployed by scaling back the compulsion, lowering the activity requirements and reducing the level of ‘hassle’ they have to go through to get their fortnightly payments. They say we should ‘rethink . . . the number and range of requirements’ and that we should put more emphasis on ‘meeting individuals’ own goals rather than simply compliance with requirements’. They also say we should openly acknowledge that there are insufficient jobs for the unemployed to do—an idea which effectively means we should stop demanding that they find a job and instead reinforce their own sense of fatalism and powerlessness.⁸⁴

In our view, this report is a counsel of failure, and heeding its recommendations would be a terrible mistake. The lesson to be drawn from the misery of the long-term unemployed is not that we should begin to dismantle mutual obligation. It is rather that the requirements expected of the unemployed should have been made a lot stronger a lot earlier so that people do not end up spending years doing nothing and becoming increasingly disenchanted and disillusioned. There should be a clock ticking rather than an open-ended commitment to keep drip-feeding people their benefits. Rather than loosening the requirements, it makes more sense to step up the level of expectations to stop people spending endless years on welfare in the first place.

Endnotes

- ¹ Organisation for Economic Co-operation and Development, *Economic Survey of Australia 2003* (Paris: OECD, March 2003).
- ² OECD, ‘Standardized Unemployment Rates (SURs) May 2003’, *Main Economic Indicators* (Paris: OECD, July 2003), www.oecd.org
- ³ The ‘Anglosphere’ countries are those which ‘share basic principles: individualism, rule of law, honouring contracts and covenants, and the elevation of freedom to the first rank of political and cultural values’, see Andrew Sullivan, ‘Come On In: The Anglosphere is Freedom’s New Home’, *Sunday Times* (2 February 2003). The word derives from the fact that these liberal values first arose in England. The Anglosphere is not limited to the Anglophone nations, but countries like the US, Australia, New Zealand and the UK are at its core. As Hofstede’s classic study of national cultures found, these countries form a distinctive cluster as the most individualistic cultures in the world (see P. Smith and M. Bond, *Social Psychology Across Cultures* [London: Prentice Hall, 1993]), and this is reflected in their social policies. Esping-Andersen refers to them collectively as the ‘liberal’ welfare regimes in *The Three Worlds of Welfare Capitalism* (Cambridge: Polity, 1990).
- ⁴ ‘At present the US and Australia have similar unemployment rates. But the US unemployment rate is the temporary product of the economic cycle. The structural rate of unemployment is lower in the US and that is why its unemployment rate fell below 4% at the peak of the cycle. In Australia, despite more than a decade of strong growth, the unemployment rate has not gone below 6%’ (Editorial, *Australian Financial Review*, 28 July 2003). For average unemployment rates through the 1990s, see Table 2, p.8 of this paper.
- ⁵ About 4% of people who had been employed in July 1999 had lost or left their jobs by August. However, 5% who had been jobless in July were in work by August. See John Landt and Jocelyn Pech, ‘Work and Welfare in Australia: The Changing Role of Income Support’, *Australian Social Policy* 2 (2000), p.35.
- ⁶ Australian Bureau of Statistics (ABS), *Australian Social Trends 2002: Work—Underutilised Labour, Searching for Work* (Canberra: ABS, 2002), p.5, see www.abs.gov.au/ausstats/abs, accessed 25 November 2002.
- ⁷ Colmar Brunton, *Job Seeker Attitudinal Segmentation: An Australian Model* (Canberra: Labour Market Policy Group, Department of Employment and Workplace Relations, 2002).
- ⁸ Productivity Commission, *Independent Review of the Job Network* (Canberra: Productivity Commission, 2002).
- ⁹ Australian Bureau of Statistics (ABS), *Australian Labour Market Statistics*, ABS Cat. No. 6105.0 (Canberra: ABS, July 2003), Tables 3.1 and 3.2.
- ¹⁰ Department of the Parliamentary Library, *Monthly Economic and Social Indicators 2002-03*, Table 1.5, (Canberra: Parliament of Australia, 2003), www.aph.gov.au/library/pubs/mesi/mesi15.htm, accessed 25 July 2003.
- ¹¹ Australian Bureau of Statistics, *Australian Social Trends 2000: Work—Underutilised Labour, Long-Term Unemployment* (Canberra: ABS, 2002) p. 2, see www.abs.gov.au/ausstats/abs, accessed 25 November 2002.
