“WELFARE TO WORK” AND BEYOND:
SOCIAL SECURITY AND THE CHANGING LABOUR MARKET

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“Welfare to Work” and Beyond: Social Security and the Changing Labour Market

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Abbreviations

ABC  Australian Broadcasting Commission
ABS  Australian Bureau of Statistics
ACCI  Australian Chamber of Commerce and Industry
ACIRRT  Australian Centre for Industrial Relations Research and Training
ACOSS  Australian Council of Social Service
ACTU  Australian Council of Trade Unions
ALP  Australian Labour Party
ANOU  Australian National Organisation of the Unemployed
ANTS  A New Tax System
BCA  Business Council of Australia
BI  Basic Income
DEWRSB  Department of Employment, Workplace Relations and Small Business
EITC  Earned Income Tax Credit
EMTR  Effective Marginal Tax Rate
FaCS  Department of Family and Community Services
NIT  Negative Income Tax
OECD  Organisation for Economic Cooperation and Development
SEUP  Survey of Employment and Unemployment Patterns
Introduction

Much social policy discussion in Australia and other western democracies is dominated, at the public level, by the goal of moving people from “welfare to work”. Concern about jobs and joblessness is consistently rated as a major issue in opinion polls. Combined with public distaste for “the dole”, this ensures that politicians’ stated commitments to “getting people into work and off the dole” are received without much controversy. If controversy, if also without much hope or excitement). This lack of controversy reflects the strong value accorded to work in both of the major ideological traditions: as Goodin points out, “sweaty brows are an old socialist icon”, while the image of “self-reliance” through work is a hallmark of market liberalism.¹ Accordingly, politicians of both major parties have articulated their primary social goals in the rhetorical terms of “welfare to work”.

While measures to deter “free-riders” are sometimes disputed, the desirability of moving people from “welfare to work” enjoys broad tacit acceptance. There is a widespread consensus on the validity of this goal and political differences have typically emerged only over the means to be used to achieve it. The “welfare-to-work” rhetoric and the consensus surrounding it are premised on the moral and normative value of work. “Work” is valued not only as an activity but as a status. Being “in work” denotes independence and full participation in society, which is understood to be a morally good state. Seeing that work is valued as a status helps to explain the way in which the debate is focused on work in a general sense, rather than on acknowledging the existence of different types of work.

The “value of work”, however widely accepted, does not, in itself, justify the more coercive aspects of the interaction between the social security system and recipients of benefits, for example the enforcement of job-search and work. This is particularly true since recipients are in the vulnerable position of relying

on the social security system for their subsistence income.² In the current discussions, the justification is usually provided in the form of what Robert Goodin calls a “weakly paternalist” or “New Paternalist” argument: that it is in people’s best interests to work and that people actually do want to work but are held back from making steps towards work by a “culture of dependency”.³ Traditional paternalism, by contrast, makes no claims about the desires of individuals, merely about their true interests. In this view, it would not matter whether a person actually wanted to work; the fact that it is in their best interests to do so would justify a degree of coercion. In justifying the enforcement of its Mutual Obligation requirements, the current Government seems to favour the traditional paternalist view. This is aptly expressed in the Minister for Employment, Tony Abbott’s statement that “[p]arents find the idea of mutual obligation easy to grasp because they know what it’s like to make demands of people they love for their own good.”⁴

The Government’s paternalist argument for increasing the requirements placed on recipients is complemented by a critique of the “unconditional entitlement” and “permissive welfare” that are said to have existed in the past.⁵ These are perceived as the root causes of the high unemployment levels of last three decades. Mr Abbott has expressed the argument thus:

In the absence of rigorous work tests, welfare benefits…create a glass floor below which unemployment cannot fall. Why do some people not work? Because they don’t have to.⁶

The system, in this view, provides perverse signals: instead of paying people to work, it pays people not to work. This is the rationale behind the changes in policy which are rhetorically referred to as a shift from a “passive” to an “active” system of social

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⁶ Abbott, ‘Mutual Obligation’.
security. It is important to note, however, that, in Australia, the payment of unemployment benefits has always been conditional on recipients looking for and being available to take suitable work. Increasing the job search and other requirements made of recipients therefore represents an intensification of rather than a break with the tradition mode.

The main practical policies reflecting the “welfare-to-work” imperative are Work for the Dole, other Mutual Obligation activities and increased job-search requirements and surveillance. Although the ALP has criticised the lack of any training element in Work for the Dole, these policies would be retained by a future Labor Government. Work remains the ultimate and agreed goal, while disagreement is restricted to the particular means of achieving it.

Proponents of Work for the Dole argue that, apart from the perceived moral value of “giving something back”, the program teaches recipients to hold job-friendly attitudes, to adapt to routine and to develop a strong work ethic. These attributes are seen to be precisely what is missing in the “culture of dependency” that writers in the New Paternalist school see as being at the root of the problem of unemployment. Work for the Dole (and Mutual Obligation generally) therefore has an explicit commitment to providing the kind of attitudinal and moral influences that “welfare families” are perceived to fail in instilling.

The genuinely new element of the requirements now placed on recipients is that the activities they perform in order to retain their benefit are (rhetorically, at least) treated as part of an exchange in which they “give something in return” for

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10 Mead, 'Welfare Reform and the Family'. For a critical sociological analysis of such attempts to alter claimants attitudes, see Dean, Mitchell (1995), 'Governing the Unemployed Self in an Active Society'. *Economy and Society* 24 (4), pp.559-583.
income support.\footnote{[11]} This new element differs from the “reciprocal obligation” of the previous Labor Government. Previously, mandated activities were purposely designed to improve skills and ensure that recipients were doing all they could to obtain employment. This was the recipient’s side of the “reciprocal obligation”; the Government’s side was to provide the training and other labour market programs and, in some cases, publicly subsidised employment. Until the election of the current Government, the actual payment of allowances was largely seen as a response to need rather than as a substantive element of the “contract” of mutual or reciprocal obligation. A prominent criticism of the new approach is that, by making the payment itself part of the contract, the payment appears to have become the \textit{whole} of the Government’s “side of the deal.”\footnote{[12]}

Criticisms notwithstanding, the policy discourse of “welfare to work” is firmly rooted in widely-held values. However, while the policies enacted through the social security system reflect the widespread and increasing insistence on the value of work, the world of work itself is changing in profound ways. These changes present a challenge to the agreed premises reflected in the “welfare to work” rhetoric. In particular, the fragmentation of working arrangements means that employment per se may no longer bring independence. Neither is reasonable to assume that “welfare to work” is a permanent, one-way transition.

A key function of the “wage earners’ welfare state” described by Castles was to ensure that income earned in a job would be adequate to sustain a reasonable standard of living.\footnote{[13]} As a corollary, financial assistance has largely been designed to replace normal sources of income where they are absent, not to supplement earned income where it is inadequate. However, changed labour market conditions imply a new and as-yet undefined role for the social security system. Over the last two decades, targeted supplements for families with children have been introduced to counter inequality in market incomes, while rules have been changed to allow people

\footnotesize{\begin{itemize}
\end{itemize}}
to keep more of their benefits when taking up part-time work. The prospect now is of a much more significant change to the design itself, which would extend *income supplementation* to all eligible persons as an integral part of the system’s design.

A number of proposals have been made for reforms that would have the effect of radically extending Australia’s income support system to further accommodate low-earnings, part-time work and intermittent employment. The technical policy debate and policy development are oriented to adapting social security policy to the changed labour market while operating within the normative frame of “welfare to work.” These proposals are generally of a technical nature and, while they reflect the normative frame by encouraging work, they do not address themselves to the moral and philosophical aspects of their implications. In encouraging work, they do not question its value. Nor do the proposals typically examine the broader labour market implications of the various possible extended systems of earnings supplementation.

The technical policy discussion does not challenge the assumptions, on one hand, that work of any kind is to be encouraged and, on the other, that the direction of change in the labour market is inevitable. In this respect the technical discussion is operating without a critical or normative perspective on the kind of society that may be brought into being. At the same time, the broad goal of “welfare to work” dominates the political rhetoric, inhibiting discussion of the complex experiences that income support recipients are actually likely to have.

A comprehensive debate on welfare reform and the changing labour market would bridge the divide between the technical policy discussions and the moral-political rhetoric and even question the value of work. It would explore possible ways in which income support arrangements could be reconfigured to support a more equitable sharing of risk and security, avoiding the situation in which a deteriorating labour market relies on “the welfare state as work enforcer” to maintain labour supply. Debates occurring in some other countries about the possibility of providing unconditional basic income and “shared work-care pathways” offer valuable opportunities to examine the premises and restrictions of the “welfare to work”
framework. While such ideas might seem utopian or to constitute an unconscionable break with the value of work, they are important to consider. It is not likely that the potential contradictions and tensions that are being exposed can be adequately addressed simply by further enforcing work and supplementing income. It is therefore crucial that the debate be extended to encompass the possible futures of work and income.

The focus of this thesis is on emerging forms of work and income and on the debates and policies which will shape those forms. The thesis argues for a more integrated and imaginative debate, one which is willing to look closely at the contradictions between the rising rhetorical “value of work” and the declining actual value of work. In order to discuss these issues, the thesis will focus on the way in which the Australian social security system is responding to changes in the labour market and on the nature of the surrounding debates about future reforms. As a work in the field of Policy Studies, this thesis incorporates some technical detail in its analysis as it attempts to connect the substance of policy development with the broader political and philosophical issues that frame it. In the welfare reform debate, in particular, some inquiry into technical matters is necessary in order to look beyond the political rhetoric which can obscure the complexity of changing conditions and policy responses.

The first chapter of the thesis examines the labour market changes and conditions to which the income support system is adapting: the rise of casual, part-time and temporary work; and the problem of ‘job-churning’. These trends demonstrate the complexity of the situation faced by people receiving income support and working on the margins of the labour market. This is the complexity that lies behind the simple rhetorical statements about moving people from “welfare to work.” The chapter concludes by describing the increasing numbers of recipients who combine earned income with income support as a result of these changing conditions. The second chapter briefly describes the recent developments and current situation of the social security system, with particular regard to the labour market changes discussed in the first chapter. The third chapter describes in more detail the

prospective schemes for extending the income supplementation role of the tax-and-transfer system. Finally, the fourth chapter discusses the possible futures of work and income. The chapter argues that the debate needs to move beyond the consideration of particular schemes and to look critically and imaginatively at the premises of the current debate, with regard to the values and expectations attached to work and social security.
Chapter 1: The Changing Nature of Work

Policy debates about income support often assume a stark dichotomy between “welfare” and work. This chapter demonstrates the weaknesses of that assumption by showing how labour market changes are altering the role of income support, so that it is no longer accurate to assume a clear division between those who are employed and those who are unemployed. First, the expansion of non-standard forms of employment and labour market experiences will be described. Attention is given to the definitional problems associated with measuring a changing labour market. The second part of the chapter will show how these labour market trends are contributing to the increasing numbers of people who combine paid work with income support. The chapter concludes with some observations about the quality of jobs likely to be obtained by income support recipients and the phenomenon of ‘job churning’.

It is argued that the idea of “welfare to work” as a simple, discrete and permanent transition is not supported by the available empirical data. Rather, the experiences of people at the margins of the labour market are marked by complexity, insecurity and partial and intermittent reliance on income support. This finding provides the basis for the argument presented in the following chapters, that debate over welfare reform is limited by the fact that it does not incorporate a more critical analysis of the “welfare-to-work” rhetoric and the value premises on which it depends.

The rise of non-standard employment forms

The most significant context of contemporary reforms to the social security system is the changing Australian labour market. Changes in the Australian labour market are covered in detail elsewhere and it is sufficient for current purposes to summarise the most relevant elements of the changes. The following works are useful in providing an overview of labour market change: Woods, Guy (2000). Australia 1975-2000 - Part B; Labour Force. Research Note no. 14. Department of the Parliamentary Library, Information and Research Services, Parliament of Australia. November.
casual employment and the spreading of casual employment through ever-wider groups of people within the labour market, the increase in part-time and temporary work and the associated rise in underemployment and multiple job-holding. The emergence of these non-standard forms of employment is manifested at the lower end of the labour market as partial jobs: employment arrangements that do not yield adequate remuneration. The labour market changes noted above and described more fully below are accompanied by the increasing difficulty of measuring and categorising forms of employment. One example of this difficulty is the growth of “bogus self-employment”, in which contractors who depend on a single client or employer absorb the non-remuneration costs of employment, such as workers compensation insurance and superannuation, in a bid to create or secure their own employment. The diversification of work arrangements implies further difficulties for the assessment of the effects of labour market trends on people's well-being.

The most pronounced recent change in the Australian labour market has been the growth of casual employment, which has increased from 19 per cent of the total labour market in August 1988 to 27 per cent in August 2000. In Australian labour force statistics, casual employment is defined as work in which employees are ineligible for the two main types of leave offered in “standard” employment relationships: holiday leave and sick leave. However, in a common law sense,
casual employment refers to an arrangement in which there is no ongoing understanding of engagement\textsuperscript{21}. A typical example of this would be a “day labourer”, whose services are engaged separately for each instance of employment.

