

## What Are Low Ability Workers To Do When Unskilled Jobs Disappear?

### Part 2: Expanding Low-skilled Employment

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EXECUTIVE SUMMARY

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- One reason working-age welfare dependency remains high is that the demand for unskilled labour is in decline. Part 1 of this CIS Issue Analysis showed that more education and training will be of limited help to jobless people who do not have the ability to perform highly skilled tasks. What they need is an expansion in the number of lower-skilled jobs for them to do.
- No single policy can expand low-skilled employment. Simultaneous action is needed on four fronts: (1) reducing the cost of unskilled labour to employers, (2) making employment more attractive than welfare, (3) boosting new personal service employment, and (4) improving people's social skills and competences.
- Cutting minimum wages best reduces the *cost of unskilled labour*. Australia has the second-highest minimum wage in the OECD, yet our tax and benefits systems mean our lowest-paid workers take home less than in some countries with a lower minimum wage. A 20% reduction in our minimum wage could generate another 100,000 jobs but would still leave our minimum wage comparable with that of countries such as New Zealand and the UK, and tax changes could compensate workers for the cut. No household should pay tax until its earnings exceed the welfare minimum.
- *Further reforms to welfare benefits* are needed to discourage dependency. While some welfare groups want to weaken or abandon work requirements for disadvantaged jobseekers, the opposite is necessary: work requirements should be extended to more categories of welfare recipients. This entails changing Parenting Payment eligibility rules, applying new capacity criteria to existing DSP claimants, ending unemployment benefits for school leavers, and replacing the first six months of unemployment benefits with drawings from personal savings accounts.
- The main area of *potential employment growth* for low-skilled workers is in personal services, for these jobs are not easily automated or exported. If minimum wages fell, service employment would expand. The paper explores the potential for increased employment in home-based services for the elderly, child care for working parents, mentoring for children in poorer neighbourhoods, and other community-based services.
- Personal services employment requires '*social skills*' such as reliability, honesty, politeness, and a smart appearance. Lack of these qualities (rather than any lack of technical or vocational skills) may prove the biggest obstacle to people on welfare finding employment, particularly young males. Schools have a key role in raising social skills, and conditional welfare is important to reinforce shared norms. School leavers who cannot find work or training should be offered a place in the military or in a new Peace Corps that could also help inculcate a stronger sense of social responsibility.

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## What Are Low Ability Workers To Do When Unskilled Jobs Disappear? Part 2: Expanding Low-skilled Employment

### Reprise of part 1, and introduction to part 2

This is the second part of a two-part CIS Issue Analysis discussing a core problem in present social policy: what is to be done for low-skilled, poorly-qualified Australians who, even in today's booming economy, seem unable or unwilling to find jobs?

Part 1 showed there are up to a million working-age Australians living on welfare when they could be working. At just 4.4%, our official unemployment rate is the lowest in thirty years, but in addition to the almost half a million people still on unemployment benefits (of whom 70,000 are long-term unemployed),<sup>1</sup> there is a high level of 'hidden unemployment' among the 1.3 million recipients of Parenting Payment and the Disability Support Pension (DSP).

#### Update on 'hidden unemployment'

Part 1 of this paper suggested that our low official unemployment figures are misleading because many jobless people now claim parenting payments or disability benefits instead. This has since been confirmed by a new report on Australia from the Organisation for Economic Co-operation and Development (OECD), which finds 'The number of people having difficulties in the labour market has not declined ... today more of those difficulties are associated with or labelled as health problems.' In other words, jobless people tend nowadays to be classified as 'unable to work' (on disability support pension) rather than 'looking for work' (on unemployment benefits). As the report goes on to recognise, this makes it more difficult than it used to be to shift people from welfare to work, for unemployment has effectively been 'medicalised,' and 'Reducing non-employment is therefore very difficult.'<sup>2</sup>

A key explanation for the persistence of high rates of joblessness despite strong economic growth is that demand for unskilled labour has weakened. According to the Australian Council of Social Service (ACOSS), 64% of people who have been on Newstart Allowance for more than two years, 62% of DSP claimants, and 72% of single parents living on Parenting Payment, have only a year 10 level education or less.<sup>3</sup> This indicates that most of the long-term unemployed and the people claiming DSP or Parenting Payment have been disadvantaged by the weakening demand for low-skilled or unskilled labour. Any attempt to help them re-engage in paid work must clearly address the growing mismatch between the supply of and demand for low-skilled workers. This requires either that unskilled people become skilled, or that the demand for low-skilled labour increases.

Part 1 showed that politicians prefer the first of these strategies, and are pumping increasing sums of money into education and training with a view to increasing the skill level of unqualified workers. Business, welfare, and education pressure groups all support this, and they all claim it will equip low-skilled people to compete for higher-skilled job vacancies. However, this entire strategy ignores the awkward question of whether low-skilled people have the ability to gain meaningful qualifications that will give them access to high-skilled jobs.

We saw in part 1 that not everyone is capable of becoming a nurse, a web designer, or a mining engineer. Many of the people who are marginal to today's job market are in the lowest quartile of the IQ range, which means their capacity for benefiting from more education or skills training is limited. International evidence gathered by the OECD indicates that government training schemes for unskilled adults rarely produce strong employment outcomes. Research by the Australian Council for Educational Research (ACER) shows that low-ability students in Australia who stay at school longer, or who enrol in vocational training courses, tend on average to worsen their future income and employment chances as compared with those who leave directly after year 10.

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### **Update on the effect of additional schooling on income and employability**

Three quarters of school students currently stay to year 12, and most of them benefit from higher earnings and better job prospects as a result. Policymakers often assume that the remaining quarter would enjoy these same outcomes if they also stayed on at school longer, but part 1 of this paper argued this reasoning is fallacious, for the more we extend schooling, the deeper we delve into the ability pool. ACER research shows that low-ability students on average increase their unemployment risk by three percentage points, and reduce their earnings by 5%, by staying at school for two additional years. They are better off leaving after year 10 and getting a job or an apprenticeship.<sup>4</sup>

Since the publication of part 1, Andrew Leigh of the Australian National University has challenged this argument, telling *The Australian* that 'Forcing students to remain at school increases their income over their lifetime.'<sup>5</sup>

Leigh bases this claim partly on a US study that found students in American states with higher minimum school leaving ages go on to earn higher average incomes.<sup>6</sup> But this study cannot demonstrate that low-ability students benefit from being force-fed additional education, for it does not break the results down by ability as the ACER studies do. Indeed, the author explicitly cautions that the average outcomes he documents do not apply to all students (it is mainly Hispanic students who benefit), and that some students will be disadvantaged by being forced to remain in school.

While Leigh emphasises this one American study, two UK reports that support my argument have been published since part 1 of my paper appeared. They show that forcing students to stay in education to collect a few low-level formal qualifications is a waste of time and money, and they warn that British proposals to raise the leaving age to eighteen threaten to destroy the youth labour market and waste huge amounts of public money while achieving nothing for the young people themselves.<sup>7</sup> There has also been a new Australian report from the National Centre for Vocational Education Research, which finds that only 10% of unqualified school leavers who go on to do vocational training courses ever finish them. The report attributes this huge dropout rate to low levels of motivation, but ability is almost certainly also a factor, for it is difficult to remain motivated when you find the work too difficult.<sup>8</sup>

Leigh's critique of my argument does not rest solely on the American study. He also refers to his own work with Chris Ryan, which shows that Australian students who start school at an earlier age (those who turn five in their first year) do better in terms of subsequent incomes than those who start later (after they have turned five).<sup>9</sup> He thinks this supports his argument for raising the school leaving age, but it does no such thing. His findings might strengthen the case for lowering the *starting* age for school, but they are irrelevant to arguments about increasing the *leaving* age. It is no surprise to learn that extra education pays off for four-year-olds, but this is not the same as showing that it also pays off for sixteen-year-olds.

Finally, Leigh echoes the US study he cites by claiming that students in Australian states that have raised the leaving age have similarly benefited from higher incomes. However, like the American study (and unlike the ACER research), this analysis contains no direct measure of student ability levels. The ACER studies look at students' literacy and numeracy scores, and clearly show that low-ability students who stay on at school significantly *reduce* their average subsequent earnings and employment prospects compared with those who do not. The work by Leigh and Ryan has no such measure of ability and therefore has no way of establishing whether the positive *average* income effects they identify apply equally to low- and high-ability students.<sup>10</sup> Nobody denies that *on average* more schooling enhances later income. The key question is whether this holds at all levels of ability. There is nothing in Leigh's research to demonstrate that it does.

Part 1 concluded that what is needed to reconnect low-ability jobless people with the labour market is not more schooling or government training schemes, but more opportunities for them to perform useful but lower-skilled work. Here, in part 2 of this paper, I go on to consider how this might be achieved. I advance three key propositions.

First, minimum wages for low-skilled work must be allowed to fall, to encourage employers to take on more people to perform these tasks. Although they argue about how big the effect would be, serious economists do not doubt that if minimum wages were lower, more jobs would open up for those with few skills, particularly in the personal services sector. And this does not have to mean that the living standards of low-skilled, low-paid workers must fall, for a lower minimum wage can to some extent be compensated for by reducing tax on low wage earners to boost their take-home pay.

Second, the overriding priority of the welfare system when dealing with jobless people must be to get them back into paid work wherever appropriate. Pressure is building to weaken work requirements by emphasising 'training' rather than employment, and by eroding sanctions on those who refuse to recognise their work obligations. These attempts to weaken the 'work priority' principle must be resisted. Indeed, more needs to be done to encourage and require people on benefits to find paid employment.

Third, the personal service jobs that offer the best hope of employment for people of lower ability often require social skills and attributes like politeness, reliability, and honesty. The final part of the paper asks whether jobless unskilled people have these personal qualities and attributes, and what might be done for those who lack them.

### **Between a rock and a hard place: European-style unemployment or American-style low wages?**

As demand for unskilled workers has weakened throughout the developed world over the last thirty years, different countries have responded in different ways.

In America, real wages for unskilled work have fallen as demand for unskilled labour has fallen. The result is that unskilled Americans can still find work, but many of them are employed in very low-paid jobs. Between 1979 and 1995, the real wage for a typical low-wage job in the US fell by 17%.<sup>11</sup> This helped keep employment levels up, although many of the low-wage, unskilled jobs are in the service sector of the economy (the so-called 'burger-flipping' jobs that critics say are demeaning and unfulfilling). As Gary Burtless notes, 'The education and skill deficiencies of economically and socially disadvantaged workers restrict their access to well-paying occupations, but they do not preclude employment altogether.'<sup>12</sup>

In Europe, by contrast, wage levels have been kept artificially high by stricter labour laws. This has resulted in lower rates of 'working poverty' than in the US, but also in much higher unemployment, because unskilled workers have been unable to find jobs and have ended up on welfare instead of in work.<sup>13</sup> European countries like Germany, France, and Italy have propped up the wages of unskilled workers, but this has led employers to lay off workers whose productivity has become increasingly marginal.<sup>14</sup> Because Europe also offers much more generous welfare support, unemployed workers there also take longer to find new employment, and are much less willing than American workers to accept a pay cut (laid-off American workers accept an average pay cut of 13% when re-entering employment).<sup>15</sup> While high minimum wages have destroyed jobs, generous welfare systems have reduced the motivation to find alternative employment.