- ¹² Department of Family and Community Services (FaCS), ‘Income Support Customers: A Statistical Overview 2001’, *Occasional Paper* 7 (Canberra: FaCS, March 2003), Table 30.
- ¹³ We are grateful to Don Clark at the ABS and Edward Black at FaCS for helping clarify this. Peter Whiteford

- and Gregory Angenent confirm that the FaCS statistics ‘may exaggerate the duration of receipt of unemployment payments’ because ‘for those with durations of over 12 months, absence of up to 13 weeks are ignored’ (FaCS, ‘The Australian System of Social Protection: An Overview, Second Edition’, *Occasional Paper 6* [Canberra: FaCS, 2001]). 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 much 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 tell us that long-term unemployment hardly changed between 2001 and 2003 (the big drop after 1998-99 occurred mainly between 1999 and 2001, 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, for 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.
- ¹⁴ Landt and Pech, ‘Work and Welfare in Australia’, (see n.5). See also: ‘Why Has the Disability Program Grown So Much?’, report on seminar by Bob Gregory, *FaCS Research News* 15 (Canberra: FaCS, March 2003), pp.13-14.
- ¹⁵ Australian Bureau of Statistics (ABS), *Australian Social Trends 2002: Income and Expenditure—Income Support, Trends in Disability Support* (Canberra: ABS, 2002), see www.abs.gov.au/ausstats/abs, accessed 25 November 2002. See also ABS, *Yearbook Australia 2003*, ABS Cat. No. 1301.0 (Canberra: ABS, 2003)
- ¹⁶ Organisation for Economic Co-operation and Development, ‘Disability Programmes in Need of Reform’, *Policy Brief* (Paris: OECD, March 2003), p.2.
- ¹⁷ Report on seminar by Bob Gregory in *FaCS Research News*, (see n.14).
- ¹⁸ ‘One key issue is there simply aren’t enough jobs around. There are eight to 10 people for every job vacancy’, see Stephen Ziguras of the Brotherhood of St Laurence, quoted in *Sydney Morning Herald*, 11 December 2002; ‘We’ve got 750,000 people registered unemployed . . . we have 70,000 job vacancies. I think that’s all you need to know’, see Sue Richardson, an academic, in *Rebuilding the Safety Net*, (Melbourne: Business Council of Australia, 2000), p.54; ‘If 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), then . . . the fault does not lie with the individual. It lies with the inability of the market to reach and sustain acceptable levels of economic participation for disadvantaged Australians’, see John Meahan, Acting President of St Vincent de Paul Society, in a Society media release, 12 March 2002.
- ¹⁹ Australian Bureau of Statistics, *Australian Social Trends 2002: Work—Underutilised Labour, Searching for Work* (Canberra: ABS, 2002).
- ²⁰ See the definition of a ‘job vacancy’ in the glossary to Australian Bureau of Statistics, *Job Vacancies*, ABS Cat. No. 6354.0 (Canberra: ABS, May 2003). The ABS employment survey covers all businesses with an ABN (which means companies with a turnover of at least \$50,000 and non-profit organisations with a turnover of over \$10,000).
- ²¹ In 2001, only 29% of unemployed people said they had difficulty finding work because there were no jobs available (ABS, *Australian Social Trends 2002, Work—Underutilised Labour, Searching for Work*). Similarly, see Alfred Dockery, *Looking Inside the Unemployment Spell*, Paper given at the National HILDA conference (Melbourne: University of Melbourne, 13 March 2003) reports only 30% of unemployed respondents on the HILDA survey said they could not get work because there are no jobs.
- ²² Peter Dawkins, ‘Labour Market Issues in Welfare Reform’, in Peter Saunders (ed), *Reforming the Australian Welfare State* (Melbourne: Australian Institute of Family Studies, 2000), p.245.
- ²³ R. Rector and P. Fagan, ‘The Continuing Good News About Welfare Reform’, *Background* 1620 (Washington DC: The Heritage Foundation, February 2003).
- ²⁴ Productivity Commission, *Independent Review of the Job Network* (Canberra: Productivity Commission, 2002), p.2.7.