What is classified as casual employment in Australia labour statistics includes much employment that involves an ongoing, rather than a purely transitory, engagement between the employee and the employer. This has led to the development of informal classifications such as “permanent casual”, “long-term casual” and “true casual”.\textsuperscript{22} The use of the “casual” category in Australian labour force statistics also creates problems for international labour market comparisons, because many other countries have no corresponding category. In many cases, the closest approximation is the category of temporary employment.\textsuperscript{23}

As it increases as a proportion of the labour market, casual work is extending beyond its original core of students and women working in part-time jobs to form an important part of male, full-time and non-student employment.\textsuperscript{24} Casual work is most prevalent in primary industry, hospitality, cultural and recreational services and the retail trade.\textsuperscript{25} In the hospitality industry, more than half (58\%) of all employees are casuals.\textsuperscript{26}

One of the most important features of casual employment is insecurity of tenure. Some employment arrangements classified as casual are of a long-term and regular nature but the fact remains that a casual employee does not even have to be dismissed; employers can simply fail to call them in for another shift.\textsuperscript{27} Australia has one of the lowest figures for average job tenure in the OECD, a situation doubtless

\textsuperscript{21} ABS (1999a) \textit{Casual Employment}.
\textsuperscript{22} See Campbell, 'The Spreading Net'.\textsuperscript{2} Appendix 1.
\textsuperscript{23} Campbell, 'The Spreading Net'.
\textsuperscript{24} Campbell, 'The Spreading Net'.
\textsuperscript{26} ABS (1999) \textit{Labour Force, Australia}.
\textsuperscript{27} Social policy analyst Eva Cox made this point in Walsh, K. (2000). 'The Trouble with Work/Women Part-Timers Feel the Pinch'. \textit{Daily Telegraph} 10th December, pp.111-113., p. 112. However, if previous employment has been long-term and regular, employees may have recourse against job
contributed to by the high rate of casual employment in the Australian labour market. Those occupations and industries with the highest level of short-tenure workers are those in which casual work is most prevalent. The ABS found that, in 1998, 45% of self-identified casuals had been with their current employer for less than a year and 73.5% had been with their current employer for less than two years. The proportion of workers who have been in their current job for less than a year has increased over the last 8 years. Low job tenure contributes to the problem of labour market churning (discussed below) by increasing the rate of job-exits.

Another important characteristic of casual work is income variability. Although some casuals do have relatively regular schedules of work, many experience large fluctuations in earnings from week to week. This is largely due to variability in the number of hours worked, but can also derive from variability in the time of the day or day of the week (and therefore the rate of pay) received for a given number of hours of work. Income variability, combined with job insecurity, means that it makes sense for some casual workers to remain registered for unemployment payments while doing variable amounts of casual work. Income support payments therefore fluctuate inversely with earned income, at times cutting out altogether.

Current social security rules mean that a person can remain registered for allowances for up to 12 consecutive weeks in which earnings reduce the allowance paid to nil. This rule is designed to accommodate the kind of earnings variability

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29 ABS (1998b) Labour Mobility, Australia. Catalogue no. 6209.0., pp. 19-22. The Agriculture, Forestry and Fisheries industry group is an exception to this trend. Although it has a relatively high proportion of casual workers, it has a below average rate of workers who have held their job less than a year (14%).
31 From 19.6% in 1992 to 23.6% in 2000. ABS, (2000b) Labour Mobility., p. 5.
associated with casual work. The introduction of income credit accounts (discussed more fully below) serves the same purpose.34

A further manifestation of the growth of non-standard employment in Australia is the increasing incidence of temporary work, contract work and outwork.35 The main features common to these forms of work are the that the worker has no guarantee of ongoing employment and that the employer (or client) achieves “numerical flexibility” while avoiding the non-wage costs of employment (such as superannuation and sick leave).

Largely because of the obscure contracting arrangements associated with these forms of work, relatively little information about the conditions and patterns of employment is available. Studies on the conditions of outwork strongly suggest that labour standards and income security are severely curtailed by outwork arrangements.36 Similar concerns have been raised about the conditions faced by those who rely on labour hire companies for work. Watson and Buchanan point out that, between 1989 and 1995, the proportion of workplaces using agency workers increased by 50%, from 14% to 21%.37 While contract work also occurs in professional and other high-earning positions, the associated income variability and job insecurity is likely to be borne more easily by such workers than by people in lower-status and lower-earning occupations.

In contract work and outwork, the categories of employment and self-employment blur. Concerns about bogus self-employment were noted above. It is also significant that the incidence of self-employment typically increases as unemployment increases. “Refuge self-employment” is the term used to describe those who elect to start their own business in preference to being classed as

34 Commonwealth of Australia, *Australians Working Together*.
unemployed. Given the high failure rate for small businesses, it is unlikely that this strategy provides much more security than that provided by the labour market.

Australia also has a very high rate of part-time employment, second among developed countries only to the Netherlands. As with casual work, the proportion of the Australian labour market taken up by part-time work (as distinct from full-time work) has increased markedly over the last few decades and is spreading beyond its ‘traditional’ constituency. In 1975, only 13.6% of the workforce worked part-time and 80% of part-time workers were women. By 2000, 26.7% of jobs were part-time and women’s share had dropped to 73%.

There is an extensive overlap between casual work and part-time work. To illustrate, in August 1999, only 13.8% of permanent employees were employed part-time, compared with 70.2% of casuals who were employed part-time. In this respect, the problems associated with casual work (noted above) are also prevalent among part-time work more generally. Permanent part-time work is often contrasted favourably with casual part-time work but writers such as Junor have argued that the features that may once have distinguished permanent from casual part-timers (especially regularity of work) are less pronounced that ever before.

Much has been written about the family-friendliness of part-time work. While it is often pointed out that many women prefer part-time work because it allows them to combine work and family commitments, many women work part-time for

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41 ABS (2000), Employee Earnings, Benefits. Conversely, only 11.1% of people who were full-time employees were employed on a casual basis, compared with the 64.6% of part-time employees who were employed as casuals.
42 Junor, Anne (1998). ‘Permanent Part-Time Work: New Family-Friendly Standard or High Intensity Cheap Skills?’ Labour and Industry 8 (3) April, pp.77-95. This is because the use in agreements of monthly or annual averaging of the hours worked by permanent part-time workers can leave employers with considerable flexibility and employees with little say in the variation of their working hours
43 See Junor ‘Permanent Part-Time Work’.
economic reasons and many would like to work more hours.\textsuperscript{44} This analysis is also silent on the gendered structure of paid and unpaid work.\textsuperscript{45} In general, the quality (including the family-friendliness) of part-time work depends greatly on the type of work available and the extent to which choice is exercised. If, in order to work part-time, women must accept “dead-end” jobs, the family-friendliness and “worker-friendliness” of part-time work must be questioned.\textsuperscript{46}

The most important aspect of part-time work in relation to individuals’ use of income support is underemployment. The ABS defines as underemployed those “persons working part-time who would prefer to work more hours plus those who usually work full-time but who worked less than 35 hours in the survey week for economic reasons…”\textsuperscript{47} In the 15 years after 1985, the number of underemployed part-time workers in Australia increased by 237800 or 119\% from the initial level of 199,600, reaching 437,400 in September 2000.\textsuperscript{48} To compare, in September 2000 there were 596,700 fully unemployed persons.\textsuperscript{49} Clearly, the number of people affected by underemployment is significant and of the same order as the number who are unemployed. Yet the unemployment rate is often treated as an adequate single measure of excess labour supply and indicator of the health of the labour market.\textsuperscript{50}

Underemployment among part-time workers is largely caused by a long-run decline in the number of full-time jobs produced by the labour market and by an increase in the demand from employers for part-time workers, particularly in the


\textsuperscript{46} Andrew, Women and Part-Time Work.

\textsuperscript{47} Kryger, Underemployment and Overwork. Studies show that the latter category of underemployed worker is a very small proportion (0.5\%) of the workforce as a whole, while the former, underemployed part-time workers, makes up a very substantial proportion of the employed population (around 23\% of part-timers).DEWRSB, Labour Market Review., p. 12.

\textsuperscript{48} ABS (2000), Underemployed Workers, Australia. Catalogue no. 6265.0., p. 10.


services sector.\textsuperscript{51} Like unemployment, underemployment rises in times of recession. For example, as a result of the 1990-91 recession, underemployment increased from under 4\% of the total labour force (including the unemployed) in 1989 to over 7\% in 1992.\textsuperscript{52} However, the rate of underemployment has proven to be less responsive to economic recovery than the unemployment rate. Kryger (writing in 2000) notes that, while “the unemployment rate…fell from around 11 per cent at the peak of the 1990-91 recession to below 7 per cent today, the underemployment rate fell only slightly and has remained above six per cent for almost all of the post-recession period”.\textsuperscript{53}

Just as underemployment is a persistent phenomenon in the labour market, it tends to be a long-term condition for those unfortunate enough to experience it. In September 2000, the average duration of insufficient work among underemployed part-time workers was 58.5 weeks.\textsuperscript{54} This exceeds the average duration of unemployment at September 2000, which was 50.6 weeks.\textsuperscript{55} Probably in response to the intractability of underemployment, workers are increasingly resorting to multiple job-holding. In 1997, 435600 people held more than one job. This was an increase of 172900 multiple job-holders (or 65.6\%) from the 1987 level of 262700.\textsuperscript{56} Although it is possible that multiple job-holding may be a stable and adequate arrangement for some individuals, the labour market trends discussed above suggest that many such workers are likely to be in a vulnerable position with regard to job security and income reliability. In particular, it is reasonable to assume that multiple job-holders are vulnerable to underemployment.\textsuperscript{57}

\begin{itemize}
\item\textsuperscript{51} Kryger, \textit{Underemployment and Overwork.}, p. 2.
\item\textsuperscript{52} Kryger, \textit{Underemployment and Overwork.}, p. 1. This way of measuring underemployment makes it possible to make comparisons with the unemployment rate, in which unemployment is also measured as a proportion of the total labour force. However, it would also be possible to measure underemployment as a proportion of employed persons or sub-sets of employed persons. By these kind of measures, in September 2000, 5.3\% of all employed persons were underemployed.
\item\textsuperscript{53} Kryger, \textit{Underemployment and Overwork.}, p. 1.
\item\textsuperscript{54} ABS (2000) \textit{Underemployed Workers.}, p. 16. The figure cited above is the mean duration of underemployment. The median duration was much less at 26 weeks. This discrepancy suggests that the distribution of durations is positive-skewed, that is, the mean or average is increased by some unusually high durations.
\item\textsuperscript{55} ABS (2001a). \textit{Labour Force, Australia.} Catalogue no. 6203.0., p. 30. Again, this figure is the mean duration of unemployment. The median duration was less at 16 weeks, suggesting that the average duration of unemployment, like that of underemployment, is raised by a few unusually high durations.
\item\textsuperscript{56} ABS (1997a). \textit{Multiple Jobholding, Australia.} Catalogue no. 6216.0., p. 9.
\item\textsuperscript{57} The ABS does not give disaggregated data on multiple job-holders’ casual or permanent status, job tenure or variability of hours.
\end{itemize}
Job churning and working poverty

Labour force statistics such as the unemployment rate provide “point-in-time” or static pictures of the labour market. However, these statistics say little about individuals’ prospects over time. Static figures tell us nothing about the flow of individuals into and out of unemployment or about the distribution of unemployment through the labour force. Furthermore, a person might have a certain chance of gaining some form of employment but this does not indicate the likely pay or status of that job or describe the chances they have of moving on to better work. Often these issues are neglected in discussions that assume the overriding importance of “getting people into work”.

In attempting to answer some of these questions it is necessary to refer to longitudinal data which tracks individuals’ experiences over time. Unfortunately, there is a lack of this type of data available for Australia. The most useful source is the ABS’s Survey of Employment and Unemployment Patterns (SEUP), which operated between 1994 and 1997 before it was discontinued, although some other sources exist and are mentioned below.58

Australia has a relatively dynamic labour market by OECD standards, with a high rate of job turnover and low average job tenure.59 In the space of a single month, between June 2001 and July 2001, 12% of the labour force changed their status.60 Studies of labour force experience over a full-year also provide an important complement to point-in-time statistics. A recent ABS study found that fewer than half of the working age population had been employed for the whole year to February

60 ABS (2001) Labour Force, Australia., p. 31a, Table 28. The figure of 12% reflects the fact that, of the 7914900 people who were employed full-time, employed part-time or unemployed in June 2001, 956100 people had changed from one category to another (e.g. moved from unemployment to part-time employment) by July 2001. Also included in the figure of 956100 (people who changed category) are those (316000) who left the labour force.
1999 but that almost three-quarters had been employed at some time during the year.\textsuperscript{61}

One of the most significant applications of the ABS SEUP study is the analysis conducted by Le and Miller of job quality and churning in the pool of the unemployed. In relation to churning, Le and Miller write:

A labour market where a group of the unemployed obtain employment that lasts for only a short period of time and then return to being unemployed is said to be characterised by churning….Such churning is more likely where the jobs obtained in any given instance are of low quality.\textsuperscript{62}

Le and Miller’s analysis of the SEUP data shows that “the job churning process is an important problem in the Australian labour market”.\textsuperscript{63} They find significant differences between the employment and unemployment patterns of jobseekers and the general population. One important indication of job churning is that the Jobseeker group (defined as those who were unemployed, underemployed or marginally attached to the labour market when the SEUP study began in 1995) were significantly more likely than the general population, represented by the Population Reference group, to hold more than one job (sequentially) in the three years covered by the survey (31% compared with 24%). Furthermore, the average duration of jobs held by Jobseekers was much less at 182 days than the average for the Population Reference group (267 days).\textsuperscript{64} Closer analysis of case studies within the Jobseeker group shows that the main reasons for ceasing employment were that the job was temporary or seasonal, a lack of satisfaction with pay, work arrangements or hours and retrenchment or business failure.\textsuperscript{65}

In relation to their findings, Le and Miller conclude that


\textsuperscript{63} Le and Miller, \textit{Occasional Paper: Job Quality.}, p. xiv. It is important to note that the Jobseeker group is not equivalent with the ABS classification of "unemployed". The Jobseeker classification remained attached to those who were initially unemployed, underemployed or marginally attached regardless of any later status attained during the survey period. Le and Miller, \textit{Occasional Paper: Job Quality.}, p. 108.

\textsuperscript{64} Le and Miller, \textit{Occasional Paper: Job Quality.}, p. 18
Jobseekers generally have a number of short episodes of work interspersed with lengthy periods of specialist job search. Moreover, there does not appear to be much improvement over time in job stability. Hence, the problem for many of the unemployed is not only that it takes them a considerable period of time to find a job, but the jobs they typically find last for only a short period, after which they return to the pool of unemployment.66

Another significant finding of Le and Miller’s analysis is that job quality is closely linked to job churning. (Job quality is measured in terms of wages and in terms of occupational status.) In this respect it is important to note that the distribution of Jobseekers throughout the occupational scale is distinctively different from that of the Reference population, with Jobseekers being concentrated in lower-status occupations (see Table 1).

