

Why We Must Reform the Disability Support Pension

Peter Saunders

EXECUTIVE SUMMARY

- In 1980, 2.3% of working-age adults were claiming Disability Support Pension (DSP); by June 2003, this proportion had more than doubled to 5% (673,000 people). The annual cost of payments is \$7.6 billion.
- Few commentators believe this increase reflects a real increase in disability and incapacity in the working-age population. Many DSP recipients have relatively mild complaints which need not prevent them from working, and some are not incapacitated at all. At least half of those currently claiming DSP are capable of holding down a job.
- A large part of the increase in DSP numbers represents 'hidden unemployment'. Workers in their 50s and early 60s who are out of work would previously have claimed unemployment benefits, but today they gravitate to the DSP, which is more generous and less demanding than unemployment assistance. Once enlisted, few people leave until they retire onto the state pension. DSP has become a state-funded early retirement package.
- Taking account of the growth in DSP claimants, long-term unemployment is probably twice as large as the official figures suggest—around 650,000 people (300,000 more than official unemployment figures).
- Both the 2000 McLure Report and the 2004 Senate Poverty Inquiry suggested abolishing the distinction between unemployment allowances and disability pensions, but this could do more harm than good. It would be expensive, and it would further blur the distinction between those who are expected to work and those who are not.
- It makes more sense to tighten DSP eligibility, yet the Senate recently blocked two attempts to limit DSP to those who genuinely cannot work. Surveys suggest the Senate is out of touch with public opinion on this issue, for nearly two-thirds of Australians say they want eligibility rules tightened.
- Tighter rules could halve the number of DSP claimants. If those who are capable of working were transferred to unemployment allowances, this alone would save \$500 million per year. If just one-third of them eventually went back into the labour force, annual savings would top \$1.5 billion.
- Some of the money saved by reforming DSP could be used to improve disability services for those who really need them. The Australian public wants disabled people to be properly supported, but they do not want people who are capable of working living on disability pension until they retire.

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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 (OECD)¹

Introduction

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. Three-quarters said ‘No’; only a quarter said ‘Yes’.²

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

What many of those who voted in Channel Nine’s poll probably did not realise, however, is that most of the people who claim the Disability Support Pension (DSP) nowadays are not suffering disabilities like these. Some, indeed, are not suffering any disability at all—they have been classified as ‘disabled’ simply because nobody can find any work for them to do in their local area.³ 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 people on disability payments are suffering the sorts of ‘severe disabilities’ that make paid employment difficult or impossible, and Australia appears to be no exception.⁴ Instead of asking its viewers if they wanted to cut disability benefits, it might have made more sense for Channel Nine to have asked whether they want to go on paying disability pensions to people who are perfectly capable of working. They might have got 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 Multiple Sclerosis, problems with breathing, problems involving the nervous system and problems with the circulatory system, and one-third of those on the Disability Support Pension have still not been accounted for. Add those suffering from intellectual or learning difficulties and they still make up less than 40% (Table 1).

Table 1: Main condition of DSP recipients of working age, 2000

Condition	Per cent
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%
Sensory 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* (Commonwealth of Australia: FaCS, 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

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the fastest-growing conditions reported by claimants 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 encompass people who complain of a 'bad back' as well as those confined to a wheelchair; 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) claims 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.⁵ It seems that one-third or more of working-age adults think they are incapacitated in some way. Fortunately for the taxpayer, however, the great majority of them work.

To be eligible for DSP, you need a doctor to confirm that your incapacity is bad enough to prevent you 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—only about one in six of those who say they are disabled is receiving DSP.

The DSP is a means-tested payment made to adults of working age. Since 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.⁶ As DSP claimants have been defined as incapable of working as much as 30 hours per week, they are exempt from any mutual obligation requirement since there is little point in requiring work-preparation activities of those deemed incapable of working. Once enlisted, few people leave until they retire onto the state pension (the average time spent on DSP is over seven years, and only about 10% of recipients ever rejoin the workforce).⁷ 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.