- ²⁵ The OECD notes that, during recessions, unemployment rises and unemployment offices tend to ease off monitoring people’s eligibility for benefits because it is accepted that there is a shortage of jobs. But when the economy picks up and jobs again become available, it is important that monitoring is stepped up again otherwise the idea can persist that there are no jobs for the unemployed to do. This is what seems to have happened in Australia. See OECD, *Employment Outlook 2000* (Paris: OECD, 2000), p.143.
- ²⁶ Martin Evans, *Welfare to Work and the Organisation of Opportunity*, CASE Report No.15 (London: London School of Economics, 2001), p.49.
- ²⁷ See John Martin, ‘Labour Market Programs’, *New Directions: Rebuilding the Safety Net* (Melbourne: Business Council of Australia, 2000), pp. 94-7. See also John Martin, ‘What Works and For Whom?’ Presentation to *Knowledge Wave* Conference (Auckland: 9 February 2003) www.knowledgewave.org.nz
- ²⁸ John Freebairn, ‘Labour Market Programs’, in Business Council of Australia, *New Directions: Rebuilding the Safety Net* (Melbourne: BCA, 2000), p.100.
- ²⁹ Martin, ‘Labour Market Programs’, p.95, (see n.27). 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. Saunders, ‘Help and Hassle: Do People on Welfare Really Want to Work?’ *Policy* 19:2 (Winter 2003), www.policymagazine.com
- ³⁰ ‘Labour market programs do work for adult women, but not for many other groups’, see Martin, ‘Labour Market Programs’, p.94, (see n.27). Guyonne Kalb, ‘The Impact of Social Policy Initiatives on Labour

Supply Incentives', *Policy Research Paper* 18 (Canberra: FaCS, 2003) reviews experience in France, the US and the UK and concludes that young adults 'benefit little from training and employment programs' (p.35). See also David Kalisch, *Welfare to Work: A Review of International Practices and Outcomes*, paper delivered at Melbourne Institute seminar on welfare reform (Melbourne: 25 January 2000).

- ³¹ Freebairn, 'Labour Market Programs', p.100, (see n.28).
- ³² Productivity Commission, *Independent Review of the Job Network*, p.1.3, (see n.8).
- ³³ Michael Jones, *The Australian Welfare State*, 4th edition (Crows Nest: Allen & Unwin, 1996), p.171.
- ³⁴ OECD, 'The Characteristics of Quality of Service Sector Jobs', *OECD Employment Outlook* (Paris: OECD, 2001).
- ³⁵ Similarly in a St Vincent de Paul address to the ALP Roundtable on poverty (Canberra, 18 October 2002), McCarthy and John Wicks complained: 'We are forsaking the more social democratic ideas of our European forebears and are witnessing the Americanisation of Australia . . . Americanisation has been slowly and insidiously pursued on a wide front', see 'Greed, Poverty and Compassion: Where to Australia?' (Lewisham: St Vincent de Paul Society, 2002), pp.8-9. This anti-Americanism reflects the openly Marxist position now adopted by staff at the St Vincent de Paul Society which is looking less and less like a welfare charity and increasingly like a 1970s student revolutionary Agitprop group. According to the Society's John Falzon, for example, 'The market is part of the problem, not the solution'; it 'exploits' those who do not 'have capital'; privatisation is a 'social crime' perpetrated 'in the interests of capital'; labour relations reform constitutes a 'frontal assault on a well-organised section of the working people'; the poor have been 'systematically dispossessed materially, socially and politically'; and the 'class divide' in Australia is a 'blunt reality' ('Third Way: Empty Promise', The Path to Full Employment conference, [University of Newcastle, 4-6 December 2002]). This is not only banal social science; it is almost embarrassingly naïve Marxism. What any of this has to do with the charity's mission statement ('The Mission of the St Vincent de Paul Society in Australia is to deepen the Catholic faith of its members—to go out into our nation to heighten the awareness of Jesus Christ'—www.vinnies.org.au) is anybody's guess.
- ³⁶ The President of ACOSS, Andrew McCallum, recently suggested that Sweden and the Netherlands have performed as well as the US despite their high tax, high welfare spending policies, but this is wishful thinking for it ignores the huge numbers of people who have transferred onto disability payments in those countries. See Peter Saunders, 'Lies & Statistics', *Australian Financial Review* (16-17 August 2003).