### Table 1: Population Reference Group and Jobseekers by occupation, %

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Population Reference Group</th>
<th>Jobseekers (actual)</th>
<th>Jobseekers (expected)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers and administrators</td>
<td>7.4</td>
<td>1.4</td>
<td>2.7</td>
<td>-1.3</td>
</tr>
<tr>
<td>Professionals</td>
<td>16.0</td>
<td>7.3</td>
<td>7.8</td>
<td>-0.5</td>
</tr>
<tr>
<td>Associate professionals</td>
<td>12.1</td>
<td>6.2</td>
<td>8.5</td>
<td>-2.3</td>
</tr>
<tr>
<td>Tradespersons and related workers</td>
<td>16.1</td>
<td>13.2</td>
<td>13.4</td>
<td>-0.2</td>
</tr>
<tr>
<td>Advanced clerical, sales and service workers</td>
<td>3.8</td>
<td>1.7</td>
<td>3.6</td>
<td>-1.9</td>
</tr>
<tr>
<td>Intermediate clerical, sales and service workers</td>
<td>16.6</td>
<td>17.1</td>
<td>17.5</td>
<td>-0.4</td>
</tr>
<tr>
<td>Intermediate production and transport</td>
<td>9.3</td>
<td>12.5</td>
<td>11.6</td>
<td>+0.9</td>
</tr>
<tr>
<td>Elementary clerical, sales and service workers</td>
<td>7.9</td>
<td>14.9</td>
<td>11.4</td>
<td>+3.5</td>
</tr>
<tr>
<td>Labourers and related workers</td>
<td>10.7</td>
<td>25.7</td>
<td>23.5</td>
<td>+2.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Le and Miller

Le and Miller’s results are supported by the work of various analysts. Watson and Buchanan found that, within a year and a half, 70% of jobseekers find work but two-thirds of the jobs found are casual and 90% of them are temporary.67 Furthermore, unemployed people who had previously held a casual or temporary job are much more likely to return to casual work than are jobseekers who previously held

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67 Watson and Buchanan, ‘Beyond Impoverished Visions’, p. 204. See also Burgess and Campbell, ‘Casual Employment in Australia’, p. 46
a permanent job. Evidence on the extent to which people move from non-standard jobs to secure employment is not promising, either. Burgess and Campbell (1998) show that, of jobseekers who found part-time work in May 1995, only 6.2% had moved on to full-time work by September 1996.

These findings further demonstrates that job insecurity and the incidence of non-standard work is not distributed evenly throughout the labour market, but is instead concentrated in what Watson and Buchanan describe as a “new reserve army of labour”, including both the unemployed and those employed in insecure, low-quality jobs. Importantly, evidence of job churning shows that the division between the employed and the unemployed is, to a large extent, merely an artefact of the static method of measuring the labour market.

Further evidence of the ill-defined boundary between unemployment and employment in developed countries is given by the OECD’s recent study of the dynamics of poverty. The OECD found that a majority (60%) of households who were poor in a given year in the European Union had at least one adult employed, while working poverty in the US was even more prevalent, with the corresponding percentage at 80%. When the OECD considered households whose incomes averaged below the poverty level over a three year period, the problem of working poverty appeared to be even more pronounced: 75% of such households in the EU and 90% in the US had at least one adult worker. The OECD concluded, “low-paying and precarious jobs better characterise the experience of some poor households than does continuous exclusion from the labour market.”

It has been pointed out that, in comparison with the US, the incidence of working-poverty in Australia is minimised by relatively high wages and social security payments. However, it is undoubtedly the case that “it is now possible to

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68 Burgess and Campbell, 'Casual Employment in Australia', p. 46.
70 OECD, Employment Outlook 2001., p. 10. The OECD defines as poor those households that receive less than 50% of the median income. ‘Permanent-income’ poverty, in this OECD study, describes households with incomes that, over the three years of the study, “on average [fall] below the poverty threshold throughout.” (p. 9) Unfortunately, Australia was not included in the study.
for full-year, full-time workers [in Australia] to be in poverty”. It is important to note that this growing problem sits alongside the failure of the labour market to create a sufficient number of full-year, full-time jobs.72

Two major interrelated trends may be identified from the previous discussion. The first is that non-standard jobs are an increasingly significant segment of the labour market and that these jobs are marked by insecurity and income variability. The second important trend is that the experience of many people at the margins of the labour market is of unemployment interspersed with short-term, low-status, non-standard jobs. These trends have significant implications for patterns of income support in Australia.

**The impact of labour market change on income support patterns**

Changes in the labour market have contributed to a growing trend towards combining income support with earned income, both at any given point in time and over a number of months. ABS data shows that the proportion of people combining part unemployment payments with some earned income rose from under 15% in 1986 to over 25% in 1996.73 In terms of point-in-time measures, Table 2 shows that fewer than two-thirds of people who were registered for unemployment payments in May 2000 were, strictly speaking, unemployed.

<table>
<thead>
<tr>
<th>Customer sub-group</th>
<th>Number</th>
<th>Per cent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Had earnings from employment</td>
<td>84,800</td>
<td>12.4</td>
</tr>
<tr>
<td>Did not receive a payment because of casual income</td>
<td>36,700</td>
<td>5.4</td>
</tr>
<tr>
<td>Other activities</td>
<td>34,600</td>
<td>5.1</td>
</tr>
</tbody>
</table>

**Table 2: People registered for unemployment payments, May 2000**


<table>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incapacitated</td>
<td>71,000</td>
<td>10.4</td>
</tr>
<tr>
<td>Other temporary exemption from activity test</td>
<td>14,400</td>
<td>2.1</td>
</tr>
<tr>
<td>Unemployed (ie not employed and seeking work)</td>
<td>441,000</td>
<td>64.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>682,500</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Adapted from Landt and Pech, 2000.74

These figures show that, at a given point in time, 17.8% or over one-sixth of those registered for unemployment payments also had earned income. Given the evidence of labour market churning presented above, it may reasonably be assumed that a much larger proportion of recipients will have combined earned income with unemployment payments at some time during the year. In analysing the data on unemployment payment recipients, Landt and Pech observe that “[t]he long-term unemployed person who is entirely dependent on payment for many years is a relatively rare individual”, noting that “many recipients alternate periods of employment with periods of income support receipt.” 75 Work by Mitchell supports the findings of Le and Miller, emphasising that cumulative disadvantage and persistent insecurity often mark the lifetime labour market experiences of low-income earners. The implication of such long-run experiences for retirement incomes are clear and sobering: intermittent employment and reliance on income support is likely to strongly predict near-poverty-level incomes in old age.

Landt and Pech, and other researchers such as McLelland, draw a clear connection between labour market change (particularly the rise of underemployment and the spread of casual work) and the increasing proportion of the working-age population who receive unemployment payments. Labour market change, and the consequent need for the incomes of those in marginal and intermittent employment to be supplemented, partly explains the apparent paradox between a relatively stagnant unemployment rate and the increasing proportion of the population receiving unemployment payments.76

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74 Landt and Pech, 'Work and Welfare in Australia'.
75 Landt and Pech, 'Work and Welfare in Australia'.
In public debate, a stark dichotomy between “work and welfare” is often assumed. The analysis presented above shows that this is a poor description of the experiences of those at the margins of the Australian labour market.
Chapter 2: Social Security and the Labour Market: Past and Present

Recent labour market changes provide a complex background to the apparently straightforward described in the previous chapter suggest that a policy rhetoric of moving people from “welfare to work” rhetoric may not be easily translated into administrative action. The social security system is required to both respond to the political objectives of the Government of the day and to adapt to changing social and economic conditions. The thesis now turns to examine the past experience and present situation of the social security system as these sometimes conflicting goals have been pursued. This chapter first describes recent changes to the income support system, culminating in a summary of the main processes and requirements that apply to unemployment benefit recipients. Following this, recent changes to the incentive structure and payment arrangements of the income support system are explained. Finally, the recent report of the Reference Group on Welfare reform is discussed. This report leaves many questions unanswered and points to the need for further analysis, a task which is discussed in the following chapters.

Background: Bread
The nature of Australia’s social security unemployment benefit system

Since the establishment of the first unemployment payment in 1945, unemployment benefits in Australia have been means-tested. Means-testing reflects both the residual nature of the system (that is, its role as a last-resort “safety net” to catch those presumed few whose needs are not met by private or market means) and the notion that public assistance should only go to those who need it most (that is, a rationale of desert, not universal entitlement).

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In the 1980s, the federal Labor Government tightened the means-testing of payments, under the general objective of achieving better “targeting”. Along with increases in “social wage” provisions (such as financial support for childcare and the establishment of the Superannuation Guarantee) this objective was seen as important in order to restrict increases in social security spending while minimising the poverty and inequality that would otherwise result from the Government’s deregulatory policies and arrangements for wage restraint. The Labor Government also increased the emphasis on “active labour market policies”. This involved a tightening of the activity test, under which people who receive unemployment payments are required to actively look for work, unless a special exemption is granted. More importantly, in terms of policy innovation, active labour market policies invoked the principle of “reciprocal obligation”. That is, the Government would provide training and various work opportunities, in which unemployed people would be obliged to participate.

During this period, the job search activities undertaken by unemployed people were coordinated by the Commonwealth Employment Service (CES). The CES was a government body that provided job-matching as well as referring job-seekers to training programs and, increasingly in the later years of the Labor Government, conducting case management.

Following the change of government in 1996, the Howard Coalition Government elected in 1996 made a number of changes to the handling of unemployment benefit recipients. First, the principle of mutual obligation was introduced as the guiding framework for social security policy, replacing the former reciprocal obligation principle. The activity to be undertaken “in return” for assistance was no longer explicitly related to improving employable skills but

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83 ACOSS, Submission to the Reference Group., p. 10
rather to demonstrating and developing a work ethic, while “the community’s” or “the government’s” side of mutual obligation was re-construed as the provision of income support, rather than the provision of training programs.  

Another major change in the social security system was the creation, in 1998, of a market for employment services, the Job Network. The CES was transformed into Employment National, a corporatised government-owned agency in competition with over 300 private and community sector agencies. When people initially claim unemployment-related income support from Centrelink, they are required to register with one of the Job Network members in their area. The Job Network provider then gives the recipient access at least to job matching services. Since the attendance by recipients at meetings with their provider is part of the “Preparing for Work Agreement” that they must sign on beginning to claim payments, failure to attend these meetings is grounds for “breaching”. In this way some of the responsibility for making decisions about recipients’ eligibility is devolved to the private and community organisations that participate in the Job Network.

Some form of activity test (or work test, as it was formerly known) has been attached to the receipt of Commonwealth unemployment benefits since their inception. The current activity test consists of a number of elements, of which actively searching for work is the most important and best-known. The other requirements which recipients must meet in order to claim payments are: “prove they are looking for work,” “stay in regular contact with a Job Network member”, “accept any suitable job offers”, “attend training courses” and “declare all earnings.”

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86 Considine, Enterprising States., pp. 117-143.

87 Considine, Enterprising States., pp. 117-143; for more detail see [FaCS, 2000 #70], pp. 75-83.

88 Tann, Tracey and Sawyers, Fiona (no date supplied). Survey of FaCS Unemployed People: Attitudes Towards the Activity Test. Canberra Department of Family and Community Services., p. 3

89 Tann, Survey of FaCS Unemployed People., p. 7.

90 Tann, Survey of FaCS Unemployed People., p. 7.
to meet the requirements of the activity test. People who continue to receive part-
payments while working part-time are generally still required to search for more paid
work. The basic activity test requires between 4 and 14 job search contacts per
fortnight, to be recorded on the fortnightly payment claim form.

Depending on individuals’ circumstances (e.g. the duration of unemployment,
their age and mobility) and on Centrelink staff discretion, recipients may also have to
fill in a “Jobseeker Diary” (or “Dole Diary”) and/or collect “Employer Contact
Certificates”, which recipients must get employers to sign to prove that job-seekers
have actually approached them for work. Both the Jobseeker Diary and the
employer contact certificates have the added function of monitoring more closely the
type of jobs being sought and the method of job search contact.

The overall purpose of activity test requirements is to make sure that recipients
actively seek work. However, there is evidence that job-seekers see and treat these
requirements as ritual formalities, separate from their actual attempts to find work.
For example, respondents to a survey conducted by the Department of Family and
Community Services said that they would not present Employer Contact Certificates
to employers from whom they genuinely hoped to gain work. Instead, they would
present the Certificates to employers from whom they did not want or expect to gain
employment. This reluctance reflects the fact that recipients are painfully aware of the
stigma associated with receiving unemployment benefits.

Job search requirements also serve to target payments on the “genuinely
needy”. As well as reflecting moral community attitudes, job search requirements

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91 Tann, *Survey of FaCS Unemployed People.*, [OECD, 2001 #99], p. 27.
On the effects of this rule see Service, Australian Council of Social (2001). *Breaching the Safety Net:
The Harsh Impact of Social Security Penalties.* 13th August., p. 4. People over 50 who have been on
Newstart Allowance for more than one year and are earning at least 35% of average male full-time
earnings in a part-time job are not required to actively look for full-time work. Tann, *Survey of FaCS
Unemployed People.*, p. 25.
94 Tann, *Survey of FaCS Unemployed People.*, p. 4; Department of Employment *Labour Market
have a pragmatic function in which the “ordeal” imposed (i.e. job search) will deter from claiming benefits many of those who can survive without them. In economic game theory, the ordeal acts as a rationing device to prevent the overuse of a common pool of resources. In regard to social security, this function works so “well”, in fact, that many people who are eligible to claim benefits (in terms of their income and their job search activity) are deterred from doing so by the stringency of the activity test reporting requirements. Again, this effect is compounded by the stigma associated with claiming an unemployment allowance.

Suggestions are sometimes made by welfare groups and others that activity test requirements are designed not only to save money by deterring the non-needy, but also to cut costs by deliberately setting the bar so high that even some of those actively trying to meet requirements in order to claim benefits will fail to do so and will be denied payment. It has not been proven that policy is deliberately pursuing a strategy of “bureaucratic disentitlement”, although disentitlement is being pursued, but a recent report on breaching practices suggests that elements of the social security system respond to in-built incentives which do come together to create a bias towards greater breaching.