Since mutual obligation became a condition of receiving unemployment allowances, the attractiveness of DSP (or its forerunner, the Invalid Pension) has grown, and this has shown up in the statistics on unemployment and disability benefits over time. In 1980, 229,000 people claimed Invalid Pension (2.3% of all working-age adults). In those days, there were more people on unemployment benefits than on the Invalid Pension, but the latter total soon began to rise. It went through the 300,000 mark 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 disability pensioners now far outnumber those on unemployment allowances.⁸ Much of this increase has been concentrated in older age groups and today: one in nine Australians aged between 50 and 64 receives DSP.⁹

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 down. Few commentators believe that this reflects a real increase in disability and incapacity in the working-age population. The Australian Council for Social Service (ACOSS) is an exception, arguing 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 as we have already seen, these numbers are virtually meaningless.¹⁰

ACOSS is on firmer ground when it goes on to argue that some of the increase in the number of DSP claimants could also be due to factors such as the ageing population and government policy changes, but the impact 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 bigger than it used to be, so the overall rate of disability claims should also have risen. However, 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 Invalid/Disability Pension receipt rose from 9.7% to 13.6% (a 40% rise).¹¹ 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

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70,000 more women in the labour force who would previously have gone on to the age pension, and some of these are now claiming DSP (this could account for up to 20,000 of the increased number of recipients since 1995).¹² Changes to the disability support system in 1991 also added 10,000 new claimants, who were previously receiving sheltered employment allowance, as well as allowing part-time workers to claim the pension while working up to 30 hours per week, and making 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 claimants¹³, but they are still nowhere near the 450,000 extra recipients who have been added to the disability pension since 1980. Indeed, ACOSS itself suggests that the 1991 changes tightened eligibility more than they 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 workers in their 50s and early 60s who would previously have stayed in employment or signed on as unemployed have succeeded in having themselves reclassified as 'disabled', which has allowed them to leave the labour force and live on the DSP until they reach retirement age. DSP, in other words, has become a state-funded early retirement package.¹⁴

Calculating the 'real' unemployment rate

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 disability claim by anybody aged 55 or over. This decision, which was prompted by the high rate of unemployment at that time, 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), with the result that DSP became 'an institutional mop for soaking up older males who have lost jobs'.¹⁵

This reclassification of older unemployed people as 'disabled' has suited everybody except taxpayers. Employment advisers whose job 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.

This latter point is crucial. A huge chunk of the people claiming the DSP should be regarded as 'displaced unemployed', yet they are totally overlooked in the unemployment statistics. One indication of the way DSP now substitutes for unemployment 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.¹⁶ Another indicator is that, although the official unemployment rate across Australia dropped below 6% in late 2003, the level of full-time employment relative to the size of the adult population is no higher than it was during the 1992/93 recession. Allowing for the population increase, about 700,000 full-time workers have disappeared off the radar since 1980, and many of them can be found sheltering on the Disability Pension.¹⁷

Many DSP claimants would better be classified as 'hidden' or 'displaced' unemployed. 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.¹⁸ As a rough calculation, this means that in excess of 300,000 of those claiming DSP have transferred out of long-term unemployment.

The 'real' rate of unemployment (and particularly the 'real' rate of long-term unemployment) is, therefore, much higher than the official statistics suggest.¹⁹ According to the official figures, around 350,000 Australians have been claiming unemployment allowances for more than one year,²⁰ but if we add the 300,000 or more people on DSP who 20 years ago would have been regarded as unemployed, the figure comes to around 650,000 'long-term unemployed'.

It should be noted that Australia is not the only country where unemployment has increasingly 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.²¹ It is much the same story in France and Germany, and in the Netherlands and Scandinavia there are almost twice as many 'disabled' people of working age as 'unemployed' ones.²²

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The tortuous road to reform

In January 2004 the cost of DSP payments was estimated at \$7.6 billion.²³ On cost grounds alone, therefore, 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 fairness to working taxpayers, but also the need to ensure fair treatment 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's proposed solution to this was to abolish the different categories of income support and replace them with a single 'Participation Payment', and the Senate Inquiry into Poverty recently made much the same recommendation.²⁴ However, abolishing the distinctions between different categories of benefits could make matters worse rather than better.