Australia's employment–population ratio for people aged fifteen to sixty-four is much better than that of France, Germany, and Italy, and is comparable to that of the US. Our unemployment rate is also broadly similar to that of the US.<sup>16</sup> However, as we shall see, we have maintained a minimum wage at or above the level of the Europeans. This seeming feat of economic magic can be partly explained by comparing the size of the informal economies in Australia and the US.

There are many illegal immigrants in the US (an estimated ten million, growing at half a million per year) and three quarters of them are thought to be working 'informally,'

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generally at low wages and mainly in low-skilled jobs in farming, construction, retail, and private household services.<sup>17</sup> These workers never show up in the official employment statistics, but they account for 4% of the US labour force, and for a much higher proportion of the unskilled workforce (for example, half of all farm workers in America are thought to be ‘illegals’). Taking these numbers into account, it is likely that the actual employment level of unskilled workers in America is significantly higher than it is in Australia, even though this does not show up in the official figures. Burtless confirms this when he notes that there are more Americans than Australians doing temporary agency jobs or employed in low-skilled work in areas like retailing, cleaning, landscaping, and informal child care.<sup>18</sup>

### **Why wages for unskilled work need to fall**

The main reason why unskilled workers in Europe have found it difficult to retain their jobs in the face of new technology and competition from low-wage countries abroad is that the value of the goods and services they can produce has fallen below the value of the wage the law requires them to be paid. At compulsory minimum wage levels, fewer of them are productive, which means employers are less willing to employ them.<sup>19</sup> A recent OECD report confirms that ‘If set too high, minimum wages will stop employers from hiring lower skilled workers, and may end up protecting the “insiders” with the jobs.’<sup>20</sup>

Obviously, as the American experience demonstrates, the cheaper it is to employ unskilled workers, the more of them will be able to get or retain jobs. But in many other Western countries, including Australia, these workers are not allowed to offer their services to employers for less money, because the minimum wage system makes it illegal. This means they either have to work in the informal economy, or they have to claim welfare (in a large but unknown number of cases, they do both).

The simplest way to solve this problem would be to relax the minimum wage laws. In Australia, there is considerable scope for doing this, for our federal minimum wage is very high by international standards. Expressed as a proportion of the median wage, our minimum wage is the highest in the OECD after France. Measured by real hourly rates in \$US purchasing power parity, it is exceeded only by Luxembourg.

**Table 1:** Australia’s minimum wage compared with selected other OECD countries

<b>Country</b>	<b>Real hourly minimum wage (\$US PPP 2005)</b>	<b>Minimum–median ratio (2003)</b>
Australia	7.58	0.57
France	7.20	0.61*
UK	6.34**	0.44
New Zealand	5.51	0.46
Canada	5.14	0.41
USA	4.57	0.32

\* 2002 data \*\* 2004 data

**Source:** OECD<sup>21</sup>

Economists vary in their estimates of how many new jobs reducing the minimum wage might create in Australia.<sup>22</sup> Five leading economists estimated a few years ago that a minimum wage freeze leading to a 3% fall in the real wages of those subject to safety-net adjustments would increase employment by 3% and cut unemployment by 1.25%.<sup>23</sup> Philip Lewis thinks a wage cut of just 1% would be enough to increase employment by about 0.8% (which would mean that the elasticity of demand for labour is -0.8), and he suggests that elasticity is higher than this for low-skilled labour.<sup>24</sup> Paul Frijters and Robert

Gregory are more cautious. They propose a best-case elasticity of -0.5, which means that a 20% cut in our minimum wage could be expected to generate another 100,000 jobs.<sup>25</sup>

Suppose Fritjers and Gregory are right. A 20% reduction in the value of the minimum wage sounds draconian, but looking at table 1, we see that it would still leave our minimum wage higher in terms of purchasing power than the minimum wages in New Zealand, Canada, and the US, and only slightly below Britain's. If this could buy us another 100,000 jobs, mainly for unskilled people, it may not be a bad trade-off.

However, Fritjers and Gregory add a rider. They warn that generating more demand for unskilled labour will not necessarily result in more unskilled people being employed unless welfare payments also change. This is because, if benefits stay as high as they are, lower wages will reduce the margin between the incomes available from employment and welfare, increasing the temptation to opt for welfare rather than work.<sup>26</sup>

There is, however, a way of resolving this problem: tightening the welfare eligibility rules. Generous welfare payments only discourage people from seeking jobs if they are allowed to stay on welfare when there is work available for them to do. In recent years, Australia has tightened the rules governing receipt of unemployment benefits, and this has helped drive down unemployment levels. Yet until recently there were no comparable moves to require people claiming disability and parenting payments to undertake work. The result is that the numbers of these claimants have been rising alarmingly. Since 2005, these loopholes in welfare eligibility rules have begun to be closed, and later in this paper I shall outline some additional measures that could be introduced. Combined with a reduction in the minimum wage, these changes should raise the participation levels of unskilled people quite significantly without needing to reduce benefit payments.

Is this a solution we want to adopt? Changes to welfare eligibility rules will not necessarily be unpopular,<sup>27</sup> but there would certainly be huge political resistance to any attempt to reduce minimum wages. When the Fair Pay Commission held the minimum wage rise to the rate of inflation in July 2007, there was widespread criticism from trade unions and welfare groups that this was a recipe for 'poverty wages.'<sup>28</sup> The reaction if the real value of the minimum wage were allowed to *fall* would be even stronger, and this would make life extremely uncomfortable for any government that dared try it. A reduction of 20% therefore seems politically out of the question unless some compensation is made.

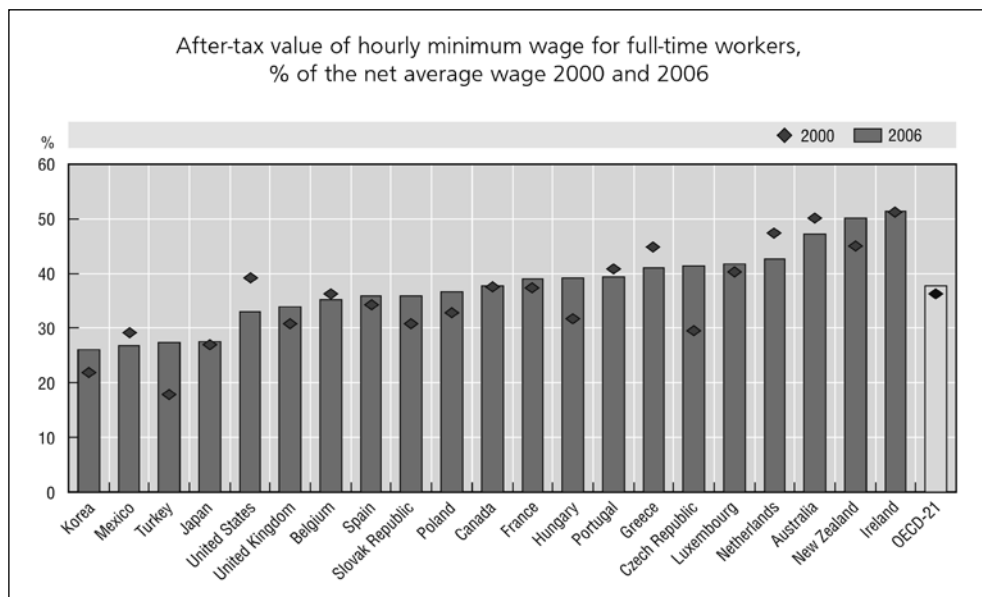
### **Compensating for cutting the minimum wage**

A high minimum wage is actually a very blunt tool for keeping workers out of poverty. Many workers employed on minimum wages in Australia are second or additional earners living in relatively prosperous households. Boosting their incomes does nothing to alleviate 'poverty,' for they are not poor. Increases in the minimum wage do not even achieve much for those workers who live in low-income households, for our system of income tax and welfare payments ensures that the great bulk of any increase disappears before they see any of it.<sup>29</sup>

Although we have almost the highest minimum wage in the world, the net value of this wage after taxes and benefits are taken into account is actually lower than in some countries whose gross minimum wages are less than ours. Figure 1 shows that Ireland (minimum wage US\$6.06), Belgium (US\$6.57), and the Netherlands (US\$6.76), all guarantee much lower *gross* minimum wage levels than Australia does (US\$7.58), yet their *net* minimum wages (after tax and benefits) are higher than ours. This is because these countries have focused on reducing net taxation on low-income workers rather than on raising the headline rate of minimum wages. The result is that low-skilled workers in these countries have more money in their pockets than ours do, but their employers are not burdened with uneconomic wage rates as they would be in Australia.

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**Figure 1:** How countries with a lower gross minimum wage than Australia's deliver a higher net income after tax



Source: OECD<sup>30</sup>

This suggests that the real challenge is not to maintain minimum wage levels, but to reduce direct wage costs incurred by employers of low-skilled labour without unduly harming the living standards of low-income households. The OECD agrees:

Raising minimum wages might lift labour costs, but not necessarily boost net incomes as much as they [*sic*] should. Policymakers may achieve more impact by improving disposable earnings via changes in the tax and benefit system. By blending such measures with appropriately-set minimum wages, work can be made to pay.<sup>31</sup>

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### Wage subsidies don't work

One way wage costs could be reduced without driving down workers' living standards is by subsidising employers who take on unskilled workers. We already do this in Australia, where Job Network agencies can access the government's Job Seeker Account to subsidise the wages of long-term unemployed people they place with employers. But the impact on employment levels is often disappointing, for once the subsidy finishes, the job placement often disappears.<sup>32</sup>

Research across different countries finds that wage subsidies 'tend not to be effective with harder-to-serve groups' such as the long-term unemployed.<sup>33</sup> Employers are often reluctant to take up targeted subsidies, for they want the best candidate rather than the cheapest one, and they worry about the quality of potential workers who need government subsidies to induce anybody to employ them. Also, subsidising employers to take on unemployed workers can lead to substantial 'deadweight effects' (subsidies go to employers who would have created these positions anyway) and 'displacement effects' (people are recruited from the unemployment rolls into subsidised jobs, but other people who would have got these jobs are squeezed out). Typically, governments subsidise ten jobs just to create one new vacancy.<sup>34</sup>

America does this by providing low-paid workers with the Earned Income Tax Credit, which tapers off as they increase their earnings. A hefty increase in the value of this tax credit is thought to have been an important factor in the dramatic reduction of welfare



recipient numbers in the US in the 1990s.<sup>35</sup> A similar system has been introduced in Britain, but it involves three different tax credits and has had mixed results.