- ³⁷ Cited in Judith Sloan, 'Solving Unemployment: Some of the Remedies', in P. Dawkins and P. Kelly (eds), *Hard Heads, Soft Hearts* (Crows Nest: Allen & Unwin, 2003), p.63.
- ³⁸ Julian Disney, 'Some Future Directions for Australia', in P. Duncan and R. Maddock (eds.), *Aspire Australia* (Melbourne: Business Council of Australia, 2002).
- ³⁹ Peter Saunders, *The Ends and Means of Welfare* (Port Melbourne: Cambridge University Press, 2002), ch. 9.
- ⁴⁰ Fred Argy, *Where to From Here?* (Crows Nest: Allen & Unwin, 2003).
- ⁴¹ See, for example, *Towards a Fair and Inclusive Australia*, ACOSS Paper 119 (Sydney: ACOSS, February 2002).
- ⁴² To get a flavour of the policy agenda that drives our welfare pressure groups, see the various submissions to the current Senate Inquiry into Poverty and Financial Hardship at www.aph.gov.au/Senate/committee/clac_cte/poverty/submissions/sublist.htm. Anglicare Victoria wants benefits and pensions increased, more spending on public housing, more spending to create a 'universal health system' and a 'more equitable society' (that is, income redistribution). The St Vincent de Paul Society wants a government 'job creation blueprint' involving 'subsidies and programs', higher welfare payments every year 'until social justice is achieved,' and \$12 billion of extra spending financed by making the wealthiest 20% of the population 'surrender' more of their money. The Brotherhood of St Laurence wants more public sector employment, an incomes policy to restrict the growth of higher incomes, subsidies for employers, increased welfare benefits and more expenditure on public housing. UnitingCare Australia demands an end to mutual obligation requirements for the unemployed, government labour market programmes to create jobs and increased welfare benefits.
- ⁴³ Kayoko Tsumori, 'Only Deregulation Can Create Jobs', *Australian Financial Review* (21 October 2002), reprinted in *CIS Executive Highlights* 111; Tsumori, 'Poor Laws (3): Why Australia Should Abolish the Award System', *Issue Analysis* 41 (Sydney: The Centre for Independent Studies, forthcoming 2003). For figures on award coverage see ABS, *Employer Earnings and Hours*, ABS Cat. No. 6306.0 (Canberra: ABS, May 2002), Table 25.
- ⁴⁴ Kayoko Tsumori, 'Poor Laws (2) The Minimum Wage and Unemployment', *Issue Analysis* 28 (Sydney: The Centre for Independent Studies, 2002).
- ⁴⁵ Kayoko Tsumori, 'Unfair Dismissal Laws Deter Hiring and Firing', *Newcastle Herald* (21 August 2002), reprinted in *CIS Executive Highlights* 105; Kayoko Tsumori, 'Dismissal Law Benefits the Long-Term Unemployed', *Australian Financial Review* (18 March 2003), reprinted in *CIS Executive Highlights* No.128; Kayoko Tsumori, 'Poor Laws (1) The Unfair Dismissal Laws and Long-Term Unemployment', *Issue Analysis* 26 (Sydney: The Centre for Independent Studies, 2002).
- ⁴⁶ Peter Saunders, 'Time to Care for Ourselves', *New Zealand Herald* (26 March 2002), reprinted in *CIS Executive Highlights* 79; Peter Saunders, 'Tax is the Key to Welfare Reform', *Australian Financial Review* (20 January 2003), reprinted in *CIS Executive Highlights* 121; Peter Saunders, 'Threshold Issues For a Tax System That Creates Jobs', *Australian Financial Review* (17 April 2003), reprinted in *CIS Executive Highlights* 134; Kayoko Tsumori, 'Is The Earnings Credit the Best Way to Cut the Dole Queues?', *Issue Analysis* 35 (Sydney: The Centre for Independent Studies, 2003).
- ⁴⁷ Peter Saunders, *Submission to FaCS Consultation on Reform of Income Support* (www.cis.org.au); Peter

- Saunders, 'Working to Beat the Poverty Trap', *Brisbane Courier Mail* (11 December 2002), reprinted in *CIS Executive Highlights* 117; Peter Saunders and Kayoko Tsumori, 'The Tender Trap: Reducing Long-Term Welfare Dependency by Reforming the Parenting Payment System', *Issue Analysis* 36 (Sydney: The Centre for Independent Studies, 2003); Peter Saunders 'Turning Back the Tide: Welfare Lessons From America', *Policy* 19:1 (Autumn 2003), pp.8-14.