Blending pensions and allowances into a single payment would hugely increase welfare spending, for allowances are currently less generous than pensions, and the government is committed to the principle that no existing claimant should have their payment reduced. The new single payment would therefore have to raise allowances to pension rates, and the report's authors themselves admit that this would be 'very costly'.²⁵

Removing the distinction between pensioners and allowees would also further blur the distinction between those who are expected to work and those who are not, and would therefore send out the wrong signals to current and potential welfare claimants. People with severe disabilities and those with full-time caring responsibilities should not be expected to earn an income, and it therefore makes sense for them to be on a different payment from those who are capable of supporting themselves but who are temporarily without employment. Under the existing system, the first group is on pensions while the second is on allowances, and this means everybody knows clearly from the outset what is expected of them. The McLure Report, however, proposes that this distinction should be abolished: 'The design of the current system itself, particularly the focus on categories, is ultimately the problem.'²⁶

But the problem in the current system does not lie in the existence of these categories so much as in the way we have been allocating claimants between them. Over the last 20 years, we have blurred this distinction by defining incapacity so broadly that many people who could and 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 would be like passing all the candidates in an examination because of the difficulty of distinguishing those at the pass/fail margin. The solution is not to give up on the distinctions, but rather to find better criteria for applying them.

One attempt to do just this came in the Federal government's 2002 'Australians Working Together' reform package. This sought to remove the rule allowing people over 55 to be admitted to the DSP if no suitable employment is available in their local area, and it proposed reducing the 'work capacity' criterion for DSP eligibility from the current 30 hours per week to 15.²⁷ Had these changes gone ahead, they would have stopped people with no disability from claiming the DSP, while those with relatively minor incapacities who are capable of working for 15 hours or more each week would have been regarded as 'unemployed' rather than 'disabled' and would therefore 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 a stalemate. 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 received cautious support from the welfare lobby, who nevertheless expressed their concern that DSP claimants should not be 'bullied' into accepting work or training.²⁸ It might have also helped stem the rise in DSP dependency, however, 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',²⁹ but hassle has been ruled out by opponents of reform.

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A programme for reform

Any serious attempt to stop people who are capable of working from getting access to the pension runs the risk of being misrepresented as a mean-spirited attack on genuinely disabled people. This is precisely what happened in 2002 when the government tried to tighten the eligibility rules. The Opposition front-bencher Wayne Swan accused the government of attacking ‘people whose bodies have been worn out after a lifetime of labouring for the country’, and Catholic Welfare said the government was ‘exposing all people living with disabilities to demonisation’.³⁰

But if the public understands that the aim is not to cut payments for those who are disabled, but rather to stop people who are not disabled from claiming these payments, support for reform is likely to be overwhelming.

Public opinion clearly favours reform in this area. In a 2000 survey, Roy Morgan found 85% of the public thought DSP recipients 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.³¹ A 2003 ACNielsen survey conducted for CIS told respondents: *The proportion of working age people who are claiming Disability Pension has doubled to more than 600,000 in the last 20 years*, and then asked if they agreed or disagreed with tightening up the eligibility rules. Nearly two-thirds (63%) said they agreed with such a move, and fewer than a quarter (only 22%) disagreed.³²

It is clear from these two surveys that the Australian public wants disabled people to be properly supported, but that it favours tighter rules to ensure that people who are capable of working do not end up sheltering on DSP for years on end. Reducing the criterion of incapacity from 30 to 15 weekly working hours is the simplest way of achieving this, and the Opposition parties in the Senate should reconsider their position on this measure. Those who still insist on blocking this reform should explain to their electors why they think a disability pension should continue to be paid to people who are capable of working.

If the definition of incapacity can be 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 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. It would be reasonable to divert a proportion of the expenditure savings made as a result of this reform to those who remain on the pension. Medical evidence should be subjected to random audit, and any doctors who are found to have exaggerated the incapacity of their patients should be required to account for their diagnoses. Any deliberate attempt at deception should be liable to prosecution.