Almost ten years ago, five leading Australian economists suggested minimum wages here should be frozen in return for introducing an earned income tax credit.<sup>36</sup> The Coalition government under John Howard ignored the plan, though it subsequently directed substantial subsidies to workers with dependent children (through the Family Tax Benefit), and it gradually increased the Low Income Tax Offset in an attempt to reduce the tax burden on workers on the lowest incomes. More recently, the Labor Party has committed itself to introducing working tax credits, but said nothing about lowering minimum wages as the *quid pro quo*.<sup>37</sup>

The problem with topping up the incomes of low-paid workers with tax credits is that it necessitates more means testing. As people start to earn more, the tax credit tapers off. The result is that effort and success are penalised rather than rewarded, undermining the motivation to work.<sup>38</sup>

There are ways round this, but they are all expensive. I have argued elsewhere that instead of giving low-income workers welfare top-ups, we should raise the tax-free earnings threshold and link this to a simplified family benefits system. More radically, John Humphreys has proposed a \$30,000 tax-free income threshold with a 30% marginal tax rate above it and a 30% negative income tax below (with no other cash benefits). Both of these proposals would ease or solve the disincentives problem, but they would both cost substantial sums in terms of lost government revenues.<sup>39</sup>

There are, therefore, important, unresolved arguments about how best to compensate low-income workers. Nevertheless, the basic strategy should be clear. If we want to get more unskilled people off welfare and into employment, the way to do it is to allow minimum wages to fall while safeguarding low-paid workers' living standards by changing the tax and benefits systems for those in work.

### **The potential growth of personal service employment**

If the cost of employing unskilled people fell, we would expect to see an increase in the demand for their labour. This might only be modest in industries where low-skilled labour can easily be replaced by outsourcing tasks to overseas workers or by automating production, but it could be much more substantial in the services sector, where suppliers are often immune to the twin forces of globalisation and technological change.

I cannot outsource my lawn-mowing, car-valeting, child-minding, or pizza-delivery needs to low-wage workers in Beijing or Mumbai. Tasks like these cannot easily be mechanised or automated, either.<sup>40</sup> At the moment, because the minimum-wage laws make it too expensive to employ people to do these jobs, they are either not done or are performed in the domestic or informal economies (I do it myself, or I pay someone cash-in-hand and off the books). But if minimum wages were lower, more people would be formally employed to perform low-skilled personal service tasks like these.

With lower minimum wages, demand for unskilled labour could be expected to rise in many existing service sector industries, like fast food, office cleaning, and laundering, but it is also likely that new job opportunities would open up in services where high minimum wages currently stop people being employed at all. This could have a doubly beneficial effect, soaking up unskilled unemployment while helping to solve some genuinely pressing 'social problems.' For example:

- An *ageing population* is going to want more routine, low-grade service tasks performed (things like shopping and personal care).<sup>41</sup> The Commonwealth government is committed to expanding support services that enable elderly people to continue living in their own homes, for this is cheaper than providing residential care and is usually what elderly people themselves prefer.<sup>42</sup> This sort of personalised support is, however, very labour-intensive. With lower minimum wages, providing it will be more economically viable.

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- Similarly, increases in female workforce participation are intensifying demand for *child care* workers, who do not all need high levels of training or formal qualifications to do their job. Mothers on welfare looking after their own children could look after other people's children, too. Even if they fail to meet the conditions required of approved daycare providers, they could still do a useful job looking after babies and toddlers in daycare centres under the supervision of more qualified staff.<sup>43</sup> Psychologists say babies in institutional care settings need more personal attention (what they call 'joint attention sequences'), but current minimum wage levels make it uneconomic to employ more helpers.<sup>44</sup>
- The decline of the traditional family has opened up new employment niches for services like *mentoring*, particularly in neighbourhoods where large numbers of boys are growing up with no male adult role models in their lives. Often, there are significant numbers of older men living on DSP in these areas, and the Youth Mentoring Network says that 'Any caring adult can become a mentor no matter their life experiences.'<sup>45</sup> Some of these men could, therefore, be recruited as mentors. Evidence suggests that mentoring significantly improves the social skills of children and adolescents in poorer areas, thereby improving their future employment prospects.<sup>46</sup>
- Jobless people might also be employed to work as *neighbourhood wardens* in disadvantaged areas, helping to maintain the physical environment and to reinforce behavioural standards in public places. A Maori warden scheme has been running in New Zealand for many years. In the UK, 245 different neighbourhood schemes are operating, with wardens employed by local councils and housing associations to look after empty properties, stop people littering, visit vulnerable tenants, resolve low-level disputes between neighbours, organise graffiti removal, and generally promote a stronger sense of community responsibility and security.<sup>47</sup> Their impact on levels of civility, as measured by local crime rates, levels of vandalism, and other such indicators, is said to be encouraging.

### **Work, not welfare**

To meet any of these needs by creating new low-skilled jobs, minimum wage levels must fall to a point where it pays employers (companies, public authorities, not-for-profit organisations, cooperatives, and individuals) to take on more low-skilled labour. But on its own, this is unlikely to be sufficient to get substantial numbers of low-skilled people back into the labour force. Indeed, it could even be counterproductive, for a fall in the minimum wage (even if compensated by tax cuts) could make switching from welfare to work less attractive as the gap between benefit levels and wages is compressed. What is required in addition, therefore, is that the welfare system must ensure that people who are capable of working do actually go after these low-skilled jobs rather than remaining on benefits.

In theory, the welfare system already requires people who can work to seek employment and to take jobs when they are available. Any person of working age who is deemed capable of working and who approaches Centrelink for financial support is referred to the Job Network, and they cannot start receiving benefits until they have registered with a network agency. Under the Active Participation Model introduced in 2003, they are given three months to find employment, after which they undergo Job Search Training, which includes help with writing job applications, interview skills, and confidence-building. After three more months, those under fifty who are still unemployed are required to participate (normally for two days each week) in a Mutual Obligation activity, such as Work for the Dole, as a condition of continuing to receive income support payments. If, after a total of twelve months, they are still unemployed, claimants receive Customised Assistance, which can include training, work experience in a subsidised placement, or referral to a language or literacy and numeracy training program. Claimants deemed by Centrelink's initial assessment to be particularly 'disadvantaged' are referred to Customised Assistance straight away.<sup>48</sup>

In practice, though, work requirements are not applied as stringently as this description might suggest. There are two problems.

The first is that most welfare claimants are exempted from 'active participation.' Changes introduced in 2006 extended the mutual obligation system to Parenting Payment claimants whose youngest child reaches the age of six, and to new DSP claimants with the ability to work for between fifteen and thirty hours per week. Both of these groups are now expected to look for part-time work, and they are given Newstart Allowance if they fail to find it. But those who began claiming DSP before the changes are still wholly exempt from any work requirement (irrespective of whether they could work), and claimants of Parenting Payment can postpone their exposure to mutual obligation until the end of their reproductive years by having additional children as their existing ones approach school age. Older unemployed workers on Newstart Allowance are also exempt from mutual obligation.

The second problem is that many of those who are currently subject to the active participation system are still not getting jobs. The long-term unemployment rate has fallen quite sharply in recent years as the economy has surged, and Job Network agencies can claim considerable credit for this (see box below). But their success has left them with increasingly difficult caseloads, for as their more employable clients have found jobs, only the harder cases remain. This is resulting in lower 'outcome payments' from the Department of Employment and Workplace Relations (DEWR), and some agencies are struggling financially. They have begun to suggest the system needs changing, and some are even calling for the core emphasis on work placements to be relaxed or abandoned.

### **The Job Network's success in putting unemployed people into work**

The Productivity Commission has noted that 'active labour market programs' around the world achieve only modest success.<sup>49</sup> Nevertheless, Australia's Job Network has achieved better employment outcomes than the old Commonwealth Employment Service did, and its record also stands up well against that of many other countries.<sup>50</sup> Each job placement costs the government between \$5,000 and \$6,000, compared with \$10,000 to \$16,000 under the previous arrangements, and each single-person increase in net employment because of Intensive Assistance programs costs an average of \$22,000, compared with \$35,100 under the old system.<sup>51</sup> The system also appears to be more successful in getting people into work.

The adoption of the Active Participation Model in 2003 made a big difference. DEWR estimates that Intensive and Customised Assistance achieved a net employment impact of only 0.6% in 2001, rising to 6.2% in 2002 and reaching 10.1% in 2005. It explains this dramatic improvement as due to the adoption of the Active Participation Model, including new fee structures for Job Network members and the introduction of the Job Seeker Account.

At its 2005 review, DEWR found that three months after completing the relevant program, 55% of those in Job Search Training were in employment, as were 46% of those who received Customised Assistance and 32% of those who did Work for the Dole.<sup>52</sup> Recognising that many of these people would have found work even without the intervention of the Job Network, DEWR estimates 'net employment outcomes' (those attributable to the intervention alone) of 11% for those doing Job Search Training, 10% for those receiving Customised Assistance, and 9% for those undertaking a Mutual Obligation activity (7% in the case of Work for the Dole).<sup>53</sup>

**Some agencies are struggling financially. They have begun to suggest the system needs changing, and some are even calling for the core emphasis on work placements to be relaxed or abandoned.**

### **The welfare lobby's attack on work requirements for welfare recipients**

The Job Network was set up when unemployment in Australia was running at over 8%. Unemployment has almost halved since then, leaving fewer cases for Job Network agencies to manage. Remaining caseloads are tougher to clear. Catholic Social Services, which

**The welfare lobby has never felt comfortable implementing the 'Work First' policy DEWR demands.**

runs the Job Network agency Centacare, reports that the proportion of its clients with less than a year 10 education has increased from 19% to 25% since 2003.<sup>54</sup> The CEO of Jobs Australia, another Job Network agency, suggests that 'A significant number of the people left in the queue have very complex needs, typically mental health issues, housing issues, family relationship issues, all sorts of things that may make it difficult for them to comply [with work requirements].'<sup>55</sup> ACOSS claims that 35% of those on the Newstart unemployment payment for more than two years have a mental health problem.<sup>56</sup>

The increasingly difficult caseloads are being cited by some welfare organisations as evidence that the Active Participation Model, which emphasises job-placement outcomes, is no longer appropriate. The Brotherhood of St Laurence, for example, claims that a system geared to fast throughput of job-ready unemployed people is not well-suited to handling the clients who remain, and it criticises the emphasis on 'rapid movement into any job without ongoing support for career advancement or skill development.'<sup>57</sup> The Welfare Rights Network similarly argues that 'People are work willing but they are not work ready,' and that DEWR's 'work first' philosophy pushes welfare recipients into a cycle of short-term jobs rather than training them for sustained careers.<sup>58</sup> The CEO of Job Futures, an alliance of welfare groups, joins this chorus by complaining, 'employment outcomes seem at times to be the sole driver of the system,' and that 'many of those who have been referred to these programs in the past require a great deal of support in dealing with personal issues before they are ready to join an employment program.'<sup>59</sup> The National Employment Services Association (NESA) says there should be more emphasis on 'proper' skills training than on rapid placement into jobs.<sup>60</sup>

This looks like an orchestrated campaign, and it is important to remember that sections of the welfare lobby have been trying to weaken or undermine the primary emphasis on work requirements ever since the early days of the Job Network. Their main target until now has been the financial 'breaching penalties' that are imposed when welfare claimants persistently fail to meet the requirements that are a condition of receiving benefits. The welfare lobby believes no penalty should last more than eight weeks or reduce payments by more than 25%. It also believes penalties should not be levied at all where they cause 'hardship.'<sup>61</sup> If its wishes were ever implemented, mutual obligation would be fatally undermined, for claimants who were willing to settle for a lower payment could completely disregard their work responsibilities, and nothing more could be done to force them to comply.