- ⁴⁸ Peter Whiteford and Gregory Angenent, 'The Australian System of Social Protection—An Overview (Second Edition)', *Occasional Paper 6* (Canberra: FaCS, June 2002).
- ⁴⁹ German, French and Dutch information from International Social Security Association, *Social Security Programs Throughout the World: Europe 2002* (Geneva: ISSA, 2002).
- ⁵⁰ Social Security Administration, *Social Security Programs in the United States*, Publication 13-11758 (US: SSA, July 1997).
- ⁵¹ Wayne Vroman and Vera Brusentsev, 'Australian Unemployment Protection: Challenges and New Directions', in T. Eardley and B. Bradbury (eds) *Competing Visions*, Report 1/02 (Sydney: Social Policy Research Centre, April 2002), pp.348-86.
- ⁵² Productivity Commission, *Independent Review of the Job Network*, (see n.8).
- ⁵³ Douglas Besharov, 'The Past and Future of Welfare Reform', *The Public Interest* (Winter 2003), pp. 4-21, estimates that welfare reform accounts for 25% to 35% of the reduced caseloads. Other factors were the strong economy (35% to 45%) and the increased value of the Earned Income Tax Credit, which increased work incentives (20% to 30%).
- ⁵⁴ Jane Waldfogel et al., 'Welfare Reform And Lone Mothers' Employment in the US', *Centre for Analysis of Social Exclusion Paper* 47 (London: London School of Economics, 2001). All states are allowed to exempt up to 20% of their caseload from time limits (a recognition that some claimants may simply be unemployable).
- ⁵⁵ Robert Rector and Sarah Youssef, *The Determinants of Welfare Caseload Decline* (Washington DC: Heritage Foundation, 1999).
- ⁵⁶ 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.
- ⁵⁷ P. Loprest and S. Brauner, 'Where Are They Now?' *New Federalism* 6 (Washington: Urban Institute, 1999); L. Mead, 'Welfare Reform and The Family: Lessons From America', in P. Saunders (ed), *Reforming the Australian Welfare State* (Melbourne: Australian Institute of Family Studies, 2000).
- ⁵⁸ *Wall Street Journal*, 13 May 2002; B. Riedl and R. Rector, 'Myths and Facts', *Backgrounders* #1568 (Washington DC: Heritage Foundation, 2001).
- ⁵⁹ Dan Bloom, Mary Farrell and Barbara Fink, 'Welfare Time Limits' (Washington DC: Department of Health and Human Services, 2002).
- ⁶⁰ Matthew Gray and David Stanton, 'Lessons of United States Welfare Reforms for Australia Social Policy', *Research Paper* 29 (Melbourne: Australian Institute of Family Studies, 2002).
- ⁶¹ David Ellwood, *Poor Support: Poverty in the American Family* (New York: Basic Books, 1988).
- ⁶² David Ellwood, 'The US Vision of Work-Based Reform', in T. Eardley and B. Bradbury (eds), *Competing Visions*, p.30, (see n.51).
- ⁶³ The Work for the Dole model is only one possible back-up system, and other possibilities could also be explored. The Danish 'Farum model,' for example, uses municipalities as labour exchanges offering community service jobs in exchange for welfare. See B. Carlson, 'Welfare Reform: Sweden' in B. Carlson, A. Deacon et al., *Europe's Welfare Burden* (London: Civitas, 2002). 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.
- ⁶⁴ The proposal could be implemented fairly quickly, for it requires no new funding (indeed, it should swiftly generate savings) and involves very little institutional innovation (for it builds upon existing systems). Longer term, however, we should consider more radical reforms such as the development of our existing compulsory superannuation scheme so that it covers short periods of non-work brought about by unemployment or sickness, as well as paying for retirement income. The advantage of moving to a system of personal accounts is that individuals would start to police their own use of their own money. Because funds not used during the working lifetime would accrue to the retirement fund, individuals would have an incentive only to draw on their capital when they really need it. The problems in the current system of determining people's eligibility for support and enforcing their job search activity would therefore no longer occur. We shall consider the scope for personal accounts and individual insurance in future publications.