A simple change like this could result in half or more of those currently claiming DSP either failing to re-apply, or getting re-assessed as unemployed and transferring onto unemployment allowances. Some commentators say there is little point in doing this because it would simply shift people from one welfare benefit onto another,³³ but it is surely important that fraud and deceit should be excised 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 admitted to a benefit which assumes that they are. Given recent projections about the ageing population and the increasing cost of health and age care spending over the next forty years, it is also important that we ensure that people of working age who are capable of doing a job should remain available for work rather than disappearing into the pensions system.³⁴

There are also potential cost savings to consider. If half of those currently on DSP transferred to unemployment benefits, and if every one of them then stayed on unemployment assistance until retirement, the difference in value of the two benefits would generate an annual saving of \$500 million dollars.³⁵

In reality, we could expect savings to be much higher than this, for not all of those who transferred out of DSP would remain on income support. Employment benefits are conditional on fulfilling activity requirements, and activity requirements can have a strong ‘compliance effect’ in pushing claimants off benefits. 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%, and the Productivity Commission finds that referring unemployed people to Job Search Training produces another 10% reduction in the number of claimants (only four out of ten of those referred to Job Search Training in 1999 actually turned up).³⁶

The application of activity tests and mutual obligation to people who never encountered these things on DSP would re-motivate some who might still want to work, and would help remove those who want to avoid any activity and those who are already working and claiming benefits fraudulently. If 300,000 or more former DSP recipients transferred to unemployment allowances and became subject to these tests, the net result could be a significant rate of exit from benefits. If just one-third of those who transferred from DSP into unemployment assistance ended up either finding work or exiting the welfare system for some other reason, this would generate a further net saving to taxpayers of at least \$1 billion every year.

Conclusion

One in six working-age adults in Australia depends on welfare for their main or sole source of income (an increase from about one in 30 in the mid-1960s). One of the main factors that has driven this rise in welfare dependency (and the huge increase in personal taxation that has gone along with it) has been the inexorable increase in the number of people claiming the DSP.

It is widely known and acknowledged that a significant proportion of DSP claimants is capable of working, but the disability payment threatens to become a political no-go area. Politicians think they will lose votes if they are seen to be reducing financial aid for 'disabled' people, but there is actually strong public support for tighter eligibility rules. A 'fair go' in this area of policy means providing generous pensions for those who cannot work to earn an income for themselves. It does not extend to making open-ended and unconditional payments to thousands of people who are quite capable of looking after themselves. The rules should be tightened up, and some of the money saved should be diverted to those who genuinely need this support.

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Endnotes

- ¹ David Grubb, 'Making Benefits Work', *OECD Observer*, N.239 (26 September 2003).
- ² Media release, July 2 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).
- ³ 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.
- ⁴ Organisation for Economic Co-operation and Development, 'Disability Programmes in Need of Reform' *Policy Brief* (Paris: OECD, March 2003), p.2.
- ⁵ G.McIntosh and J.Phillips, 'Disability Support and Services in Australia', Department of the Parliamentary Library Online *E-Brief*, 16 October 2002. See www.aph.gov.au/library/intguide/sp/disability.htm
- ⁶ Basic payment (excluding payments for partners, children or rent assistance) in September 2003 was \$220.15 for a single adult, compared with \$190.05 on unemployment allowance. See Melbourne Institute, *Poverty Lines: Australia* (September Quarter 2003), Table 4. For those who are doing some paid work, DSP can also be supplemented by a Mobility Allowance to help with transport costs
- ⁷ Bob Gregory, 'Why Has the Disability Program Grown So Much?', *FaCS Research News* No. 15 (March 2003); Department of Family & Community Services (FaCS), *Characteristics of Disability Support Pension Customers* June 2003 (Commonwealth of Australia: FaCS, June 2003).
- ⁸ FaCS, *Characteristics of Disability Support Pension Customers*; R.Gregory, 'Our Real And Stubborn Social and Economic Crisis' Paper to *Pursuing Opportunity and Prosperity Conference, The Australian*/The Melbourne Institute (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.
- ⁹ Commonwealth of Australia, *Budget Overview* (14 May 2002), p.15.
- ¹⁰ 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.
- ¹¹ E. Healy, 'Disability or Disadvantage?', *People and Place* 10 (2002), p.70.
- ¹² Healy charts an increase from 3,325 to 21,574 in the number of women aged 60-64 receiving DSP between 1996 and 2001.
- ¹³ ABS, *Australian Social Trends 2002: Trends in Disability Support*, (Canberra: ABS, 2002); G. Argyrous and M. Neale, 'The 'Disabled' Labour Market', *Journal of Australian Political Economy* 51 (June 2003), p.19.
- ¹⁴ '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', p.7.
- ¹⁵ G. Argyrous and M. Neale, 'The 'Disabled' Labour Market', p.21
- ¹⁶ 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.