Although it continues to operate within the Job Network system, the welfare lobby has never felt comfortable implementing the 'Work First' policy DEWR demands. A 2002 Productivity Commission report found non-profit Job Network members were underreporting breaches by 12% as a result of their reluctance to report transgressors.<sup>62</sup> More recently, welfare organisations agreed to operate the government's new Financial Case Management Scheme, which is designed to monitor families where breaching penalties had been imposed and to dispense special payments where there was evidence of hardship affecting children. But no sooner had they joined the scheme than they started publicly attacking it, and eventually twelve of them reneged on their agreement, arguing that any breach penalty imposed on single parents was 'immoral' and they wanted nothing more to do with it.<sup>63</sup>

It is not surprising to find welfare groups bridling against the punitive duties required of Job Network service providers, for their traditional role is to help people in need, not penalise them. Their problem is that they have become dependent on government money. Over the last ten years, some of our best-known welfare charities have evolved into 'big business enterprises' as a result of their heavy reliance on Job Network contracts. The Salvation Army, Centacare, Mission Australia, and Wesley Uniting Employment together rely on Job Network contracts for one third of all their income.<sup>64</sup> This has compromised their activities, for they are accepting government payments to implement policies with which they are unsympathetic.

For some years, they have been wriggling to get off this hook. First, they attacked breaching penalties, then they criticised work requirements for single parents, and now

they claim that people remaining on welfare are not 'job ready' and should not be required to work.<sup>65</sup> If they can get the new Labor government in Canberra to accept this, they will be able to keep the government money flowing while redefining the tasks they have to perform to get it. If the government agreed to decouple welfare provision from the expectation of work requirements, the welfare organisations in the Job Network could spend more of their time providing counseling and training to the long-term unemployed without having to worry about pushing them into jobs so the agencies can get their outcome payments.

### **Training the unemployed: Feedback on part 1 from a former instructor**

"I don't think I have ever read a research paper that puts together so well what I know from practice to be true. At last, I no longer feel like a lone voice in the wilderness, risking censure for politically incorrect ideas that fly against conventional 'wisdom.'

"I have forty years' experience in education and workplace training, including high school teaching in Queensland (a disproportionate amount with 'low achievers'), and workplace training. I think that experience gives me a fair understanding of the realities of training people for work.

"One of my most dissatisfying jobs was a period teaching in TAFE Queensland to young adults forced into study because of government policy, and on the premise that more education would equate to a job. Frankly, their attendance habits were far below acceptable workplace standards, and I was heaping praise on below average work because they had bust a gut to produce it. No one was game to tell them that they were wasting everybody's time (mine and theirs). I did feel bitter about the lies that these people had been told by the welfare, government, and business constituency that you outline in the paper."<sup>66</sup>

**It is not easy to get unskilled, long-term jobless people into work ... But this does not justify moving away from the work first principle.**

There probably is a case for reexamining how payments are made to Job Network agencies. Before it lost office in the 2007 federal election, the Howard government signalled its intention to do this at the 2009 contract round, and the Rudd government has indicated its support for adjusting interim fees to improve rewards for those dealing with the hardest cases.<sup>67</sup> There may also be some scope for rewarding Job Network agencies that put additional time and resources into developing the 'job readiness' of long-term unemployed people (although welfare charities should not always look to Canberra to finance their good works).<sup>68</sup> But it is vital that the core 'work priority' principle that has come to underpin welfare policy in this country is not weakened or abandoned.

When jobless people who are capable of working approach Centrelink and the Job Network for help, the first priority must always be to find them employment. Even if they only secure a short-term job, this is better than staying on welfare and undertaking job-readiness training, for the best preparation for work is work.<sup>69</sup> The current campaign by sections of the welfare lobby threatens to drive us in precisely the wrong direction. It seeks to weaken existing work requirements when what is needed is an extension of work requirements into other areas of the welfare system, notably the DSP, where they do not currently apply.

Of course, it is not easy to get unskilled, long-term jobless people into work, and successful outcomes may need to be better rewarded in the future. But this does not justify moving away from the work first principle.

### **The importance of social skills**

A lower minimum wage would make it cheaper for employers to take on low-skilled workers. Prioritising work over welfare will keep the pressure on welfare claimants to accept these jobs. But there is a third condition that also needs to be fulfilled if unskilled unemployment is to be successfully tackled. Employers need to be confident that the

**'Tidiness,  
punctuality,  
politeness and  
trustworthiness'  
are all vital.**

people they are taking on will be dependable, honest, and pleasant to be around. These qualities are particularly important where most of these jobs are likely to be—in personal services employment—for workers in these industries deal directly with the public. As Deepak Lal notes, 'Tidiness, punctuality, politeness and trustworthiness' are all vital in personal service employment.<sup>70</sup>

Between 1975 and 2000, the service sector in Australia expanded from just over 50% to almost 70% of all jobs, while manufacturing employment halved to just 11%.<sup>71</sup> This is reflected in a marked shift in the qualities employers are looking for in their workers. In the ten years to 1996, it is estimated that demand for 'motor skills' (the ability to perform physical tasks) fell by 29%, while demand for 'interactive skills' (the ability to relate to other people) rose by 32%.<sup>72</sup>

A recent survey of Australian employers found that 88% cite aptitudes such as 'teamwork' and 'communication' as being just as important as technical and vocational skills when it comes to taking on new workers.<sup>73</sup> A 2003 survey found that Australian employers cite loyalty, commitment, honesty, integrity, enthusiasm, reliability, personal presentation, common sense, positive self-esteem, a sense of humour, a balanced attitude to work and home life, ability to deal with pressure, motivation, and adaptability as the key personal attributes they look for when gauging somebody's employability.<sup>74</sup>

The people who deliver my pizza, tend my granny's garden, look after my toddler, mentor my son, and patrol my local neighbourhood do not need to be highly qualified, but they do need to be polite, reliable, honest, responsible, trustworthy, well-presented, and pleasant to deal with. The question is whether low-skilled people on welfare have these qualities, and if not, how they might develop them.

### **Do people on welfare have the social skills employers want?**

Desirable personal characteristics obviously do not depend on intellectual ability. Bright people can be dishonest and unreliable, and dull people can be polite and responsible. There is therefore no reason why people who might struggle to attain high technical or vocational skills cannot develop strong social skills. Having said that, there is a positive correlation between intelligence and social skills, which persists even after accounting for differences of education and socioeconomic status. This may be because people who are more intelligent tend to think through the consequences of their actions more carefully, making them more reliable and dependable, or it may be that they are generally better at exercising self-control.<sup>75</sup>

Surprisingly little research has been done on the social competences of people on welfare, but there is likely to be some degree of negative self-selection based on personality characteristics. People who display the characteristics and social skills that employers want are more likely to have jobs, and those lacking these attributes are correspondingly more likely to wind up on benefits. Other things being equal, someone who is diligent and reliable will make more effort to find work, and will be more likely to hold on to a job, than someone who is lazy or unreliable. We should therefore expect to find lazy and unreliable people overrepresented on welfare.

We also know that people's confidence and self-esteem often decline after long periods spent on benefits. In America, Lawrence Mead describes many welfare mothers as 'dutiful but defeated,' for they say they want to work and be self-reliant, but they lack the degree of control over their lives that would enable them to achieve this.<sup>76</sup> In Australia too, a 2002 survey of 3,500 jobseekers found that 28% said they were willing to work yet were doing nothing about it, and 29% had given up looking.<sup>77</sup>

There may also be a problem of what former employment minister Tony Abbott famously called 'job snobbery' among welfare recipients. Nearly one fifth of Australian jobseekers interviewed in 2002 were unwilling to accept jobs they considered undesirable.<sup>78</sup> This may well prejudice them against personal service employment, for it is precisely the low-paid, low-status service sector jobs that are commonly seen as 'demeaning' by those who refer dismissively to 'burger flipping'.<sup>79</sup>

## The trouble with boys

Negative attitudes and behaviour are likely to be a particular problem among younger males. The decline of traditional family norms (what I referred to in part 1 of this paper, using Francis Fukuyama's term, as the 'Great Disruption') has deprived many young men of fathers, and the decline of unskilled manual work has deprived them of jobs.<sup>80</sup> In the past, young males grew up with positive role models at home and at school, and when they left school they were taught by older men in apprenticeships or were commanded by male officers when performing military service. They had jobs that gave them financial independence, and a norm of early marriage followed by committed fatherhood reinforced their sense of personal responsibility. But for many youths today, experience of meaningful work, social responsibility, and a structured and ordered routine of self-discipline has disappeared. Not surprisingly, norms of personal responsibility, self-reliance, and self-control have frayed.

This has been well documented in the US, where a 'breakdown in work discipline' has made young, lower-class males 'less reliable employees' over the last forty years.<sup>81</sup> For many of them, self-esteem comes not from having a conventional job, but from steering clear of one. In the UK, too, employers complain that young employees are discourteous towards customers and fellow employees, as well as being unpunctual and poorly presented. One employer organisation finds that 'school leavers certainly lack the basic skills, but they also lack basic work ethics.'<sup>82</sup>

In Australia, Erica Smith conducted twelve case studies of companies that recruit school leavers or part-time student workers. Her sample excluded employers who have stopped recruiting teenagers, but even among those who still do, reports of absenteeism, laziness, and lack of a work ethic were common. One training company said that half of the young people on its books failed to reach even a basic level of employability: 'When you have a kid who comes in who slouches and chews and swears, you would never put them forward to the host employer.'<sup>83</sup>

If 'social skills' are in decline, the causes lie in the weakening of the traditional family, together with educational and cultural changes over the last forty years. It is a truism that family and school are the core agencies of early socialisation. When they cease to transmit core norms and values, young people, particularly males from less disadvantaged backgrounds, become less capable of functioning in the competitive world of work. As a result, they end up unemployed and unemployable.