- ⁶⁵ 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. In the Australian context, however, anybody who really is unemployable (even after a year of Intensive Assistance) should probably be on the Disability Support Pension (DSP), so there is no need for such special exemptions here. It will, however, be important to ensure that exit from unemployment into disability benefits is more carefully regulated than it has been in the past (for a discussion of this issue, see Peter Saunders, *Submission to FaCS Consultation on Reform of Income Support*, (see n.47).
- ⁶⁶ Riedl and Rector, 'Myths and Facts', p.5, (see n.58).
- ⁶⁷ Alfred Dockery reports that many unemployed Australians are unwilling to consider applying for or accepting jobs paying less than they earned in their previous position: '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'. See Alfred Dockery, *Looking Inside the Unemployment Spell*, paper given at the National HILDA conference (Melbourne: University of Melbourne, 13 March 2003), p.24. Similarly, the Australian Bureau of Statistics finds that

two-thirds are unwilling to move to another location in their own State or Territory to take a suitable job (ABS, *Australian Social Trends 2002: Work—Underutilised Labour, Searching for Work*). 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 2000*, (Paris: OECD, 2000) p.133.

- ⁶⁸ 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 for the Dole scheme.
- ⁶⁹ The remaining half-day would be reserved for attendance at Centrelink or making job applications via their Job Network provider (which would continue to notify participants of job vacancies and monitor their Jobseeker Diary).
- ⁷⁰ See Dan Finn, *A New Deal for Unemployed Australians?* (Melbourne: Dusseldorp Skills Forum, 2001).
- ⁷¹ Wayne Vroman and Vera Brusentsev, 'Australian Unemployment Protection: Challenges and New Directions', prepared for the National Social Policy Conference (University of New South Wales, 4-6 July 2001).
- ⁷² As Lawrence Mead puts it: '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.' Lawrence Mead, *The New Politics of Poverty* (New York: Basic Books, 1992), pp.143-5.
- ⁷³ Colmar Brunton, *Job Seeker Attitudinal Segmentation: An Australian Model* (Canberra: Department of Employment and Workplace Relations, 2002).
- ⁷⁴ Productivity Commission, *Independent Review of the Job Network* (Canberra: Productivity Commission, 2002), p.5.14 (emphasis in original). The report finds that 132,400 persons were referred to Job Search Training (JST) in 1999 but only 50,300 (or 38%) commenced with the programme. Similarly only 68% of those referred to Intensive Assistance commenced. The compliance effect of JST is three times greater than the effectiveness of the program itself in getting people into work and is estimated to have produced a 10 percentage point reduction in the number of claimants.
- ⁷⁵ OECD, *Employment Outlook 2000*, p.140, (see n.25).
- ⁷⁶ Finn, *A New Deal for Unemployed Australians?*, (see n.70).
- ⁷⁷ 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* (Melbourne: Melbourne Institute of Applied Economic and Social Research, 2003), Table 4. They also receive \$46 p.w. rent assistance. Assuming 200,000 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 \$1,949,480,000. 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 costs of processing these 200,000 claims would be saved. Against that, however, the cost of administering an extended WFD system for those remaining would be greater than at present. A rough estimated net saving of around \$2 billion therefore seems reasonable.
- ⁷⁸ Tony Eardley, Peter Saunders, Ceri Evans, 'Community Attitudes Towards Unemployment, Activity Testing and Mutual Obligation', *SPRC Discussion Paper 107* (Sydney: Social Policy Research Centre, 2000), Table 7.
- ⁷⁹ Tony Eardley and George Matheson, 'Australian Attitudes to Unemployment and Unemployed People' *SPRC Discussion Paper 102* (Sydney: Social Policy Research Centre, 1999).
- ⁸⁰ The OECD warns that six-month programmes may do more harm than good if 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, (see n.25).
- ⁸¹ The target population was 1,850 internet users, of whom 467 (25%) responded. The 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 weighted.
- ⁸² Stephen Ziguras, Gavin Dufty, and Mark Considine, *Much Obligated* (Melbourne: Centre for Public Policy, May 2003), pp.35-8.
- ⁸³ Ziguras et al., *Much Obligated*, p.40.
- ⁸⁴ As above, pp.41, 43.

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