Mutual Obligation requirements and Work for the Dole

Mutual Obligation is the name given to a new set of requirements introduced in 1998. It initially applied only to young people but has more recently been extended to older groups, so that mutual obligation requirements now apply to all

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unemployment-payment recipients under 50 years of age.\textsuperscript{102} (This accords with community attitudes which generally support more stringent requirements for younger people than for the middle-aged and elderly).\textsuperscript{103} Mutual Obligation operates in addition to the basic activity test. While the activity test is mainly focused on ensuring that assistance goes only to those genuinely seeking work, Mutual Obligation is supposed to be geared to ensuring that those who receive allowances “give something back” to “the community.”\textsuperscript{104} Individuals who are required to participate in Mutual Obligation may choose from a list of activities including voluntary work, part-time employment, military service, literacy and numeracy training and Work for the Dole, although this choice is subject to the availability of activities in the local area.\textsuperscript{105}

The most fully developed form of Mutual Obligation is Work for the Dole. Work for the Dole requires participants to work in approved community projects, which are selected through a Government tendering process. This form of Mutual Obligation is compulsory after certain periods on payments (6 months for 15-24 year-olds and one year for 25-34 year-olds).\textsuperscript{106} Work for the Dole has recently been extended to school-leavers who are claiming Youth Allowance and are not yet in work or training within three months of leaving school.\textsuperscript{107}

Proponents of Work for the Dole argue that, apart from the perceived moral value of “giving something back”, the program teaches recipients to hold job-friendly attitudes, to adapt to routine and to develop a strong work ethic.\textsuperscript{108} These attributes are seen as precisely what is missing in the “culture of dependency” that US writer Lawrence Mead sees as being at the root of the problem of unemployment.\textsuperscript{109} Work for the Dole (and Mutual Obligation generally) has an explicit commitment to

\begin{flushright}
\textsuperscript{102} Commonwealth of Australia (2001a). \textit{Australians Working Together: Helping People to Move Forward}. Canberra.  \\
\textsuperscript{103} Tann, \textit{Survey of Facs Unemployed People}.  \\
\textsuperscript{104} Considine, \textit{Enterprising States.}, p. 138; Howard 'Federation Address'.  \\
\textsuperscript{105} Commonwealth, \textit{Australians Working Together}.  \\
\textsuperscript{107} Centrelink 'Work for the Dole'.  \\
\end{flushright}
providing the kind of attitudinal and moral influences that “welfare families” are perceived to fail in instilling.

Developments in incentive structures and payment arrangements

At the same time as the income support system has been imposing greater requirements on recipients, incremental changes to the system have increasingly used financial incentive effects and payment structures in order to encourage recipients to undertake work of any kind. This reflects the policy objective of maintaining people’s attachment to the labour force and has become an increasingly important sphere of policy development as the labour market changes discussed in the previous chapter have occurred.

The main problems addressed by these incremental policy changes are the perceived disincentive effect of high effective marginal tax rates (EMTRs) and the need to preserve a gap between the levels of income support provided by government benefits and the wages that can be earned in employment to ensure that it is in people’s financial interests to move “from welfare to work”. EMTRs represent the combined effects of income tax and the reduction in social security payments on that accompany each extra given dollar of earnings. For example, if a person receiving income support contemplates earning an extra dollar which would reduce their benefits by 70 cents, and if they can also expect to pay 17 cents of income tax on this amount, this person faces an EMTR of 87% for that extra dollar. Policy-makers are concerned that the high EMTRs that apply over certain ranges of income and for certain combinations of benefits will make it “not worth people’s while” to take up extra work.110 This concern is made particularly acute by the context of the changing labour market, in which jobseekers are often unable to find full-time work while part-time and temporary employment are more readily available.

Changes to the social security and tax systems have typically been incremental rather than radical. In a recent change that reduced EMTRs for low-earners, the

Howard Government's New Tax System (ANTS) package cut the first marginal tax rate from 20% to 17%. Alternatively, another way to reduce the amount of tax paid by low-income earners is to increase the tax-free threshold. Again, the ANTS package incorporated such a change, increasing the tax-free threshold from $5,400 to $6,000.111

Because EMTRs reflect the rate of withdrawal of benefits as well as the rate of income tax, a second way in which EMTRs can be minimised is by reducing the rates at which payments are withdrawn as earned income increases (these rates are known as “tapers”). The recent history of social security reform shows that significant steps have already been taken in this direction. In particular, the Keating Labor Government’s 1994 Working Nation reforms included the reduction of tapers from 100% to 70% for unemployment payments.112 This was a significant change in social security policy in Australia. It marks the beginning of the trend to encouraging recipients to take up non-standard work by allowing them to retain some income support.113 Continuing this trend, the Howard Government’s ANTS package relaxed the income tests applied to pensions and Parenting Payments, though no changes were made to the withdrawal rates of unemployment or student allowances.114

110 Keating and Lambert, *From Welfare to Work*.
111 Taking the $150 low income tax rebate into account, the ANTS change entailed an increase in the tax-free earnings area from $6,150 to $6,882. These and other income tax reductions were introduced by the Howard Government as compensation for the new Goods and Services Tax (GST). It should be noted that proportionately equal and in many cases higher rates of GST compensation apply to higher-income earners. See Ingles, David and Oliver, Ken (2000). ‘Options for Assisting Low Wage Earners’. *Economic and Labour Relations Review* 11 (1) June, pp.76-107.
112 Ingles and Oliver, ‘Options for Assisting Low Wage Earners’, p. 90; Edwards, Meredith (2001). *Social Policy, Public Policy: From Problem to Practice*. Sydney: Allen and Unwin. Edwards 2001, p. 162. Since then, a 50% taper zone for the first $80 earned over the free earnings area has been introduced; thereafter, the 70% taper applies. Services *Technical and Other Appendices*, pp. 5, 9. It should be noted that the free areas differ for the various pensions and allowances (ranging from $60 of allowable earnings per fortnight for ‘unemployed’ recipients to $230 per fortnight for full-time students). This means that the actual income levels at which the two taper rates (50% and 70%) operate differ between payment types. ACOSS, *Technical and Other Appendices*, pp. 5, 9.
114 FaCS, *Technical and Other Appendices*, p. 5. The taper rates for pensions and Parenting Payment (single) have been reduced from 50% to 40%. Parenting Payment (Partnered) now includes an extended 50% intermediate taper zone, between the upper limit of the free area ($60 per fortnight) and the new level of $245 per fortnight, beyond which the usual 70% withdrawal rate applies. The free areas of all income support payments were increased by 2.5%.
Another way to increase the returns from (and therefore the incentives for) work is extend income supplements to people who are employed as well as those who are not, or who are only marginally employed. In Australia, supplementary benefits for those with dependent children were greatly extended by the Labor Governments of the 1980s and 1990s. These supplements aimed to prevent child poverty and to compensate for wage restraint by extending the “social wage”. In terms of preventing child poverty, supplementary payments have been reasonably effective. The Howard Government has continued to support a system of family payments with wide coverage and has increased assistance to single-earner families with young children (including both two- and single–parent families).

An important question is whether earnings supplementation should be extended to those without children. Currently, few people without children have access to earnings supplementation beyond that supplied through unemployment allowances. Despite the trends towards reducing tapers, unemployment allowances were not designed to act as low wage subsidies and a shift to this function would require a “new philosophy” of income support. The eligibility restrictions and activity tests that apply to unemployment allowances are still largely premised on the assumption that claimants are not working and that they are therefore at risk of losing

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115 Keating and Lambert, *From Welfare to Work.*, pp. 1-2. These supplements are distinct from income support payments. While the latter are designed to compensate for the absence of normal income, supplements are intended to “top-up” these normal sources.


117 FaCS, *Technical and Other Appendices.*, p. 5-6. This system of family assistance is delivered through the Family Tax Rebates A and B, which replace and consolidate a number of other payments and tax rebates that were previously paid to families. Family Tax Benefit A provides assistance to families with dependent children, based on household income and the number of children. See Family Assistance Office, Department of Family and Community Services *Family Tax Benefit A* and *Family Tax Benefit B*. Available online at http://www.familyassist.gov.au/internet/fao/fao1.nsf/publications/Family_Tax_Benefit_A.html; and http://www.familyassist.gov.au/internet/fao/fao1.nsf/publications/Family_Tax_Benefit_b.html (accessed 06-10-01). Families with incomes up to $73,000 (for a two-child family) are eligible for a flat rate payment through the Family Tax Benefit (Ingles 'Options for Assisting Low Wage Earners', p. 92.). Other types of supplementary payments include Rent Assistance, Childcare Assistance and Childcare Rebate, and Mobility Allowance for disabled people with transport difficulties. See Services Technical and Other Appendices., p. 6


119 With the exception of Rent Assistance, which is delivered as an integrated payment with Youth Allowance and Newstart.

120 Ingles, 'Options for Assisting Low Wage Earners', p. 100.
their attachment to the labour force. Any more extensive role for unemployment benefits in supplementing earned income would profoundly challenge the viability of this assumption and of the rules which are premised on it.

The incremental changes described in this section typically occur behind the scenes of the major policy debates and involve technical considerations and language that makes them difficult for non-experts to understand. Yet these incremental changes represent important steps towards a labour market and social security system characterised by the increasing overlap of earned income and income support payments.

**In the present, considering the future: Looking Forward**

In 1999, the Howard Government commissioned a report into possible approaches to welfare reform. A Reference Group comprising representatives of the community, government and business sectors was appointed and chaired by Mr Patrick McClure, CEO of Mission Australia. The Government’s terms of reference framed the problem of welfare reform as “the increasing reliance by Australians on welfare”, defined in terms of the “one in five people of workforce age” who are “on income support payments.”

The Reference Group was asked to provide advice on “options for change to income support [and related] arrangements aimed at preventing and reducing welfare

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121 Edwards, *Social Policy, Public Policy.*, pp. 157-158. Edwards describes how the ground-breaking changes to the income tests for social security payments introduced by the Working Nation package in 1994 were achieved by “political opportunism” on the part of the then Department of Social Security, combined with the “partiality” of Michael Keating (then Secretary of the Department of Prime Minister and Cabinet) to the measures. The success of this “opportunism” was achieved despite the fact that the possibility of such changes was not included in the terms of reference for the Green Paper.

122 The other six members of the Reference Group were: Mr Wayne Jackson (Deputy Chair), Deputy Secretary of the Department of Family and Community Services; Professor Peter Dawkins, Director of the Melbourne Institute of Applied Economic and Social Research; Professor Mark Lyons of the School of Management at the University of Technology, Sydney; Ms Jane Schwager, CEO of the Benevolent Society of New South Wales; Mr Jim Longley, Senior Finance Executive of the Commonwealth Bank of Australia; and Ms Elizabeth Morgan, Social Policy Specialist, Morgan, Disney and Associates. Reference Group on Welfare Reform (2000b). *Participation Support for a More Equitable Society: Final Report of the Reference Group on Welfare Reform*. Canberra July. pp, 62-63.

dependency." In doing so, a number of principles were specified, including “establishing better incentives for people receiving social security payments, so that work, education and training are rewarded” and “expecting people on income support to help themselves and contribute to society through increased social and economic participation in a framework of Mutual Obligation.”

It is important to note that changes in the structure of the labour market, such as those described in the previous chapter, were not included in the terms of reference for the report. Nevertheless, the Reference Group identified, as one of the four main trends underpinning the need for fundamental reform:

changes in the balance between permanent full-time jobs and part-time and casual work, between male and female employment, between jobs in manufacturing and primary industry and jobs in service industries

The main problem, however, was construed as that of “entrenched economic and social disadvantage”, manifested in the incidence of children living in families with no adult in paid work, and in the damaging impact of joblessness on self-esteem, health and life opportunities. “Without appropriate action now,” the report warns, “Australia may be consigning large numbers of people to an intergenerational cycle of significant joblessness.” The cause of the problem of entrenched disadvantage is seen to be the “unequal distribution” of jobs, as “[m]any of the new part-time jobs have been taken in households where there is already someone in employment…”

It is critical that neither the quality of jobs nor the dynamic patterns of employment and benefit receipt are recognised as problematic aspects of the labour

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124 Reference Group on Welfare Reform, Participation Support., p. 62
125 Reference Group on Welfare Reform, Participation Support., p. 62 The complete terms of reference are provided in Appendix A.
126 Reference Group on Welfare Reform, Participation Support., p. 2. The other three trends identified by the reference group are: a “growing divide between ‘job rich’ and ‘job poor’ households”; manifested in an uneven geographical distribution, in which “too many children live in families with no parent in paid work”; the fact that “[m]ore people receive income support”, with a special concern being “the proportion of the population that depends on income support for the majority of their income”; and the fact that “[j]ob opportunities for less skilled workers have stagnated or declined” relative to those for highly skilled workers, which has been “associated with a widening distribution of earnings.” (pp. 2-3).
market to which analysis of the social security system should respond. The construction of the problem in terms of *joblessness* and the *distribution of jobs* lays the foundation for a unitary view of “a job” as a sufficient and simple goal that requires no further qualification or inquiry. This construction of the problem limits the analysis and recommendations of the Report.

In providing advice on the achievement of a “Participation Support System”, the McClure report argues for a “simple and responsive income support structure”. Ideally, the report suggests, all payments for people of workforce age would be rationalised into a single means-tested common payment which would be available to all “people who participate consistently with their circumstances and capacities”. This would be supplemented by “additional needs-based payments” to support participation by off-setting the costs of childcare, special transport costs for those with disabilities, the costs of beginning employment, and so on.129 Under the proposed common income support structure, all claimants would be encouraged to participate (socially or economically) in ways appropriate to their circumstances.

A large part of the report is devoted to considering options for improving incentives for paid work. The report recommends extending in-work benefits as part of an integrated payment in the longer term. Recommended initial steps include removing EMTR “black spots” and introducing a “transition bank to improve the incentives for and returns from casual work and provide a smoother transition to paid employment for people on income support”130 The report argues that “[t]he greater the assistance to those out of work relative to income from work, and the fewer requirements placed on recipients, the more likely it is that people will remain on income support for long periods.”