## Policy solutions

No single policy change will expand employment of low-skilled people, but any serious strategy needs to take action on four fronts simultaneously. It needs to reduce the cost of unskilled labour, make long-term welfare dependency less attractive, facilitate the emergence of new personal service jobs, and improve people's social skills and competences. The following package could begin to move us in the right direction.

### **1 Proposals to make unskilled workers cheaper to employ**

**1.1 Reduce the minimum wage.** This is the basic precondition of solving the problem. Australia has the second-highest minimum wage in the OECD. Wage levels this high preclude employment of relatively low-value labour. Only by reducing the real value of the minimum wage can the demand for low-skilled personal service workers be made to grow. A cut of 20% would still leave Australia with a minimum wage comparable with the UK and New Zealand, yet it could generate a hundred thousand new jobs.

**1.2 Compensate low-income workers with tax and welfare changes.** There is a strong belief in Australia that people who work full-time should not end up in 'poverty,' and these sentiments should be respected. Lower earnings resulting from a reduction in minimum wages should therefore be counterbalanced either by increasing in-work government benefits (for instance, by offering an Earned

**Any serious strategy ... needs to reduce the cost of unskilled labour, make long-term welfare dependency less attractive, facilitate the emergence of new personal service jobs, and improve people's social skills and competences.**

**There is an emerging consensus that young people should be directed away from unemployment benefits.**

Income Tax Credit), or by raising the tax-free earnings allowance and combining it with a flat-rate system of family tax credits for those who are raising children. Whatever mechanism is adopted, the basic principle should be that no household pays income tax until its income is above the minimum (subsistence) level guaranteed by the welfare system.<sup>84</sup>

## **2 Proposals to reduce reliance on welfare benefits**

- 2.1 *Further reforms to Parenting Payment.* Changes introduced in 2006 require single parents claiming Parenting Payment to seek part-time work once their youngest child starts school. There are no mutual obligation requirements on parents whose youngest child is less than six years of age, and it is right that parents raising pre-school-age children are not normally expected to work.<sup>85</sup> But it is important that the exemption is not abused. Research reviewed in part 1 indicates that some unemployed single women are extending their period of welfare eligibility by having additional children.<sup>86</sup> To prevent this, children born to parents who are already drawing welfare benefits should not extend the parents' exemption from mutual obligation responsibilities.<sup>87</sup>
- 2.2 *Increase workforce participation among DSP recipients.* A new report from the OECD recommends that the part-time work requirements that have applied since 2006 to new DSP claimants who have the capacity to work at least fifteen hours per week should also be applied to existing DSP claimants.<sup>88</sup> This recommendation should be adopted. The report also suggests that DSP benefit suspension rules should be relaxed (so people who leave the pension to take up work would not lose eligibility if they need to return to DSP later), and that those who are required to search for part-time work should receive the same free earnings and taper rates that they would have received had they stayed on DSP. These, too, are sensible proposals that would encourage more people with restricted work capacities to look for jobs. The report also resurrects a proposal for a single 'Participation Payment' to replace pensions and all allowances, but this would prove very expensive (which is why the idea was not implemented when it was first suggested in 2000), and it could end up fudging work requirements rather than extending them.<sup>89</sup>
- 2.3 *End youth unemployment benefits.* There is an emerging consensus that young people should be directed away from unemployment benefits. Labor's Craig Emerson wants unemployment benefits for school leavers limited to six months,<sup>90</sup> and the Brotherhood of St Laurence thinks they should be scrapped altogether. Its executive director, Tony Nicholson, has said that 'In the case of young people who are making the transition from school to adulthood, the right to welfare should be replaced with the right to work, or the right to learn.'<sup>91</sup> Both commentators support more education and training as an alternative to the dole for school leavers, but we have seen there is no point pushing young people through more education and training unless they want it and can benefit from it. Those who fail to find jobs and who do not enrol in recognised training or education courses need another option. I discuss one possibility for them in proposal 4.3.
- 2.4 *Personal Future Funds should replace the first six months of unemployment benefits.* Seven out of ten workers who claim unemployment benefits are out of work for fewer than six months.<sup>92</sup> If all workers had their own temporary earnings replacement savings accounts (modelled loosely on the current superannuation arrangements for retirement savings), they could support themselves through temporary periods of joblessness without resorting to government welfare payments. Elsewhere, I have outlined how such accounts might operate.<sup>93</sup>



### **3 Proposals to expand the range of useful tasks low-skilled workers could perform**

- 3.1 *Recruit more single parents to provide child care.* Demand for child care is escalating as more women return to work earlier following the birth of their child.<sup>94</sup> Some of this demand could be met by single parents or unemployed partners establishing child-care businesses in their own homes (the Commonwealth government's Family Day Care startup payments attempt to encourage this). Where this is not appropriate, parents could be employed under suitable supervision as helpers in formal daycare facilities.
- 3.2 *Develop community-based services.* We can anticipate a growing demand for personal care providers for the elderly. We have also seen that people on welfare might be employed as neighbourhood wardens, following British and New Zealand programs, or as youth mentors. Many DSP claimants are capable of filling such roles,<sup>95</sup> but suppliers of services need to be put into contact with potential purchasers. Job Network agencies are ideally placed to put welfare recipients into contact with individual households, charities, local councils or commercial enterprises seeking people to perform tasks like shopping, cleaning, chauffeuring, laundering, gardening, meal preparation, and mentoring.

### **4 Proposals to improve social skills to raise employability**

- 4.1 *Extend conditional welfare.* Receipt of welfare should be conditional on good citizenship if we want to strengthen positive norms governing social behaviour.<sup>96</sup> Paying welfare irrespective of how people behave implies that antisocial behaviour is acceptable, because it passively tolerates it. In Australia, Noel Pearson has criticised the socially corrosive impact of 'passive welfare' in Indigenous communities, and recent federal government initiatives have explicitly linked receipt of payments to the adequate discharge of parental duties.<sup>97</sup> Conditional welfare like this represents a key element in any serious strategy to rebuild positive social skills grounded in an ethic of personal responsibility.
- 4.2 *Teach social skills early and reinforce them in schools.* Demands to increase the number of students remaining at school to year 12 should be resisted, for we saw in part 1 that marginal students do not benefit from extra schooling, and may even be disadvantaged by it.<sup>98</sup> Yet it is crucial that all students learn basic literacy and numeracy skills, and that schools pay more attention to the 'informal curriculum,' which transmits values like punctuality, respect for authority, politeness, attention to personal appearance, and reliability. Teachers have a crucial function here as role models.<sup>99</sup>
- 4.3 *Voluntary military service and/or a Peace Corps.* Craig Emerson suggests that any young person not working, studying, or training should be offered a position in the defence forces or in a government-sponsored Peace Corps, rather than joining the dole queue. He endorses a recent federal initiative that permits school leavers to sign up for the military on a trial basis for twelve months, for the military is uniquely placed to teach self-discipline and to bring a sense of order to disordered lives. It rewards effort and achievement, sublimates male aggressiveness (which generates antisocial behaviour) and provides young men with 'father-figures,' often for the first time in their lives.<sup>100</sup> There is no case for introducing conscription, but there is a strong argument for offering young, jobless school leavers a place in the military or a Peace Corps instead of allowing them to claim the dole.

**Receipt of welfare should be conditional on good citizenship if we want to strengthen positive norms governing social behaviour.**

## Conclusion

Almost two million Australians of working age are living on government payments. Unemployment is at a thirty-year low, but there are approaching three quarters of a million DSP claimants and six hundred thousand people on Parenting Payment. Many of these are simply the 'unemployed' going by another name. They could and should be working.

Changes to the eligibility rules for welfare could help get these people back into the workforce, but many welfare claimants are unqualified, and unskilled jobs are disappearing. More education and training may help some find jobs, but many of those without qualifications lack the ability to develop the skills the educators hope to give them.

The real solution to these people's joblessness is to increase demand for unskilled labour, particularly in the personal services sector where there are many useful tasks to be performed that cannot be automated or transferred overseas. But to increase demand for unskilled labour, its cost must be reduced. The minimum wage must be allowed to fall so unskilled workers can regain a toehold in the labour market. When they are in work, changes to the tax system can compensate them for the fall in wages. There is no other option that will allow low-ability people to make an active contribution in the future. The alternative is for the welfare rolls to become a permanent dumping ground for those who cannot hope to pass exams and accumulate meaningful qualifications.

In the two parts of this paper, I have outlined a strategy that could help re-engage low-ability people in the mainstream economy by opening up new employment opportunities from which they might benefit. Low-skilled personal service jobs will never pay well, and some of them may not offer high levels of work satisfaction, but they are infinitely better than a life of enforced idleness. It is time to abandon the wishful thinking that drives the futile quest to put low-ability people in highly-skilled work. Instead of constantly denigrating low-skilled service employment, we should start promoting it.

This paper is based on a lecture given to the Department of Employment and Workplace Relations All SES Conference at the Amora Jameson Hotel, Sydney, on 2 August 2007. I am grateful to participants at that conference for their comments, and I also wish to thank Helen Hughes, Matthew James, Ralph Lattimore, and Lawrence Mead for very helpful comments on earlier drafts of this paper. It is important to emphasise that the responsibility for the paper rests entirely with me.