¹⁷ R. Gregory, *Our Real and Stubborn Social and Economic Crisis*.

¹⁸ Bob Gregory, 'Why Has the Disability Program Grown So Much?'

¹⁹ 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 is to ask people about their recent employment history in a survey, and when we do this, we find that between a quarter and one-fifth of unemployed people claim that it has been at least a year since they last had a job or started to look for one. See ABS, *Australian Labour Market Statistics*, Cat. 6105.0 (Canberra: ABS, July 2003) Tables 3.1 and 3.2. An alternative approach is to analyse the income support records, and when we do this we get a much bleaker picture—more than half of those claiming unemployment allowances have been claiming benefits for more than one year. See FaCS, 'Income Support Customers: A Statistical Overview 2001' *Occasional Paper No. 7* Commonwealth of Australia: FaCS, March 2003), Table 30. And while the Labour Force survey data report the average time people spend unemployed at 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. I am grateful to Don Clark at the ABS and Edward Black at FaCS for helping clarify this.

²⁰ FaCS, 'Income Support Customers: A statistical overview 2001'

²¹ D. Leonhardt, 'Out Of a Job and No Longer Looking', *New York Times* (29 September 2002).

²² See H. Hoogervorst, 'Welfare Reform: The Netherlands', in B. Carlson et al., *Europe's Welfare Burden*. Looking at their official unemployment figures, academics sometimes claim that the welfare states of continental Europe have succeeded in increasing social spending without destroying jobs, but it is now clear that they have simply been more enthusiastic than we have about reclassifying unemployed workers as 'disabled'. Some Australian devotees of Scandinavian-style policies still point 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 as on unemployment benefits. See for example, the letter from Andrew McCallum, head of ACOSS, in *The Australian Financial Review* (29 July 2003), and my reply (30 July 2003).

²³ *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)

²⁴ Reference Group on Welfare Reform, *Participation Support for a More Equitable Society* (Canberra, July 2000), p.4; Senate Community Affairs References Committee, *A Hand Up, Not a Hand Out*, (Commonwealth of Australia, March 2004), Recommendation 11.

²⁵ *Participation Support for a More Equitable Society*, p.19. Prime Minister Howard has promised that 'Nobody's benefit will be cut as a result of changes to the social security system'. See Bettina Arndt, 'Not Just Small Change', *The Sydney Morning Herald* (11 December 2002).

²⁶ *Participation Support for a more Equitable Society*, p.9.

²⁷ The change was outlined in FaCS, *Announcement and Proposed Changes to Disability Support Pension* (May 2002). This built on an earlier change whereby family doctors were no longer asked to assess work capacity but only to certify a patient's condition.

²⁸ *The Australian* (13 January 2004).

²⁹ Lawrence Mead, 'From Welfare to Work: Lessons From America', in Alan Deacon (ed.), *From Welfare to Work* (London: Institute of Economic Affairs, 1997), p.34.

³⁰ Both quoted in E. Healy, 'Disability or Disadvantage', p.80.

³¹ Roy Morgan Research, *Community Attitudes Towards Unemployed People of Workforce Age* (Melbourne, November 2000).

³² This was the first of two ACNielsen/CIS surveys conducted in 2003. It was based on a sample of 5,721 Australian residents linked to the Australian Internet User Survey. 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, and validity has been checked externally against voting and demographic data sources. Further details available on request.

³³ R. Gregory, *Our Real and Stubborn Social and Economic Crisis*, p.13.

³⁴ The government's Inter-Generational Report predicts that over the next 40 years, the proportion of the population over age 65 will double while the size of the working-age population will hardly grow at all. This is expected to cost another 5% of GDP in government spending, and the hope is that this can be covered by increased labour force participation and productivity gains. See *Australia's Demographic Challenges* Treasury Discussion paper (Canberra: The Treasury, 25 February 2004).

³⁵ The single person's weekly allowance in June 2003 was \$190.05—\$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.

³⁶ Grubb, cited in R. Goodin, 'False Principles of Welfare Reform' *Australian Journal of Social Issues* 36 (2001); Productivity Commission, *Independent Review of the Job Network* (Canberra: PC, 2002).

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