In discussing incentives for paid work, the Reference Group notes that further reducing benefit tapers might reduce the incentive to take up full-time work. That is, recipients might be less inclined to “jump right out” of the income support system because there might no longer be any financial advantage in doing full-time work

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over compared with combining income support and part-time work. The report argues that, since “improved incentives for part-time work should not unduly compromise incentives for full-time work”, the Government should consider extending the coverage of social security payments to full-time workers, in order to preserve the incentive effect. The report argues that, “if income support arrangements were liberalised and/or real, full-time award wages fell”, then incentives for people to work full-time would have to be protected by the extension of income supplementation to full-time workers.\textsuperscript{131}

Alison McClelland, a social policy analyst, interprets the McClure Report as a continuation of Australia’s tradition of pragmatism in social policy, in that it attempts to be neither too harsh nor too liberal, avoiding the extremities of American welfare policy.\textsuperscript{132} Its recommendations are also ambiguous and highly dependent on interpretation and implementation. Accordingly, the McClure report policy.\textsuperscript{133} The Report received broad though unenthusiastic support. Its support, but it has also been criticised on substantive number of grounds, some of which are mentioned below.\textsuperscript{134}

The most important limitation of the McClure report is its positioning in relation to the labour market. From the perspective of the report, social policy is confined to a reactive role in responding to changes in the labour market, which are beyond analysis and influence. For example, the Reference Group is concerned about the incentives effects that would occur “if…real full-time award wages fell.” This gives the impression that such a fall would be unrelated to the income support system, except insofar as the income support system responded to this change. This impression is misleading because, as economists often point out, income support affects pressures on wage rates. Furthermore, the proposal to extend income supplementation to full-time employees is a crucial and well-known element of a plan.

\textsuperscript{130} Reference Group on Welfare Reform, Participation Support., pp. 30-31. The EMTR ‘black spots’ include the overlap between the means test of the Family Tax Benefits (A) and the Youth Allowance parental income test.

\textsuperscript{131} Reference Group on Welfare Reform, Participation Support., p. 22

\textsuperscript{132} McClelland, Comments on the final report., p. 109.


to reduce real award wages (as in the Five Economists’ plan discussed in Chapter 4). The report makes only a brief reference to the fact that in-work benefits may “tak[e] the pressure off the wages system by ensuring adequate income for low-skilled full-time employees and their families.” As is discussed in the following chapter, effects on the labour market are much more complex and important than captured by such a statement.

Although the terms of reference focus on “welfare dependency”, a comprehensive interpretation of this would go beyond the obligations, services and incentives that can be applied to individuals. As McClelland points out, individuals’ patterns of participation depend on the institutional and structural setting as well as on their motivations and capacities. If the reference group was able to reinterpret the specified goal of welfare reform (“reducing welfare dependency”) as that of “increasing participation”, it should have been possible to at least outline the debate as it is occurring in the surrounding policy areas of industrial relations and economic policy.

Another important limitation of the McClure report is that it is uncritical towards part-time and casual work, presenting these as transitional arrangements which will lead to better jobs for recipients, thereby reducing “welfare dependency”. As argued in Chapter 2, this view is of doubtful validity, given the labour market trends that are currently shaping the experiences of workers at the low end of the Australian economy. The report argues for the extension of the individuals’ ability to combine income support and earned income, in order to increase participation in part-time and casual work but, because these forms of work are seen only as “stepping stones”, there is no discussion of how to deal with people for whom intermittent and partial employment is the norm.

135 Reference Group on Welfare Reform, Participation Support., p. 26. The (otherwise much more detailed) Interim Report also included little discussion of the labour market effects of in-work benefits, merely noting that “employment conditional benefits could be a significant component of a strategy to boost employment opportunities by allowing the real costs of low-skilled labour to decline, while maintaining or increasing the incomes of low-income families containing such low-skilled workers.” See Reference Group on Welfare Reform, Interim Report: Participation Support for a More Equitable Society. Canberra March., pp. 44.
The Howard Government’s used the McClure report as a basis for relatively modest reforms to the social security system, which were broadly in accordance with changes already under way. The Government’s response was made through the statement ‘Welfare Reform: A Stronger, Fairer Australia’ and in ‘Australians Working Together: Helping People to Move Forward’, a package of measures whose implementation is planned to begin in the 2001-2002 budget.136

While a number of specific initiatives were announced, the most significant initiative in this package for the purpose of this thesis is the introduction of a Working Credit, which is planned commence in September 2002.137 For anyone receiving a pension or benefit, the notional credit accrues at a rate of $48 for every fortnight that a recipient has no earnings, to a maximum of $1000. The Credit is then used to offset earnings when a recipient does paid work. The Working Credit is intended to encourage people to take up casual, part-time or temporary work by reducing the extent to which their earnings will affect their payments. It is also intended to redress the current disparity in which earnings that vary considerably over time have a much more significant impact on income support payments than do earnings (of the same overall value) that are fairly constant.

The effect of the Working Credit scheme will be to increase the incentives for people to do work of variable hours or of a short-term nature, including short spells of full-time work. The Government maintains that “[i]t is well accepted that any paid work is a stepping stone to a full-time job, and we need to do more to encourage people to take up casual and part-time opportunities.”138 Like Work for the Dole, this perspective reflects the idea that people depend on income support because they have little or no work experience and that doing some work, whatever its nature or duration, will make people more “job-ready”. Announcing the initiative, the Minister for Family and Community Services, Amanda Vanstone, stated that “[o]ne of the best ways to get back into the full-time workforce is by getting your foot in the door

through some casual work.”139 As Chapter 2 makes clear, these assumptions are far from “well accepted”. Increasing the rate at which people take up short spells of employment does not imply a substantial impact on the overall success of their attempts to find permanent full-time jobs. The introduction of the Working Credit will, however, have the more modest effect of increasing the incomes of some recipients as well as removing what might be seen as an unjustified disparity in the treatment of different people’s incomes by the payment system.

The Australians Working Together package includes the statement that the Government “will also provide a way in which people can make the transition to full-time work” but it does not specify how this is to be achieved.140 As the OECD notes, “the process of moving job-seekers first into part-time work with low hours and from there into full-time work is too complex to be easily assisted”141 The OECD believes that Australia’s system is already too heavily weighted in favour of encouraging part-time as opposed to full-time work. It is possible that the Working Credit will exacerbate what the OECD views as an imbalance in favour of part-time work, notwithstanding the Government’s aforementioned statement of intent.

Instead of introducing new systems of in-work benefits, the Government has pursued an alternative method of enhancing incentives for work: making social security more difficult to “stay on”. In a recent speech on “making work pay”, the Minister for Employment and Workplace Relations, Tony Abbott, said [the extension of Work for the Dole is] designed to make work more attractive than the alternative without increasing labour costs and without making anyone on welfare financially worse off. Another way to make work pay is to make non-work not pay. If the alternative to working for a wage is working for the dole, there's much more incentive to take work, particularly the entry-level and temporary jobs that employers often find hard to fill even when unemployment is high.142


141 OECD, Innovations in Labour Market Policies., p. 26
A paper recently produced by the Department of Employment, Workplace Relations and Small Business also appeared to endorse this approach to “easing... policy tensions” in the treatment of income support recipients.142 This approach to preserving incentives involves, as Mr Abbott bluntly puts it, “demonstrat[ing] to people who would rather be left alone that ‘the game is up’ and that there is no alternative to work.”144

The McClure report’s ambiguous vision of a participation support system operating within a framework of mutual obligations leaves many questions unanswered. It opens the door to a system of broad income supplementations but appears to retain the principle that assistance should be conditional on certain activities. In its uncritical endorsement of part-time and casual work, the report provides little analysis of what may reasonably be expected from the labour market in the future. In particular, by leaving the details of its proposals unspecified, it leaves the actual form of its vision to be developed in technical policy discussions. It is to these discussions that the thesis now turns.


Chapter 3: Social Security and the Labour Market: the Future?

As the previous chapter shows, the social security system is being adapted to accommodate changes occurring in the labour market, by expanding people’s capacity to combine earned income with income support. This is based on the objective of “maintaining people’s attachment to the labour force” and on a favourable view of irregular employment arrangements as “stepping stones” to self-reliance. As the data presented in Chapter 2 shows, this view neglects important aspects of the real labour market experiences of marginally employed people. At the same time the rhetorical aim of moving people from “welfare to work” is being expressed through increased activity-test and other requirements. However, the extent to which the existing social security system can pursue this path of inducement and enforcement is limited by the fact that the income support system is still largely designed to deal with one-off spells of complete unemployment and not with intermittent unemployment, underemployment and job-churning. Emerging contradictions between the symbolic enforcement of “welfare to work” and the real developing patterns of income supplementation can be expected, resulting from the fact “welfare” and “work” are no longer distinct and separate spheres.

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developing patterns of income supplementation can be expected, resulting from the
fact “welfare” and “work” are no longer distinct and separate spheres.

It is appropriate, then, to look to the future and examine the proposals that are being
presented for the re-shaping of the social security system. This chapter describes the
major positions and ideas in the debate about how social security reform should
proceed, with regard to the changes previously mentioned. It finds that instead of
questioning the premises of “welfare to work” and the increasing role of
income supplementation, current ideas about the future of social security and work are
characterised by consensus on the ambiguous rhetorical goals of “making work pay”
and “providing incentives” on one hand and by highly technical schemes for
increasing the integration of wages with the tax and transfer system on the other. In
the final chapter, it is argued that these discussions should be incorporating a critical normative perspective on what could be a deeply significant
change in the relationship between markets, the state and individuals.

The “Five Economists” plan

In October 1998, the “Five Economists” (Peter Dawkins, John Freebairn, Ross
Garnaut, Michael Keating and Chris Richardson) published an open letter to the
Prime Minister outlining a proposal “to link industrial relations reform with reform of
the tax and welfare system” to “create more jobs”. Dawkins et al argued that higher
economic growth alone would not substantially reduce unemployment and that “lower
growth in real labour costs” was necessary.

The prescription for lower wages growth is based on the argument that wage
restraint leads directly to increased demand for labour and also on the argument that

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the lower inflation levels achieved under conditions of low real wages growth allows more expansionary monetary policy, thereby leading to higher economic growth and increased employment.\textsuperscript{146} In these two ways, it is believed that those who have employment can, \textit{by accepting wage restraint}, ‘buy’ jobs for those who do not, \textit{by accepting wage restraint}.\textsuperscript{147}

Dawkins et al therefore propose freezing award wages growth for four years, in order to reduce aggregate growth in real wages. To compensate for the loss in real wages and to maintain the incentive “to move from welfare to work”, Dawkins et al propose a system of refundable earned income tax credits “for those on low wages in low-income families”.\textsuperscript{148} Such tax credits involve payments that increase in proportion to earnings, up to a certain level.\textsuperscript{149} The main purpose of earned income tax credit (EITC) schemes is, \textit{thus}, to increase the returns from work in low-paid jobs. EITC schemes are seen to encourage work because eligibility is conditional on employment and because payments are \textit{increased} as people take up more work, contrary to the usual system of income testing for benefits.

Dawkins et al argue that, compared with their proposed system, increases in award wages are less equitable and less efficient because they benefit low-wage earners in middle- and high-income families as well as those in low-income families. \textbf{In addition}, they argue that wage increases jeopardise employment and further hurt those on the margins of the labour market.\textsuperscript{150} Dawkins et al point out that the net incomes of low-income families are often little-improved by modest wage rises, after the effect of taxation and the withdrawal of social security benefits are taken into account.\textsuperscript{151}

\textsuperscript{146} On the relationship between unemployment, inflation and monetary policy, see Bell, Stephen (1999). 'The Scourge of Inflation? Unemployment and Orthodox Monetary Policy'. \textit{Australian Economic Review} 32 (1), pp.74-82..

\textsuperscript{147} Bell, Stephen (2000). 'Unemployment and Inequality in the New Economy and the Politics of Redistribution'. In \textit{The Unemployment Crisis in Australia: Which Way Out?}, edited by Bell, S. Cambridge: Cambridge University Press, pp.252-270., p. 269.

\textsuperscript{148} Dawkins et al, 'Dear John - How to Create More Jobs'.

\textsuperscript{149} Ingles and Oliver, 'Options for Assisting Low Wage Earners'., p. 84. For an example of how an EITC scheme might work, see footnote 13 below.

\textsuperscript{150} See Watson and Buchanan, 'Beyond Impoverished Visions', pp.194-228.

\textsuperscript{151} Dawkins et al, 'Dear John - How to Create More Jobs'.

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Dawkins et al argue that, compared with their proposed system, increases in award wages are less equitable and less efficient because they benefit low-wage earners in middle- and high-income families as well as those in low-income families and also because wage increases jeopardise employment.  

Dawkins et al also argue that the net incomes of low-income families are little improved by modest wage rises, after the effect of taxation and the withdrawal of social security benefits are taken into account.

Dawkins et al argue believe that their proposed tax credit scheme should be a first step towards establishing a negative income tax (NIT) system, in the effort to “rationalise[...] our complicated tax and social security system.” Under NIT schemes, individuals (or households) whose earned or other income is below a certain level will receive payments, often called “refundable tax credits”, sufficient to make up the difference. This has the effect of guaranteeing a certain minimum income for all citizens (or households).

Dawkins et al’s plan is oriented to household units (“families”) rather than individuals, as is characteristic of Australian income supplementation schemes. In this case, the scheme addresses the problem of high effective marginal tax rates, which are especially severe for families with dependent children.

Interestingly, the high effective marginal tax rates that are now a matter for such concern largely result from the various means-tested family benefits and allowances that have been introduced since the 1980s to reduce with the aim of reducing child poverty. Means-testing creates high effective marginal tax rates by withdrawing benefits (by what is known as the “taper” rate) as income increases over a certain level. When combined with ordinary income tax and the loss of other concessions (such as pharmaceutical benefits), the effect is that some people gain little benefit from each extra dollar of earned income. This problem is especially

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152 See Watson and Buchanan for a discussion of the household basis of analysis, pp. 208–213.
153 [Dawkins, 1998 #62]
154 To this end, they endorse the proposal put forward by Keating and Lambert, *From Welfare to Work*. The Keating and Lambert plan is discussed below.
severe when numerous payments are involved, as is often the case for families with dependent children.