**Instead of constantly denigrating low-skilled service employment, we should start promoting it.**

## Endnotes

- <sup>1</sup> Australian Bureau of Statistics (ABS), *Australian Labour Market Statistics, Jan 2008*, Cat. No. 6105.0 (Canberra: ABS, 2008). Long-term unemployment has fallen significantly in recent years—it is currently down 18% on just a year ago.
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- <sup>6</sup> Andrew Leigh, ‘Staying at School Ain’t Silly’ (27 December 2007), <http://andrewleigh.com/?p=1744>. The study in question is Philip Oreopoulos, *Would More Compulsory Schooling Help Disadvantaged Youth? Evidence from Recent Changes to School-leaving Laws*, working paper, National Bureau of Economic Research [NBER] (2007), <http://www.chass.utoronto.ca/~oreo/research/school%20leaving%20age%20to%2018/should%20we%20raise%20dropout%20age%20to%2018%202007%20july.pdf>.
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- <sup>8</sup> Alexander Symonds, ‘VET Students Often Don’t Finish’ *Australian Financial Review* (23 January 2008).
- <sup>9</sup> Andrew Leigh and Chris Ryan, ‘Estimating Returns to Education Using Different Natural Experiment Techniques,’ *Economics of Education Review* (forthcoming).
- <sup>10</sup> Leigh and Ryan ‘control for’ ability by making the reasonable assumption that the month a child is born in does not affect its ability. But controlling for ability simply shows that *on average*, more schooling does have a real impact on income. It does not show that low-ability students benefit from increased compulsory schooling just as higher-ability students do, so this research cannot be used to undermine the ACER findings.
- <sup>11</sup> Ronald Ferguson, ‘The Working-poverty Trap,’ *The Public Interest* (Winter 2005); John Schmitt, ‘Demand Drives US Jobs Success,’ *The Guardian* (4 September 2000); Matthew Slaughter and Phillip Swagel, *Does Globalization Lower Wages and Export Jobs?* IMF Economic Issues 11 (Washington: International Monetary Fund, 1997), 3.
- <sup>12</sup> Gary Burtless, ‘How Can Supply Side Policies Reduce Unemployment? Lessons from North America,’ *The Australian Economic Review* 35 (2002), 10.
- <sup>13</sup> Paul Frijters and Robert Gregory, ‘From Golden Age to Golden Age: Australia’s Great Leap Forward?’ *Economic Record* 82 (2006), 207–24; Deepak Lal, ‘The World Economy in the New Millennium: A New Golden Age?’ Productivity Commission Richard Snape Lecture, Melbourne (20 November 2006).
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- <sup>15</sup> Angel Gurría, ‘Creating More and Better Jobs in a Globalising Economy,’ OECD Secretary-General’s speech to ‘Shaping the Social Dimension of Globalisation,’ a meeting of G8 employment and labour ministers, Dresden (6–8 May 2007).
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- <sup>17</sup> Hans Johnson, *Illegal Immigration*, (San Francisco: Public Policy Institute of California, 2006), <http://www.ppic.org/main/publication.asp?I=676>.
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- <sup>20</sup> John Martin and Herwig Immervoll, ‘The Minimum Wage: Making it Pay,’ *OECD Observer* (May 2007), <http://www.oecdobserver.org/news/fullstory.php/aid/2217/>.

- <sup>21</sup> Dataset extracted November 2007 from OECD, *OECD.Stat Extracts*, <http://stats.oecd.org/wbos>.
- <sup>22</sup> See the review by Kayoko Tsumori, *The Road to Work: Freeing Up the Labour Market*, CIS Policy Monograph 64 (Sydney: The Centre for Independent Studies, 2004), chapter 1.
- <sup>23</sup> Peter Dawkins and Paul Kelly, *Hard Heads, Soft Hearts* (Crows Nest: Allen and Unwin, 2003), 61; Peter Dawkins and Michael Keating, 'Full Employment: The Five Economists' Plan Revisited,' paper presented to 'Towards Opportunity and Prosperity,' an Economic and Social Outlook Conference, Melbourne (2002), 4.
- <sup>24</sup> Philip E. T. Lewis, 'The Australian Labour Market: Some Social and Economic Consequences,' paper presented to the H. R. Nichols Society annual conference, Melbourne, (2–4 May 2003), 10–11.
- <sup>25</sup> Paul Frijters and Robert Gregory, 'From Golden Age to Golden Age,' 223.
- <sup>26</sup> As Gregory somewhat uncomfortably observes, 'The answer from Economics I is clear. To return to full employment, all relative wages across all skill categories need to change ... the labour market needs to be deregulated and the wages of the disadvantaged should fall by a considerable margin to create jobs for them. Furthermore, along with the real wage falls the real level of welfare payments needs to fall as well to make sure that the labour supply side of the market also encourages employment.' Bob Gregory, 'Australian Labour Markets, Economic Policy and My Late Life Crisis,' in Joe Isaac and Russell D. Lansbury (eds), *Labour Market Deregulation: Rewriting the Rules* (Sydney: Federation Press, 2005), 218.
- <sup>27</sup> Tony Eardley and George Matheson, *Australian Attitudes to Unemployment and Unemployed People*, Social Policy Research Centre Discussion Paper 102 (June 1999), <http://www.sprc.unsw.edu.au/dp/dp102.pdf>; Peter Saunders, *Australia's Welfare Habit, and How to Kick It* (Sydney: Duffy and Snellgrove, 2004), chapter 15.
- <sup>28</sup> 'It's not acceptable. And it really just means that we're heading in Australia towards poverty-style wages': ACTU Secretary-Elect Jeff Lawrence, interview on *World Today*, ABC (5 July 2007), <http://www.abc.net.au/worldtoday/content/2007/s1970320.htm>.
- <sup>29</sup> Kayoko Tsumori, *The Road to Work*, chapter 1; Mark Wooden, Roger Wilkins, Seamus McGuinness, 'Minimum Wages and the "Working Poor",' *Economic Papers* 26 (2007), 295–307.
- <sup>30</sup> OECD, *Taxing Wages 2005/2006: 2006 Edition* (Paris: OECD, 2007).
- <sup>31</sup> John Martin and Herwig Immervoll, 'The Minimum Wage: Making it Pay.'
- <sup>32</sup> Phil Murray, *A Job Network for Job Seekers*, Catholic Social Services Australia discussion paper (November 2006), [www.catholicwelfare.com.au/system/files/FCSSA\\_Job\\_Network\\_Discussions\\_Paper.pdf](http://www.catholicwelfare.com.au/system/files/FCSSA_Job_Network_Discussions_Paper.pdf). This report claims that some Job Network providers use subsidies to 'buy' placements that they know will not last but for which they are nevertheless paid a fee. In 2005–2006, the Job Network spent over \$100 million subsidising forty thousand job placements.
- <sup>33</sup> Martin Evans, *Welfare to Work and the Organisation of Opportunity*, CASEreport 15 (London: ESRC Research Centre for Analysis of Social Exclusion, 2001), <http://sticerd.lse.ac.uk/dps/case/cr/CASEreport15.pdf>, 49.
- <sup>34</sup> See John Martin, 'What Works Among Active Labour Market Policies,' *OECD Economic Studies* 30 (2000/01). See also John P. Martin, 'What Works and For Whom?' speech delivered to 'Knowledge Wave 2003: The Leadership Forum,' Auckland, 19–21 February 2003, [http://www.knowledgewave.org.nz/forum\\_2003/speeches/Martin%20J.pdf](http://www.knowledgewave.org.nz/forum_2003/speeches/Martin%20J.pdf).
- <sup>35</sup> Douglas J. Besharov and Peter Germanis, 'Welfare Reform: Four Years Later,' in Douglas J. Besharov et al., *Ending Dependency* (London: Civitas, 2001).
- <sup>36</sup> The original proposal was outlined in an open letter to Prime Minister Howard in 1998. Peter Dawkins rehearses the argument in 'The Five Economists' Plan,' in Peter Dawkins and Paul Kelly (eds), *Hard Heads, Soft Hearts*, 59–62.
- <sup>37</sup> John Kerin, 'Rudd Works Towards Creditable Tax Plan,' *Australian Financial Review* (8 October 2007).
- <sup>38</sup> Economists dispute how strong this disincentive effect is, but there is no doubt it exists. OECD, *OECD Employment Outlook 2006—Boosting Jobs and Incomes* (Paris: OECD, 2006) suggests that high effective marginal tax rates are very damaging in demotivating unemployed people from returning to work if their partner is employed. Negative effects can also be strong in the case of single women, but are more modest for other groups.
- <sup>39</sup> These proposals are elaborated in chapters 7 and 9 of Peter Saunders (ed.), *Taxploitation: The Case for Income Tax Reform* (Sydney: The Centre for Independent Studies, 2006). The effectiveness (in terms of jobs created) and costs (in terms of government revenues foregone) of a working tax credit as against raising the tax-free threshold are estimated in Peter Dawkins,

- 'Welfare to Work: Labour Supply Responses to Work Incentives,' paper presented at 'Sustaining Prosperity,' a conference of the Melbourne Institute of Applied Economic and Social Research, Melbourne (31 March–1 April 2005).
- <sup>40</sup> As Ronald Ferguson observes, 'There is no machine that can change a bed and clean a bathtub as economically as a human being, so we still need hotel maids.' Ronald Ferguson, 'The Working-poverty Trap'. See also Deepak Lal, 'The World Economy in the New Millennium.'
- <sup>41</sup> Ralph Lattimore points out that 'Some age-related services have lower skill requirements (such as shopping and personal care services for the old). People of lower employability in highly skilled labour markets may well be employable in these less skilled labour market segments.' Ralph Lattimore, *Men Not At Work*, 297.
- <sup>42</sup> See Warren Hogan, 'The Organisation of Residential Aged Care for an Ageing Population,' CIS Policy Monograph 74 (Sydney: The Centre for Independent Studies, 2007), 3.
- <sup>43</sup> Special schemes already exist to enable single parents to work from home by looking after other people's children as well as their own. For example, people on benefits who are required to participate in Welfare to Work schemes can qualify for a \$1,500 grant towards the cost of establishing a Family Day Care business. For details, see Australian Government, Department of Families, Housing, Community Services and Indigenous Affairs, 'Family Day Care Start Up Payment,' [http://www.facsia.gov.au/internet/facsinternet.nsf/childcare/services-factsheet\\_familydaycarestartup.htm](http://www.facsia.gov.au/internet/facsinternet.nsf/childcare/services-factsheet_familydaycarestartup.htm). But very often there is scope for informal child care initiatives that need not involve any government funding or organisation. Small groups of single parents could, for example, cooperate to look after each other's children on a rotating basis, freeing each of them to work for, say, four days per week while looking after five children on the fifth day.
- <sup>44</sup> The minimum casual rate for the lowest-accredited child care workers is currently \$19 per hour. Day care providers are required to employ a minimum of one carer for every five babies, but developmental psychologists say this ratio of babies to carers is too high to achieve the sustained 'joint attention sequences' that are vital for stimulating and socialising babies and toddlers in institutional care settings. See Berenice Nyland, 'Infant Programs in Australian Child Care Centres,' paper presented to the Eighth Australian Institute of Family Studies Conference, Melbourne (12–14 February 2003).
- <sup>45</sup> Youth Mentoring Network, 'Information for Mentors,' <http://www.youthmentoring.org.au/mentors.php#factsheets>. The federal government already supports mentoring through its Stronger Families and Communities Strategy, so DSP recipients could be explicitly enlisted into this (although screening procedures would obviously still have to be followed before applicants were accepted).
- <sup>46</sup> James Heckman, *Policies to Foster Human Capital*, NBER Working Paper 7288 (Cambridge, MA: NBER, August 1999), 28.
- <sup>47</sup> Office of the Deputy Prime Minister, *Factsheet 5: Neighbourhood Wardens* (Wetherby: Office of the Deputy Prime Minister, June 2003), <http://www.neighbourhood.gov.uk/displaypagedoc.asp?id=155>.
- <sup>48</sup> In the year ending June 2005, 144,300 job seekers participated in Job Search Training and 298,900 received Customised Assistance. Of the 148,000 who performed a Mutual Obligation activity, 81,900 did a Work for the Dole placement. Department of Employment and Workplace Relations (DEWR), *Customised Assistance, Job Search Training, Work for the Dole and Mutual Obligation—A Net Impact Study*, Evaluation and Programme Performance Branch (EPPB) Report 1/2006 (Canberra: Commonwealth of Australia, 2006).
- <sup>49</sup> Productivity Commission, *Independent Review of the Job Network* (Canberra: AusInfo, 2002), [http://www.pc.gov.au/\\_\\_data/assets/pdf\\_file/0018/54333/jobnetwork.pdf](http://www.pc.gov.au/__data/assets/pdf_file/0018/54333/jobnetwork.pdf), xxviii.
- <sup>50</sup> DEWR finds the 'net impacts' achieved by its various Job Network programs 'are ... equal to or better than those of high performing programs internationally.' DEWR, *Customised Assistance, Job Search Training, Work for the Dole and Mutual Obligation*, 4.
- <sup>51</sup> DEWR, *Job Network Evaluation: Stage 3—Effectiveness Report*, EPPB Report 1/2002 (Canberra: Commonwealth of Australia, 2002), 4; Australian National Audit Office, 'DEWR's Oversight of Job Network Services to Job Seekers,' Audit Report 51 2004–05.
- <sup>52</sup> DEWR, *Customised Assistance, Job Search Training, Work for the Dole and Mutual Obligation*, 7, table 1.
- <sup>53</sup> As above, 8, table 2.
- <sup>54</sup> Phil Murray, *A Job Network for Job Seekers*, 15.

- <sup>55</sup> 'Job Network Burn-out?' *Counterpoint*, ABC Radio National (31 July 2006), <http://www.abc.net.au/rn/counterpoint/stories/2006/1701740.htm>.
- <sup>56</sup> Peter Davidson, 'Incentives and Capabilities: Strengths and Weaknesses in Australian Welfare to Work Policy,' paper presented to 'Building Community Capacity and Social Resilience,' Australian Social Policy Conference 2007, Sydney (11–13 July 2007). This claim should be treated with some skepticism given that claimants diagnosed with mental health problems are usually redirected away from Newstart and onto DSP. Davidson also claims that 62% of DSP claimants and 72% of single parents claiming Parenting Payment have less than a year 10 education, and that 45% of sole parents on Parenting Payment and 30% of DSP claimants have mental health conditions.
- <sup>57</sup> Brotherhood of St Laurence, 'BSL Welcomes Labor Call To Overhaul Job Network' (25 October 2006), <http://www.bsl.org.au/main.asp?PageId=4402>. See also Tony Nicholson, 'Social Inclusion the Path to Prosperity,' *The Australian* (23 November 2007).
- <sup>58</sup> Michael Raper quoted in Stephanie Peatling, 'Job Agencies Told to Review Practices,' *Sydney Morning Herald* (28 January 2008).
- <sup>59</sup> Sheridan Dudley, 'Not Just Any Job—The Right Job in a Sustainable Community,' paper to 'A Quarter-century of Social Change,' Australian Social Policy Conference 2005, Sydney (20–22 July 2005), 5.
- <sup>60</sup> National Employment Services Association (NESA), *Workforce of the Future* (Melbourne: NESA, 2007), 4.
- <sup>61</sup> This demand was central to the report of a 2002 'inquiry' sponsored by the National Welfare Rights Network, ACOSS, the Brotherhood of St Laurence, Jobs Australia, Job Futures, Mission Australia, the Salvation Army, the Smith Family, and the Community and Public Sector Union. Denis Pearce, Julian Disney, and Heather Ridout, *Making it Work: The Report of the Independent Review of Breaches and Penalties in the Social Security System*, ACOSS Paper 124 (Sydney: ACOSS, 2012). It was repeated at the 2003 Senate Inquiry reported in The Senate Community Affairs References Committee, *A Hand Up Not a Hand Out: Renewing the Fight Against Poverty—Report on Poverty and Financial Hardship* (Canberra: Commonwealth of Australia, 2004), 114, recommendation 14.
- <sup>62</sup> Productivity Commission, *Independent Review of the Job Network*, 6.18, 6.20. As one sympathiser explained, 'They often push their contractual obligations to the legal limits in order to avoid reporting a client to Centrelink for breaching.' Pamela Kinnear, 'Putting Obligation in its Place,' *Impact* (February 2002), 9. Kinnear is a former branch manager in the Australian Public Service and research fellow at the left-wing think tank the Australia Institute.
- <sup>63</sup> 'Twelve Groups Pull Out of Welfare to Work,' *The Australian* (16 February 2007). The Salvation Army complained that 'vulnerable groups within the community will almost certainly be adversely affected by this policy.' 'Salvos Pull Out Of Welfare to Work,' *The Australian* (31 October 2006). The St Vincent de Paul Society refused from the outset to have anything to do with it.
- <sup>64</sup> In the *Australian Financial Review*, Laura Tingle wrote of 'the transformation of the charitable sector into big business enterprises under the Howard government.' 'Charities Face Not-so-tender Test' (24 September 2002). See also G. Ramia and T. Carney, 'New Public Management, the Job Network and Non-profit Strategy,' *Australian Journal of Labour Economics*, 6:2 (2003). Oliver Bruttel, *Managing Competition in a Public Service Market: The Job Network in an International Perspective*, CLMR Discussion Paper 05/03 (Perth: The Centre for Labour Market Research, 2005), [http://www.cbs.curtin.edu.au/files/05\\_3.pdf](http://www.cbs.curtin.edu.au/files/05_3.pdf), 6.
- <sup>65</sup> Many of them never really agreed with work requirements in the first place, for they believe welfare should be provided unconditionally, on the basis of need, and should not be withheld from those who (for whatever reason) avoid work-related obligations. One of this country's leading welfare advocates, Fred Argy, has expressed this argument very clearly: 'Three decades ago, welfare benefits were universally accessible to those in need and were viewed as a citizen's entitlement ... developments in our social security system ... strike at the very heart of egalitarianism—equal access to welfare benefits as a right ... Welfare support should be available as an unconditional right when need can be clearly demonstrated.' Fred Argy, *Where To From Here? Australian Egalitarianism Under Threat* (Sydney: Allen and Unwin, 2003), 14–15.
- <sup>66</sup> Ben Goodman (Ministry of Finance, Solomon Islands), e-mail message to author (30

- January 2008), quoted with permission.
- <sup>67</sup> Patricia Karvalas, 'Job Seekers to Face Radical Shakeup,' *The Australian* (21 July 2007). This will probably be done by strengthening interim payments. See Patricia Karvalas, 'ALP Eyes New Job Network system,' *The Australian* (18 December 2007). See also Matthew Thomas, *A Review of Developments in the Job Network*, Parliamentary Library Research Paper 15 2007–08, (Canberra: Parliamentary Library, 2007), <http://www.aph.gov.au/library/Pubs/rp/2007-08/08rp15.htm>.
- <sup>68</sup> The CEO of the Brotherhood of St Laurence, Tony Nicholson, argues that more government money should be made available to support such initiatives. See Tony Nicholson, 'Social Inclusion the Path to Prosperity,' *The Australian* (23 November 2007). The Brotherhood itself runs five non-profit, labour-intensive businesses in disadvantaged locations, which offer services including office cleaning, street cleaning, concierge security, and gardening and landscaping. These enterprises recruit long-term jobless people from the welfare rolls on a voluntary basis, train them, provide personal support, and then contract them out commercially to public and private sector buyers for periods up to twelve months. At the end of this time, the Brotherhood helps them find similar work elsewhere in the private or public sectors. See Kemran Mestan and Rosanna Scutella with the Allen Consulting Group, *Investing in People: Intermediate Labour Markets as Pathways to Employment* (Melbourne: Brotherhood of St Laurence, 2007), [http://www.bsl.org.au/pdfs/investing\\_in\\_people\\_ILMs\\_print.pdf](http://www.bsl.org.au/pdfs/investing_in_people_ILMs_print.pdf); and Tony Nicholson, 'Unemployment: Finding Jobs for Those on the Margins,' *Australian Financial Review* (12 September 2007). The scale of this initiative is very small (just thirty-seven participants in September 2007), but there is significant growth potential (similar 'intermediate labour market' schemes in the UK enroll as many as 8,700 people per year, and 43% of UK participants go on to secure paid employment of their own. Kemran Mestan and Rosanna Scutella with the Allen Consulting Group, *Investing in People*, 3).
- <sup>69</sup> See report on 'Do "Bad" Jobs Lead to "Better" Jobs? Evidence for 2001–2004,' in Bruce Headey and Diana Warren, *Families, Incomes and Jobs, Volume 2: A Statistical Report on Waves 1 to 4 of the HILDA Survey* (Melbourne: Melbourne Institute of Applied Economic and Social Research, 2007), <http://www.melbourneinstitute.com/hilda/statreport/HILDA%20stat%20report%202006.pdf>, in *Melbourne Institute News* 18 (December 2007), <http://melbourneinstitute.com/news/news/newsletter/Dec2007.pdf>, 6.
- <sup>70</sup> Deepak Lal, 'The World Economy in the New Millennium,' 8
- <sup>71</sup> ABS, *Year Book Australia, 2007* (Canberra: ABS, 2007), table 6.12.
- <sup>72</sup> Philip E. T. Lewis, 'The Australian Labour Market,' 2.
- <sup>73</sup> Australian Chamber of Commerce and Industry (ACCI), *Skills For a Nation: A Blueprint for Improving Education and Training 2007–2017* (Canberra: ACCI, 2007), [http://www.acci.asn.au/text\\_files/skills\\_blueprint/Chapter3-ACCINationalEducation&TrainingSurvey.pdf](http://www.acci.asn.au/text_files/skills_blueprint/Chapter3-ACCINationalEducation&TrainingSurvey.pdf), 88, question 11(p).
- <sup>74</sup> ACCI, *Employability Skills—An Employer Perspective*, ACCI Review 88 (Canberra: ACCI, 2002), [http://www.acci.asn.au/text\\_files/issues\\_papers/Employ\\_Educ/ee21.pdf](http://www.acci.asn.au/text_files/issues_papers/Employ_Educ/ee21.pdf).
- <sup>75</sup> According to Richard Herrnstein and Charles Murray, 'High cognitive ability is generally associated with socially desirable behaviours, low cognitive ability with socially undesirable ones.' Richard Herrnstein and Charles Murray, *The Bell Curve* (New York: Free Press, 1994), 117.
- <sup>76</sup> Lawrence Mead, *The New Politics of Poverty: The Nonworking Poor in America* (New York: Basic Books, 1992).
- <sup>77</sup> Colmar Brunton Social Research and Service Quality Analysis Section, Labour Market Policy Group, DEWR, *Job Seeker Attitudinal Segmentation: An Australian Model* (Canberra: DEWR, 2002).
- <sup>78</sup> 'The overwhelming majority of young Australians want to work, but I think there is a risk of people getting too fussy, people becoming job snobs.' Tony Abbott, interview on *7.30 Report*, ABC (1 June 1999).
- <sup>79</sup> Marvin Olasky observes, 'Liberal academia and the media came to believe that shining shoes, taking in laundry or flipping burgers was a demeaning activity and that it was better for people to be on welfare than to perform such tasks.' 'Foreword,' in Chris Schafer, Joel Emes, and Jason Clemens, *Surveying US and Canadian Welfare Reform*, (Vancouver: Fraser Institute, 2001), 3. Myron Magnet points out that the stigma has been removed from unemployment and welfare dependency at the same time as the pride and dignity that used

to attach to having a job, looking after your family, and being self-reliant has been attacked by academics disparaging low-skilled work. Myron Magnet, *The Dream and the Nightmare* (New York: William Morrow, 1993). Such attitudes are implicit in much of the Australian literature attacking Work for the Dole and arguing that welfare claimants should be offered training rather than being required to accept low-status employment.