Various proposals to simplify the interaction of payments have been advanced, including the scheme developed by Keating and Lambert. Their proposed set of reforms are incremental in nature, involving a rationalisation of means testing as a way to reduce very high EMTRs and to begin the more extensive integration of tax and transfer systems envisaged in negative income tax schemes. Keating and Lambert’s main proposal is the introduction of a single income test on cash transfers, to remove overlapping tapers and eliminate the very high EMTRs experienced by some families receiving multiple forms of assistance.

The problem addressed by Dawkins et al is that of unemployment and of moving people “from welfare to work”. In prescribing wage cuts to reduce unemployment, their plan also addresses the low earned incomes that would result. Their proposal leaves aside issues of insecurity in employment, underemployment and job churning, aiming instead to extend people’s ability to supplement earned income with income support, as a trade-off for lower real wages. The question of how the Five Economists’ proposal would interact with non-standard employment is discussed in the following chapter, as are its more general implications.

The ALP’s tax credit proposal and position in the debate

As an alternative to the Coalition’s ‘A New Tax System’ (ANTS) package, the ALP took a proposal for earned income tax credits to the 1998 federal election. This proposal offered refundable tax credits which were to rise proportionately with earned household income over a given range, before phasing out altogether between $60,000 and $70,000, depending on the number of children. While single individuals and

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156 Keating and Lambert, *From Welfare to Work*.
158 The Five Economists express their goal in these terms. See Dawkins et al, ‘Dear John - How to Create More Jobs’.
159 Ingles and Oliver, ‘Options for Assisting Low Wage Earners’, pp. 84-85
160 Under the ALP’s proposed scheme, a family with two children would be eligible for a maximum credit of $3,300. The credit would work by phasing in at the rate of 10 cents for every dollar earned, up
couples without children were eligible, the proposal was clearly targeted at families with dependent children. The credit would be calculated on a household basis, as are ordinary social security payments, though this would represent a significant shift for the tax system, which is currently characterised by individual assessment.  

In support of the ALP proposal, the party’s leader, Kim Beazley, pointed out that EITC programs had already been introduced in the US under President Clinton and in the UK under Prime Minister Blair. Mr Beazley portrayed EITCs as a “progressive, intelligent solution” for “progressive parties.” Stating his opposition to the Five Economists’ proposal to freeze minimum wages, Mr Beazley noted that, “when implemented in the US and in Britain, [EITC schemes] were not accompanied by cuts in the minimum wage there, and [they] need not be here.” Instead, Mr Beazley has emphasised the role of the tax credit in “encouraging movement from welfare into work...”

The ALP lost the 1998 election and the opportunity to implement its tax credit proposal. Entering the 2001 federal election, the Opposition was no longer committed to a program of tax credits for working families but would “examine measures to improve the financial rewards from work, including earned income tax credits.”

to a level of $30,000 for one child (increased by $3,000 for each additional child up to four children). For a further plateau range of $10,000, the maximum credit would apply, before being phased out at the rate of 15 cents for every extra dollar earned. Ingles ‘Options for Assisting Low Wage Earners’. pp. 84-85.

161 Apps, Patricia (1999). Reforming the Australian Tax Transfer System. Discussion Paper no. 0 413. Centre for Economic Policy Research, Australian National University. November. Apps 1999, p. 4. As Ingles and Oliver argue, the reorientation of the tax system on at least a partial family unit basis is “a logical consequence of greater tax/social security integration”, since integration requires the harmonisation of assessment regimes and it is “simply not affordable” for individual assessment to be extended to the social security system. Ingles and Oliver, ‘Options for Assisting Low Wage Earners’. p. 98


163 Beazley, Labor’s Tax Credit.


165 Beazley, ‘Taxation Reform’.

The distinctive feature of the ALP’s approach to social security policy is its emphasis on work as the ultimate goal. The ALP’s statements on social security policy contain frequent references to the importance of moving people “from welfare to work”, for example in Mr Beazley’s statement that “there is no social security like a job”. The ALP has been (and presumably would again be) willing to commit considerable resources to providing services that support people’s engagement with paid work. While Labor has been very critical of the Howard Government’s withdrawal of funding from services such as child-care and labour market programs, its objectives are generally in accordance with the Government’s overarching philosophy of “getting people into work.”

Since the 1996 election, the ALP has persistently expressed concerns about the possibility that the Government would cut social security benefits in conjunction with an attempt to achieve its industrial relations goal of “downward flexibility” in wages. This proved to be critical in the development of the policy debate. The Government, reacting to the perception of a negative public response to the idea of benefit cuts, eventually made a commitment that benefit levels would not be reduced. However, the ALP used the concern about benefit cuts to differentiate its own preferred approach to maintaining “incentives” (or “rewards”) for work: that is, the introduction of earned income tax credits. Despite these conflicts, the ALP is similarly focused on the problem of “poverty traps” and on improving incentives.168 Also like the Government, the Opposition has indicated continued support for Work for the Dole and the framework of mutual (or reciprocal) obligation.

The ALP has provided little analysis of social security policy as it relates to the kind of labour market conditions described in Chapter 2. From the perspective of industrial relations policy, the Opposition recognises underemployment and precarious employment as problems affecting the quality and security of working life. Labor has committed to improving conditions for part-time workers, including the extension of entitlements attached to permanent full-time work to part-timers on a pro

167 Keating and Lambert, From Welfare to Work.
168 Australian Labor Party 'ALP Platform'.

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Another, less specific, ALP proposal is to improve underemployed people’s access to training and career opportunities in order to “assist them to move into better paid jobs or industries.” This reflects an awareness of the need to work against the kind of trends that produce job churning. This recognition is, however, overshadowed by the public emphasis on the “welfare to work” transition and statements that “there is no social security like a job”. Most importantly, the link between social security policy and job quality is not recognised or addressed.

The positions and proposals of other interested parties

The Australian Council of Social Services

The Australian Council of Social Services (ACOSS) is the peak body for a large number of community sector organisations engaged in the provision of human services and advocacy for people who are disadvantaged and have special needs. ACOSS has been a prominent participant in the welfare reform debate.

ACOSS is aware of the structural changes producing higher levels of part-time and casual jobs and recognises the problems of underemployment and intermittent employment. Unlike many other contributors to the debate, ACOSS acknowledges that it is increasingly common for people to combine earned income and social security payments. ACOSS also continues to voice its long-held belief, shared by other community-based welfare bodies, that it is unfair and humiliating to enforce extensive and heavily-monitored job-search among the recipients of unemployment benefits, when their chances of getting a job (measured by the vacancy to unemployed ratio) are slim.

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169 Australian Labor Party, ‘ALP Platform’. Portability of benefits means that an employee who has accrued a certain amount of, for example, sick leave with one employer and who subsequently changes employer, would not forfeit their accrued sick leave.
172 ACOSS, Submission to the Reference Group., pp. 36-37.
173 As discussed above, economists have rejected this analysis on the basis of the high levels of dynamism in the Australian labour market. However, as was also shown, this latter analysis is itself lacking when viewed in the context of the job churning and not merely dynamism of the labour market.
In ACOSS’s view, the efficacy of the welfare system can be judged in terms of its success in minimising post-tax-and-transfer income inequality and reducing poverty. It is for this reason that ACOSS sees the improvement of the welfare system as vital in countering trends to greater inequality and poverty. In particular, ACOSS argues that “[t]he Australian welfare system must be substantially adjusted to ensure it is better able to assist a more diverse labour force to adapt to an increasingly fragmented labour market.” However, ACOSS does not perceive a need for radical change and argues that the necessary reforms can be accommodated within existing structures.

ACOSS is critical of the Government’s focus on “welfare dependency” and rejects the Government’s interpretation of mutual obligation as a return to a “1930s model” under which people have no entitlement to benefits but instead must perform activities (especially menial labour) to earn their assistance. ACOSS therefore endorses the McClure report’s attempt to reframe welfare reform in terms of a commitment to creating a “participation support system”.

In contributing to the debate about welfare reform, ACOSS broadly endorses the McClure report’s proposal for an integrated payment structure but argues strongly for the “levelling up” rather than the “levelling down” of payments. ACOSS is critical of the social security system’s “discriminat[ion] against unemployed people” and students relative to pensioners and of the report for not addressing this.

ACOSS also recommends the reduction and rationalisation of tapers to remove the “poverty traps” caused by high EMTRs and endorses the extension of an income bank scheme to “encourag[e] labour force participation in an increasingly casualised and part-time labour market” (see above). In its intense concern about the EMTR issue, ACOSS is at one with almost every other major voice in the welfare reform debate. High EMTRs are seen by ACOSS as unjust, in that they prevent recipients from receiving a fair real return for their work, make it difficult for recipients to raise their incomes above a low level and impose “tax rates” higher than those experienced

174 ACOSS, Submission to the Reference Group., p. 36.
175 ACOSS, Submission to the Reference Group., p. 11.
176 ACOSS, Submission to the Reference Group., p. 17.
by even the very top income earners in society. Furthermore, like the Reference Group, the ALP, and the Five Economists, ACOSS argues that high EMTRs are counterproductive in that they present a disincentive for recipients to take up work.

ACOSS assesses the “two proposals with most merit” in addressing high EMTRs: earned income tax credits and reducing tapers. The option of an EITC scheme is rejected, partly on the grounds that, “[i]f linked to reductions in the minimum wage, there is likely to be downward pressure on wages at the bottom of the labour market, expanding the…low-wage sector….because [the EITC] acts as a public subsidy to low paying employers.” Mainly, however, ACOSS argues against the introduction of an EITC because it would create a two-tier system of benefits. While ACOSS acknowledges that assisting those in work could shore up political support for the social security system, the Council is concerned that “[i]n the US and other countries, [such a strategy] has driven a political wedge between wage earners and social security recipients, at the expense of the latter”.

In arguing for reduced taper rates, ACOSS acknowledges that “[i]t has been argued that the higher withdrawal rate for people on allowances is designed to encourage them into full-time rather than part-time work.” However, ACOSS contends that “[t]his argument ignores the reality of the Australian labour market, with its increasing prevalence of part-time work – for many unemployed people, such work is their only option for the time being.” Again, this approach reflects ACOSS’s belief that the role of the social security system is to protect people from

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177 ACOSS, Submission to the Reference Group., p.55.
178 The phrase ‘tax rates’ is put in inverted commas because the tax rates that are being compared here are not really the same. The high EMTRs experienced by recipients are a result not mainly of the level of income tax applied, but of the reduction of benefits. Because of the income testing of benefits, this reduction does not affect higher income earners, who are not eligible for benefits and do pay a higher rate of marginal income tax than recipients. This is not to detract from the potency of the argument, simply to clarify the definitions used. See ACOSS Submission to the Reference Group., p. 33.
179 ACOSS, Submission to the Reference Group., p.52. This statement is worthy of analysis in its own right, implying as it does that the downward pressure on wages would not occur unless the minimum wage was lowered. In fact, it is likely that the existence of an EITC would create its own downward pressure on minimum wages, if not through economic then through political means. Bernstein notes that in recent deliberations about a potential minimum wage increase in the US, some politicians “were falling all over each other to heap praise on the EITC as a far better alternative (though none was proposing to increase it).” Bernstein, Jared (2000). 'Two Cheers for the Earned Income Tax Credit'. American Prospect 11 (15), pp.64-67.
180 ACOSS, Submission to the Reference Group., p.53;
181 ACOSS, Submission to the Reference Group., p.54.
182 ACOSS, Submission to the Reference Group., p.54.
poverty and maximise the total incomes of recipients, by compensating for the deficiencies of the labour market.\textsuperscript{183}

\textit{The Australian Council of Trade Unions}

The ACTU has not been directly involved in the debate about welfare reform, although it has been a prominent critic of what it sees as the degradation of the public sector under the Howard Government.\textsuperscript{184} The ACTU’s major “blueprint for fairness”, \textit{Our Future at Work}, mentions that Australians want “a compassionate welfare system”, but does not specify the form this should take.\textsuperscript{185} Although it has not been a prominent participant in the welfare reform debate, the ACTU in collaboration with various other groups such as ACOSS and the Business Council of Australia has produced a proposal to reduce long-term unemployment, in a document called \textit{Pathways to Work}.\textsuperscript{186}

As might be expected, the ACTU has been more outspoken on the issue of labour market change than on welfare reform, concentrating on “casualisation” and the erosion of the full-time jobs base. The ACTU is very critical of the kind of changes described in Chapter 2. The ACTU’s main response to casualisation is a campaign to improve the conditions of casual work by ensuring that long-term regular casual workers have the same entitlements as permanent part-timers and permanent full-timers.\textsuperscript{187}

\textsuperscript{183} In addition to arguing for reduced taper rates, ACOSS presents a plan for rationalising the overlap of withdrawal rates for families with children. See Service \textit{Submission to the Reference Group, Appendix A}.\textsuperscript{184} Australian Council of Trade Unions (ACTU) (2000a). \textit{Our Future at Work}. March.. \textsuperscript{185} ACTU, \textit{Our Future at Work}. \textsuperscript{186} Australian Council of Social Service; Australian Council of Trade Unions; Boston Consulting Group; Business Council of Australia; Committee for the Economic Development of Australia; Dusseldorp Skills Forum; Jobs Australia; and Youth Research Centre, The University of Melbourne (2001). \textit{Pathways to Work: Preventing and Reducing Long-Term Unemployment}. January Available online at http://www.ceda.com.au/Publications/PathwaystoWork.pdf (accessed 31-10-01). \textsuperscript{187} Recently, the ACTU has been involved in successful cases to extend parental leave to long-term casuals and to ensure the right of long-term casuals in the metalworking industry to convert their employment status from casual to permanent. See Australian Council of Trade Unions (2000b). \textit{Parental Leave for Long Term Casuals}. Available online at http://www.actu.asn.au/campaigns/work\&family/casualmaternity/index.htm (accessed 24-04-01). The ACTU’s future goals include increases in the casual loading and securing guidelines for minimum and maximum hours of work, as well as the extension of the right to conversion from casual to permanent status for workers in other industries. ACTU, \textit{Our Future at Work}. 
The ACTU is non-committal on the issue of in-work benefits. As would be expected, the Council is opposed to any decreases in minimum award wages, but considers earned income tax credits favourably when combined with a package of measures to strengthen the position of low-income workers.\(^{188}\) The ACTU is concerned about “working families in poverty” but, beyond its comments on tax credits and tax relief, the Council has not called for additional income support for workers. This probably reflects the central role of “decent wages” in the labour movement’s activism for social justice and income adequacy.\(^{189}\)

**Business organisations**

On the issue of welfare reform, the positions of business organisations such as the Business Council of Australia (BCA) and the Australian Chamber of Commerce and Industry (ACCI) are relatively well developed. Both of these organisations presented detailed submissions to the Reference Group on Welfare Reform, in which they broadly endorsed the Government’s approach to welfare reform and emphasised the importance of incentives and EMTRs.