- <sup>80</sup> Jennifer Buckingham, *Boy Troubles: Understanding Rising Suicide, Rising Crime and Educational Failure*, CIS Policy Monograph 46 (Sydney: The Centre for Independent Studies, 2000).
- <sup>81</sup> Lawrence Mead, 'Toward a Mandatory Work Policy for Men,' *The Future of Children* 17 (Fall 2007), 6; Orlando Patterson, 'A Poverty of the Mind,' *New York Times* (26 March 2006).
- <sup>82</sup> Forum of Private Business, *Skills Survey—December 2006*, [http://www.fpb.org/images/PDFs/Skills\\_survey.pdf](http://www.fpb.org/images/PDFs/Skills_survey.pdf); Brian Amble, 'Employers Slam Unemployable School Leavers,' *Management-Issues* (16 August 2005), <http://www.management-issues.com/2006/8/24/research/employers-slam-unemployable-school-leavers.asp>; and Nic Paton, 'Too Few Skills, Too Much Confidence,' *Management-Issues* (15 August 2006), <http://216.128.29.163/2006/8/24/research/too-few-skills-too-much-confidence.asp>.
- <sup>83</sup> Erica Smith, 'Teenage Employability: Views of Employers,' *Youth Studies Australia* 23:4 (December 2004), 47–53.
- <sup>84</sup> Elsewhere I have sketched out how this might be done by fixing the tax-free threshold at the welfare minimum income floor for each family type. Peter Saunders and Barry Maley, 'Tax Reform to Make Work Pay,' in Peter Saunders (ed.) *Taxploitation: The Case for Income Tax Reform* (Sydney: The Centre for Independent Studies, 2006).
- <sup>85</sup> Until recently, single parents were entitled to stay on benefits without working for as long as they had a child of school age. This policy was almost guaranteed to make people unemployable by locking them into long-term dependency. It was also out of line with practice in virtually all other OECD countries, for apart from New Zealand and the UK, all other countries require single parents to return to the labour market before or when their children start school.
- <sup>86</sup> Gregory's data, discussed in the first paper, show that three quarters of the single parents who enter the Parenting Payment system as a result of having a first child were previously unemployed and drawing the less desirable Newstart allowance. These findings relate to the period before the recent reforms to Parenting Payment, and as Labor MP Craig Emerson notes, these reforms have strengthened the probability of claimants having children to remain on welfare: 'These changes create a strong extra incentive for single mothers to have another child, enabling them to return to the more generous sole parent pension for another six years.' Craig Emerson, 'Squandered Opportunity,' address to 'Making the Boom Pay,' a conference organised by *The Australian* and the Melbourne Institute, Melbourne (2 November 2006), [http://www.craigemersonmp.com/files/squandered-opportunity-1nov06\\_0.pdf](http://www.craigemersonmp.com/files/squandered-opportunity-1nov06_0.pdf), 3.
- <sup>87</sup> The way this proposal would work is that an unemployed single parent who has a child would remain on Newstart, rather than transferring to Parenting Payment, and someone on Parenting Payment who has another child would still revert to Newstart when their existing youngest child reaches six years of age. Parents would still receive Family Tax Benefit for any additional child, for this is intended to support the cost of their child, unlike Parenting Payment, which is intended to replace the wage of the parent.
- <sup>88</sup> OECD, *Sickness, Disability and Work: Breaking the Barriers (Vol. 2)—Australia, Luxembourg, Spain and the United Kingdom* (Paris: OECD, 2007).
- <sup>89</sup> The idea was first proposed in Reference Group on Welfare Reform, *Participation Report for a More Equitable Society: Final Report of the Reference Group on Welfare Reform—July 2000* (the 'McClure Report'), <http://www.workplace.gov.au/workplace/Publications/ProgrammeEvaluation/TheMcClureReport.htm>. In 2003 it was estimated that rounding up the value of allowances to match that of pensions would cost \$2.2 billion per annum. Peter Dawkins, Alan Duncan, John Freebairn, 'Modifying Income Support in the Australian Tax and Transfer System: Some Options and an Evaluation,' paper presented to 'Pursuing Opportunity and Prosperity,' a conference of the Melbourne Institute of Applied Economic and Social Research, Melbourne (13 November 2003). But the cost is not the only consideration. I have argued elsewhere that removing the distinction between people deemed capable of supporting themselves and those who are not would make it more difficult to impose clear work requirements on the former, and would inevitably increase bureaucratic discretion. Replacing work requirements by a more general 'participation



- requirement' would result in more claimants avoiding employment. The solution to the problem of claimants switching from Newstart into DSP is not to give up on the distinctions, but is to find better criteria for applying them. Peter Saunders, *Australia's Welfare Habit, and How to Kick It*, chapter 10.
- <sup>90</sup> Craig Emerson, 'Squandered Opportunity,' 17.
- <sup>91</sup> Tony Nicholson, 'Excerpts from the Speech Given by the Executive Director, Tony Nicholson,' delivered to Brotherhood of St Laurence AGM (29 November 2006), [http://www.bsl.org.au/pdfs/BrotherhoodStL\\_AGM\\_2006\\_TNicholson\\_speech.pdf](http://www.bsl.org.au/pdfs/BrotherhoodStL_AGM_2006_TNicholson_speech.pdf), 3.
- <sup>92</sup> ABS, *Year Book 2007*.
- <sup>93</sup> Peter Saunders, *The Government Giveth and the Government Taketh Away* (Sydney: The Centre for Independent Studies, 2007), 103–106.
- <sup>94</sup> In 2006, the median time it took a mother to resume work after giving birth was one year. In 2001 it was two years. George Megalogenis, 'Working Mum Poll Time-bomb,' *The Australian* (5 October 2007).
- <sup>95</sup> The government has tried to encourage DSP claimants to take up employment by providing them with access to job search services and by safeguarding their right to return to the pension at a later date. More significantly for the proposals outlined here, employers can also qualify for a subsidy when they take on a DSP claimant, and they may be permitted to pay a wage lower than the statutory minimum. See DEWR, 'Output 3.1.1: Working Age Policy and Legislation,' in *Annual Report 2004–05*, [http://www.annualreport.dewrsb.gov.au/2005/chapter2\\_3/0804.htm](http://www.annualreport.dewrsb.gov.au/2005/chapter2_3/0804.htm); and National Inquiry into Employment and Disability, *Issues Paper 4: Commonwealth Government Assistance*, (2005) [http://www.hreoc.gov.au/disability\\_rights/employment\\_inquiry/papers/issues4.htm](http://www.hreoc.gov.au/disability_rights/employment_inquiry/papers/issues4.htm).
- <sup>96</sup> Frank Field, *The Ethic of Respect: A Left Wing Cause* (Sydney: The Centre for Independent Studies, 2006), 37.
- <sup>97</sup> Noel Pearson, *Welfare Reform and Economic Development for Indigenous Communities*, CIS Occasional Paper 100 (Sydney: The Centre for Independent Studies, 2005). The Coalition government launched a trial scheme in Adelaide whereby parents with drug, alcohol, or gambling problems would have part of their payment quarantined, but at the time of writing, the future of this pilot is under threat from the new Labor government. See Andrew Faulkner, 'Quarantine Trial in Limbo Over Funding,' *The Australian* (28 November 2007). I have discussed the recent shift towards conditional welfare in Peter Saunders, 'Conditional Welfare Makes Sense,' *The Australian* (3 July 2007).
- <sup>98</sup> This money would be better spent on early intervention programs designed to strengthen the social skills of children from deprived backgrounds. See Heckman, *Policies to Foster Human Capital*, 25.
- <sup>99</sup> In the 1960s and 1970s, education radicals attacked schools for transmitting a 'hidden curriculum' that trained pupils to sit in rows, stand when addressing a teacher, respect authority, be punctual, be presentable, and so on. The implication was that this is sinister, but we now see these are precisely the virtues that students need if they are to find personal service employment. Central to this hidden curriculum is the way teachers appear and behave. There is some evidence that standards may have declined in this regard, certainly with respect to dress standards. The executive officer of Parents Victoria recently criticised the 'increasingly casualised workforce' in the state's schools, and called for stricter dress standards for teachers. See Bridie Smith, 'No Skirting Teacher Dress Code,' *The Age* (19 July 2007). The NSW Department of Education and Training states, 'Staff are to dress and behave in a manner which demonstrates professionalism, shows respect for others and models appropriate standards for students,' but this seems very imprecise. NSW Department of Education and Training, *Code of Conduct Procedures* (Sydney: State of NSW Department of Education and Training, Employee Performance and Conduct Directorate, 2004), [https://www.det.nsw.edu.au/policies/staff/ethical\\_behav/conduct/conduct.pdf](https://www.det.nsw.edu.au/policies/staff/ethical_behav/conduct/conduct.pdf), 10, section 16.8. In the ACT, teachers are told only to avoid dressing as if for the beach or a political demonstration: 'Wearing thongs, singlets, revealing clothes, or clothes with offensive slogans are examples of inappropriate dress in a school environment.' ACT, *Teachers Code of Professional Practice* (Canberra: ACT, 2006), 33.
- <sup>100</sup> Lawrence Mead, 'Toward a Mandatory Work Policy for Men.'





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*Andrew Norton*
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*Helen Hughes and Jenness Warin*
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