The view of the business lobby is that the best way to deal with social exclusion and unemployment is to remove the restrictions on wages and conditions which prevent the labour market from “clearing”.\(^{190}\) In this way, labour market “insiders” are seen as having a choice to either create the conditions by which the “outsiders” will be allowed in (by accepting real wage cuts to increase the demand for employment) or to continue to exclude the “outsiders” by keeping wages above their equilibrium rate.

Recently, this view has been supplemented by a less traditional endorsement of the role of government in providing income support. Business groups now believe

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that, while “welfare” should only be temporary, it is desirable for wages to be reduced
to eliminate unemployment and for the social security system to then compensate to
the extent necessary to prevent poverty. From this perspective, business does not exist
to achieve social goals of equity but to produce goods and services and to provide a
return to those who own it. As Mark Paterson of the ACCI says, “[w]e have
governments and collect taxes to be able to provide social support for those in need.
We don't then say and in addition we'll pass that responsibility back to the business
community.”191 In part, this is a response to assertions from some in the welfare
reform debate (including the Reference Group) that business has social obligations
that exist alongside the responsibilities of government and individuals in a framework
of mutual obligation.192 Such a role for business is also a key element in John
Howard’s concept of a “social coalition” to tackle disadvantage. The business lobby’s
reaction also represents a continuing rejection of the tradition of wage-setting that
characterised “the Australian settlement”. The 1907 Harvester judgement established
the principle that wages for work should be sufficient to support a man and his family
in “frugal comfort”. In contrast, the business lobby rejects the notion that social goals
(such as entitlement to “frugal comfort”) should be pursued through the labour
market, instead insisting that such goals are mainly the responsibility of government
and the community sector.

Given this perspective, it is logical that the business lobby supports the Five
Economists’ plan for an award wage freeze and earned income tax credits. In the
project of achieving downward flexibility in wages, the prospect of an EITC scheme
holds out the promise of political compromise. By shifting the responsibility for final
income adequacy to government, business can restrain wage costs (which, in the
orthodox analysis, will benefit the poor by creating greater demand for labour)
without antagonising low-wage earners and their advocates.

Business groups have made little comment on the relationship between
welfare reform and the changing labour market conditions discussed in Chapter 2.
However, ACCI in particular has contested the ACTU’s view that “casualisation” is a

192 Reference Group on Welfare Reform, Participation Support.
problem, arguing that flexibility in working arrangements can benefit workers (especially those with family responsibilities).\footnote{ACCI (2001). *Metals Casual Decision - a Major Challenge for the Private Sector.* February.} These issues have been the subject of a substantial Australian literature discussing these issues has developed and they need not be covered here.\footnote{For example, Wooden, Mark (2001). 'Industrial Relations Reform in Australia: Causes, Consequences and Prospects'. *Australian Economic Review*, 34 (3), pp.243-262.; Probert, Belinda (1995). *Part-Time Work and Managerial Strategy: Flexibility in the New Industrial Relations Framework*. Department of Employment, Education and Training - Women's Research an Employment Initiatives Program.; Campbell, Iain (2000). 'The Spreading Net: Age and Gender in the Process of Casualisation in Australia'. *Journal of Australian Political Economy* (45), pp.68-98.} The most important aspect of the business lobby’s position on labour market change is that such change is seen as a positive, rather than a negative, process. Underemployment and job churning are not included in the construction of the problem as addressed by business groups.

*Australian National Organisation of the Unemployed*

On the 25\textsuperscript{th} of October 2000, a number of small groups came together to form the Australian National Organisation of the Unemployed (ANOU).\footnote{Two of the main organisations that joined are the Un(der)employed Persons’ Movement Against Poverty and Unemployed Persons’ Advocacy.} ANOU calls for the recognition of people’s right to paid work and presents a plan to achieve full employment through a national program of reafforestation.\footnote{Australian National Organisation of the Unemployed (ANOU) (2001) Homepage and electronic resources. Available online at http://www.anou.cafeprogressive.com/ (accessed 08-09-01).}

In addition to the creation of employment, ANOU argues for more protection (in the form of an enforceable charter of rights) from Centrelink errors and mistreatment, the reduction of fines and the granting of a fares allowance to claimants. With ACOSS, ANOU and its member organisations have been particularly critical of Centrelink’s breaching practices.\footnote{ANOU, Homepage and electronic resources. As have other social welfare organisations such as the Salvation Army. See Salvation Army Southern Territory (2001). *Stepping into the Breach: A Report on Centrelink Breaching and Emergency Relief*. August. Available online at http://www.salvationarmy.org.au/breaching/SalvoBreachReportFinal.pdf (accessed 31-10-01).}
ANOU argues that unemployment allowances should attract the same lower tapers and more generous free areas that apply to pensions. ANOU deplores the stigma and disillusionment that result from “poverty traps” and argues that income tests should only be applied to income already received. The current method of assessment means that a person can have their benefits reduced by paid work even where earnings have not yet been received. This method can result in a financially crippling, albeit temporary, loss of income. It is probably true, as ANOU argues, that this problem can dissuade people from taking up short-term or casual work. The Government’s recently announced Working Credit will help but not solve this problem.

A final further point about ANOU is that it seeks a closer relationship with the union movement. In its view, unemployed people must join in coalition with low-paid workers to resist both unemployment and the erosion of wages and conditions of work, in part because these phenomena are linked rather than discrete.

This overview of the positions taken in the debate about future reforms to the social security system shows that there is a surprisingly large degree of consensus in the debate. This consensus arises from the common belief that incentives and EMTRs are a major problem facing the system and from the broad acceptance of a larger role for income supplementation, whether through an EITC scheme, a NIT or reduced tapers. However, there are potentially conflicting agendas at work and this consensus depends on a large degree of ambiguity in terms of the definition of relevant problems and solutions. Behind this ambiguity, the technical schemes for income supplementation are not widely understood or debated. The most important feature of the debate, however, is that the various changes being proposed within it are not analysed in terms of their broader relationships with the value and meaning of work and income support. These relationships are explored in the following chapter.
Chapter 4: Expanding the Debate: Value and Meaning

Throughout the previous chapters, indications have been given of the contradictions and limitations contained in the current and prospective approaches to the changing role of income support. Policy in the area of income support is very complex and it is often difficult to interpret in broader political and philosophical terms. This is especially true when the debate is divided between discussions of technical details and a widely-accepted rhetoric on the one hand, and political rhetoric on the other. This chapter explores the contradictions of social security reform in more detail and attempts to analyse the broader implications of the debates and the value issues embedded in the various proposed changes.

“Welfare-to-work”: contradictions and tensions

One obvious and powerful criticism of the drive to move people from “welfare to work” is that there is an inadequate number of jobs available and that forcing people to undertake ever more demanding job-search is humiliating and ineffective. This critique is well-established in the literature and is present, if not dominant, in the welfare reform debate. Here, the focus is on another set of criticisms. These derive from the suggestions implicit in the “welfare to work” rhetoric: first, the implication that there is a clear dichotomy between being “in work” (“having a job”) and being “on welfare”; and second, the related assumption that the bare fact of having “work” per se is more important than the type of work being undertaken.

The language and, to some extent, the policies of “welfare-to-work” imply that, for someone “on welfare”, finding work is a satisfactory, permanent and complete transition. Because of changes in the types and patterns of employment in the Australian labour market, this is not so. As described in Chapter 2, most people who are receiving unemployment benefits and who subsequently enter employment do so on a part-time, temporary or casual basis. While these types of jobs cannot
provide financial security and independence over the longer term, it is also not clear that they operate as a “bridge” to more adequate and secure employment.\textsuperscript{203} Often, they lead back to unemployment. Increasingly, people depend on a combination of income support and earned income, or alternate between periods of temporary employment and job search. In light of these patterns, moving people “from welfare to work” is, at best, a very poorly articulated policy goal. Worse, the “welfare-to-work” rhetoric may reinforce the role of “the welfare state as work enforcer” without regard for the type of work being enforced, or its social or individual effects.\textsuperscript{204}

While the desirability of moving people into jobs is premised on the value of work, this, in turn, is premised on the assumption that having work means being independent and participating fully in society. The contradiction is that, given the labour market experiences discussed in Chapter 2 and noted above, having work can now involve being partially or intermittently dependent on income support and having only a marginal role in the labour market. The emergence of these conditions in the labour market not only represents a contradiction between “the rhetoric and the reality” but it also raises questions about the validity of the premise on which the rhetoric is based. In particular, how far should public policy persist with the generally unquestioned premise of the value of work when, in actuality, work no longer necessarily delivers the independence and participation that underpin its special moral and normative value?

Changes in the nature of work mean that paternalistic justifications of work enforcement are open to question, too. While it would be presumptuous to say that it is contrary to people’s interests to engage in the kinds of work mentioned above, it is likely that such work benefits people much less than is typically envisaged in paternalist accounts. For jobseekers generally, there is an ongoing deterioration in the material returns, status, prospects and security attainable though employment.\textsuperscript{205} This

\textsuperscript{203} Burgess and Campbell, 'Casual Employment in Australia'.
\textsuperscript{204} Piven, 'The Welfare State as Work Enforcer'.
\textsuperscript{205} Burgess, and de Ruyter, 'Declining Job Quality in Australia'.;
deterioration presents an increasing, if not yet insurmountable, challenge to the validity of the paternalist justification of work enforcement.

In the context of declining actual conditions, advocates of work enforcement emphasise ever more pointedly the self-esteem, dignity and pride that are seen to derive from the moral value of work. However, if the moral value of work is held to derive in large part from its ability to secure independence and a large increase in material well-being, the contradictions involved in this argument will eventually become apparent.206

The “value of work” is constituted in its opposition to “dependency”. Fraser and Gordon, among others, have written extensively on the social construction of the idea of dependency, emphasising that its moral repugnance derives from a relatively recent strengthening of the individualist philosophy of modern liberal democratic capitalism.207 Thus, while certain types of dependency among adults, such as the financial dependence of a wife on her husband, were once socially sanctioned, ever-fewer types or instances of dependence are seen as acceptable. Fraser and Gordon also note that the rise of the moral reaction against and construction of dependency has accompanied the normalisation of wage-labour for men and subsequently for women.208

In the light of Fraser and Gordon’s analysis, it is interesting to consider whether the decreasing ability of work to provide adequate income might undermine the moral value that bundles together work and independence. Currently, however, it appears that expressions of the moral value of work are being intensified and made more explicit in the efforts to get people “off welfare”. At the same time, there is

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206 While the moral value of work may consist of many positive aspects, Arnesen argues that, with the exception of its capacity to deliver self-sufficiency, all of these aspects of work can also be found in other activities. For example, the knowledge that one is performing a socially useful and valued function could also be derived from child-rearing, or voluntary work. However, in our kind of society, the attainment of material self-sufficiency can only be achieved through paid work. Arnesen, Richard J. (1990). 'Is Work Special? Justice and the Distribution of Employment'. *American Political Science Review* 84 (4), pp.1127-1147.


208 Fraser, 'A Genealogy of "Dependency"'.

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increasing talk of financially secure workers sacrificing income for time in order to achieve a better “work-life balance”. If anything, this reinforces the impression that the moral value of work is largely constituted by its perceived association with the escape from dependence. Because well-paid, secure workers are not at immediate risk of dependency, there is little (or at least much less) moral stigma associated with reducing work. As Goodin points out too, there are no moves afoot to enforce work among the idle rich “for their own good”.209

It has sometimes been suggested that efforts to get people “off welfare and into work” are grounded in ethical principles but rather cloaks an attempt to “clear the welfare rolls” and thereby reduce government expenditure.210 However, the moral value attached to work and the popularity of the goal of “reducing dependency” are also likely to play a part. Furthermore, both major political parties are willing to use spending to promote work, in some cases by providing effective wage supplementation.211 Experience in the US shows that publicly supporting “welfare to work” can be quite expensive. “Clearing the welfare rolls” appears to be a political goal that does not necessarily imply the “small government” fiscal outcome with which it is often identified.212

The dissolving dichotomy between work and welfare has, in fact, been facilitated by changes to social security rules which have occurred over the long term as part of the overall direction of policy development. These include changes such as reducing tapers, increasing free areas and introducing working credits to allow people to keep more of their benefits with every dollar earned. These changes have been introduced incrementally since the 1980s as the social security system has pragmatically sought to respond to political pressures, accommodate labour market changes and meet its own objectives.

Cosmo Howard describes the development of the income support changes (including reducing and simplifying tapers) that were successfully advocated by the

209 Goodin, 'Principles of Welfare Reform'.
210 Goodin 'Principles of Welfare Reform'.
211 Beazley, Labor’s Tax Credit for Working Families'; Commonwealth, Australians Working Together'.
212 Piven, 'The Welfare State as Work Enforcer'.
Department of Social Security as part of the Working Nation process. This advocacy represented a response to widespread perceptions within the policy community that the central agencies were considering cutting income support levels to preserve incentives. Policy officers in the department successfully “sold” the reduction of tapers to the political decision-makers as a way to achieve “the same goal” (increasing incentives to work) while avoiding cutting payments and preserving the adequacy of payments. In this way the department was able to reconcile the political pressures being brought to bear on it with its practical and ethical objectives (preserving income adequacy and preventing poverty, encouraging workforce attachment and participation, and making sure the social security system responded to changes in the labour market).

This was a significant shift in income support policy, which will shape further developments. It occurred, however, not as a result of ideological conflict at the public-political level of debate, but as a compromise struck between “people in the central agencies” and policy officers in the department. Aside from its interest as a case study in policy development, this episode highlights the way in which policies to increase benefits to people in marginal work can emerge as “least bad” options in the context of further threats to people’s welfare. A similar instance of this is ACOSS’s endorsement of reduced tapers for part-time and casual employed recipients. The argument is pragmatic: if people are unlikely to be able to get more secure and adequate work, then policies that will at least increase their net incomes should be supported. This is reasonable and compassionate. However, the emphasis on policies to compensate for problems in the labour market should not detract from the need for policies to address those problems themselves. People’s inability to get more secure employment should also be a matter for policy attention, especially if social policy is going to continue operating on the premise of the value of work.

214 Howard, 'Bureaucrats in the Social Policy Process'.
215 For a similar analysis, see Bernstein, 'Two Cheers'.
216 ACOSS, *Submission to the Reference Group*.
217 Bernstein, 'Two Cheers'.
The social security system is now faced with a disjuncture between the stated aim of promoting self-reliance through “welfare-to-work” and the encouragement and accommodation of work arrangements which cannot deliver that outcome. To reconcile these elements, the aim could be re-construed as that of encouraging greater degrees of self-reliance. Such a reconfiguration of the aim would remove logical inconsistencies. However, if the emphasis was shifted to degrees of self-reliance, then policy must address the question of what degree should be treated as acceptable. Currently this question is not being debated, either at the political-rhetorical level or in the technical policy discussions. The question of acceptable degrees of self-reliance challenges “the value of work” by implying moral legitimacy for a degree of dependence. Because “the value of work” invokes an absolute dichotomy between work (as good) and dependence (as bad), the very notion of acceptable degrees acts to undermine it.

On a practical level, currently the current activity tests and Mutual Obligation requirements have the intended function of preventing “free-riders” who, it is presumed, could meet their needs in other ways. If the system is to be reconfigured on the assumption that receiving inadequate income from the labour market is a normal, not an aberrant condition, such requirements will decrease in relevance. However, the current direction of policy is for requirements to be increased. Given public support for measures such as Work for the Dole, it is difficult to see how a significant reversal of this direction could be achieved.

The basic problem is a mismatch between the overriding normative value attributed to work and the labour market’s inability to provide adequate forms of work to those who need it. However, these issues are not generally addressed within the welfare reform debate, which is mainly focused on how to better adapt the social security system to a changed labour market.

*In the absence of reflection, where to next? An emerging “consensus” and its problems*
While debate at the public/political level focuses rhetorically on “welfare-to-work”, the debate at the policy lobbying and development level is quite narrowly focused on *incentives* and *net returns from paid work*. The problem focused on is that of high Effective Marginal Tax Rates (EMTRs). The currently emerging consensus is that subsequent “disincentive effects” are a serious problem for public policy. The proposals put forward to counter them represent various mechanisms which would further increase the extent to which the tax-and-transfer system supplements earned income.

Proposals to increase the income supplementation role of the social security system attract the support of many diverse interests and crosses ideological divides. However, when examined more closely, the apparent agreement on income supplementation actually represents a confluence of different agendas. The Negative Income Tax, as advocated by neo-conservative think-tanks such as the Centre for Independent Studies, entails an increased income supplementation role for the tax-transfer system but the agenda of its proponents is rather to decrease the role of government generally. Business groups end up advocating increased income supplementation when they argue for further deregulation of minimum wage rates, asserting that the role of preventing poverty should fall to government, not to business. Social welfare bodies are strongly in favour of policies that would increase the net incomes of the poor and disadvantaged by ensuring a greater return from paid work and which would securely entrench the role of social spending in government priorities. The Five Economists aim to decrease unemployment and improve the efficiency of the labour market by reducing real wages. They propose an Earned Income Tax Credit as a compensatory measure to enhance the political

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“saleability” of what would otherwise effectively be a policy to make the poor fund their own employment.221

These otherwise conflicting views hold in common a desire to see the social security system move from a wage replacement role to income supplementation. However, the problems and solutions are constructed in terms of “incentives”, a vague term whose ambiguity enables considerable consensus in problem definition.222 Debating the proposals in terms of income supplementation would problematise the roles and functions of the labour market and the social security system, as discussed above. Such a discussion would probably draw to the surface the different agendas operating behind the apparent consensus.

Although there is currently no organised coalition of the groups mentioned above, the general agreement on the direction of change allows the debate to proceed at a technical rather than a philosophical level. This makes it difficult for non-experts, including presumably many politicians, to comprehend and weigh the detailed consequences of the recent proposals. It also inhibits public discussion of the broader meaning of the proposed changes. For the reasons mentioned in the previous sections, public discussion of the broader meaning may be exactly what is needed to avoid the development of untenable contradictions within the social security policy setting.

Apart from contradictions noted above, the various proposals in the new “consensus” entail potential adverse effects. These relate particularly to the possible effects on the labour market of the extension of an income supplementation role for the social security system.

In most of the proposals, changes to the labour market are not part of the design and would probably appear as “unintended consequences”. The Five Economists’ proposal is an exception: it specifically advocates deliberate changes to the operation of the labour market (wage cuts for low-paid workers in order to

increase employment). This proposal has been criticised, for example by Watson and Buchanan, who argue that such wage cuts would impede the development of a modern, high-skilled economy. At the same time, they defend the principle that full-time employment should pay income at least sufficient for reasonable subsistence.

Most of the available criticism of supplementation schemes focuses on the erosion of wage rates in the context of full-time employment. In this critique, the way to deal with unemployment is not to allow downward flexibility in wage rates but to pursue a Keynesian full-employment macroeconomic and industry policy. This argument and its opposite, the wage flexibility approach to eliminating unemployment, are part of a very old debate and are not oriented towards addressing the more recent issues of labour market change such as those described in Chapter 2. This is not to say that wage rates and full-time work are no longer important; rather, that they are no longer the only, or necessarily the main, criterion on which the quality of the labour market should be judged. Similarly, they are no longer the only area of concern when assessing the possible effects of social security policies on the labour market.

In general, income supplementation schemes affect part-time and irregular employment by making it easier and more feasible for employees to accept forms of work that are unlikely to provide adequate income in the medium term. Concerns about such effects are typically expressed in the terms adopted by the policy debate: those of incentives for recipients. In this sense, income supplementation is perceived as a possible problem because recipients may elect to work less than full-time, knowing that they will receive adequate income regardless. This may be true but it neglects the incentive effects as they flow through to employers. In this respect, the

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223 Watson and Buchanan 'Beyond Impoverished Visions'.
224 Watson and Buchanan do not oppose an EITC per se, but argue against its use as an offset to wage cuts. Watson and Buchanan, 'Beyond Impoverished Visions', .
225 ACOS, Submission to the Reference Group.
226 See, for example, the proposals in Bell, Stephen, ed. (2000). The Unemployment Crisis in Australia: Which Way Out? Cambridge: Cambridge University Press.
more serious possible effect of income supplementation schemes is that they may
further shift responsibility for employees’ adequate income away from employers.229
One of the main problems in assessing proposed income supplementation schemes is
that proposals focus on labour supply and net income effects, rather than on possible
implications for labour market structure.230 This would be a fruitful area for further
research.

An illustration of how income supplementation could affect the labour market
is given by Iacobacci and Seccareccia in relation to a prospective guaranteed
minimum income scheme (similar in effect to an NIT system).231 Iacobacci and
Seccareccia show how a program to make up part of the difference between market
income and a given target income could encourage job-splitting on the part of
employers. In their example, if a full-time job was paid a wage which brought the
employee over the minimum target level, it would be cost-effective for the employer
to transform this job into two part-time jobs, each paid less than half of the full-time
wage.232 This would be made acceptable to the two part-time employees by the
income supplementation scheme, which would bring their net incomes up to (at least)
the minimum target income.

The policy debate has included concerns about minimum income guarantees
encouraging employees to prefer part-time work to full-time work.233 The main
responses have been proposals to introduce supplementation further up the income
scale to preserve incentives (as in some EITC schemes) and to make supplements
conditional on employees working a minimum number of hours (typically 30 or 35
hours per week).234 The latter approach has been used in some countries including
Canada and the UK.235 However, it appears that where supplements are linked to

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228 For example, Reference Group on Welfare Reform, *Participation Support*.
229 McClelland, Alison (1999). 'Understanding the Wage and Social Security Interface'. *CEDA Bulletin*
230 Iacobacci, Mario and Seccareccia, Mario (1989). 'Full Employment Versus Income Maintenance:
Some Reflections on the Macroeconomic and Structural Implications of a Guaranteed Minimum
231 Iacobacci and Seccareccia, 'Full Employment Versus Income Maintenance'.
232 Iacobacci and Seccareccia, 'Full Employment Versus Income Maintenance'.
234 Ingles and Oliver, 'Options for Assisting Low Wage Earners'.
235 Ingles and Oliver, 'Options for Assisting Low Wage Earners';
hours, there is a danger of depressing wage rates; where they are not, there is a danger of facilitating a further structural shift to irregular and otherwise-inadequate forms of work.  

A particular concern with payments that are targeted to supplement earnings is that this may increase the divide between “workers” and “non-workers”, so that the two-tiered nature of payment increases the stigma attached to the latter. This concern is one of the main reasons why ACOSS opposes an EITC, in favour of further decreasing tapers and relaxing income tests for income support payments. This points to a dilemma, however. As an alternative to an EITC, proposals to extend social security-based income supplementation further into the employed population risk capturing even more people in the stigmatised social security net.

A broader problem is the fact that it may not be sustainable (or desirable) for the social security system to continue indefinitely to compensate for increasing inequality in market-generated incomes and opportunities. Without successful complementary efforts to prevent deteriorating conditions in the labour market, such proposals are open to the criticism that they merely “paper over” an increasingly unequal and ineffective labour market. The question of whether such complementary policies are feasible is another matter for debate. Currently, however, even their desirability is not being debated.

**Shifting the debate and imagining alternatives**


237 Iacobacci and Seccareccia, 'Full Employment Versus Income Maintenance'.


239 Ingles and Oliver, 'Options for Assisting Low Wage Earners'.

240 Ingles and Oliver, 'Options for Assisting Low Wage Earners'.

238 ACOSS, *Submission to the Reference Group*.
While it is not clear how the further extension of income supplementation schemes would affect the labour market and public policy generally, it is clear that the debate in Australia has been limited by unexamined premises and inaccessibly technical policy discussions. In this light, Australia would benefit from a discussion of other ideas for organising work and social security. Such ideas include unconditional basic income and the “shared employment-care pathway”. A substantial literature exists which discusses these ambitious imaginings in the European context. While it is not clear how the further extension of income supplementation schemes would affect the labour market and public policy generally, it is clear that the debate in Australia has been limited by unexamined premises and inaccessibly technical policy discussions. In this light, Australia would benefit from a discussion of other ideas for organising work and social security. Such ideas include unconditional basic income and the “shared employment-care pathway”. A substantial literature exists which discusses these ambitious imaginings in the European context. This literature draws on social democratic, post-industrial socialist, eco-socialist, feminist and left-libertarian thought. Proposals within this literature tend to challenge what Offe calls the “productivist” framework that unites traditional socialism and market liberalism. In this framework, material well-being inevitably depends on economic growth and access to full-time, permanent paid work.

The most radical break with the productivist framework is envisaged through the idea of basic income. Basic income (BI) entails a system in which all citizens are given an equal payment out of general tax revenue, which would be adequate for subsistence at a decent but frugal level. Payment is unconditional and not means-tested. Individuals are not required to perform any activity or to make themselves available to the labour market in order to receive the payment. People would be free to work and earn above the basic income. BI is distinguished from NIT by the fact that, under a NIT, individuals would be paid the different amounts necessary to supplement their earned income and bring their net income up to specified minimum, whereas BI is an equal sum paid without regard to other earnings.

Currently, debates over the possibility of introducing a basic income are occurring through public research and policy development forums in countries such as

243 It is, however, theoretically possible for the payment to be set beneath that level. Van Parijs, Philippe (1992b). ‘Competing Justifications of Basic Income’. In Arguing for Basic Income, edited by Van Parijs, P. London and New York: Verso, pp.3-43. p. 4.
the Netherlands and through international academic conferences on the subject.²⁴⁴ Some of the main proponents of a basic income are Claus Offe, Philippe Van Parijs and Andre Gorz.²⁴⁵ Such proponents of BI emphasise its potential emancipatory effect on individuals’ ability to structure their paid work around their life projects and other activities, as well as the improved conditions of paid work that would result from workers’ increased bargaining power.²⁴⁶ While critics argue that labour supply would be dangerously reduced, advocates argue that, instead, labour would be channelled into an increasing unpaid sector of socially valuable work.²⁴⁷

From the perspective of the labour market and social security changes discussed in this thesis, BI would resolve the contradictions outlined above by decoupling subsistence from labour market attachment. Like income supplementation schemes, BI would respond to the fact that work no longer guarantees adequate income. Unlike many forms of income supplementation, however, BI would not enforce work.

Another vision of the future is expressed in the idea of “shared employment-care pathways.” As described by Gardiner, this approach addresses the gender segregation of paid and unpaid work, while encouraging a more even distribution of working time and career opportunities (along socio-economic as well as gender lines).²⁴⁸ The key to the shared work-care pathway is the encouragement of a reduction in working hours for full-time workers (especially men) and the extension of substantial part-time opportunities throughout the workforce, as well as the expansion of affordable child-care. This entails increases in pay rates to encourage full-time workers to trade off time for income and to make the new part-time opportunities sustainable for workers.²⁴⁹

²⁴⁶ Van Parijs, ed. Arguing for Basic Income., passim.
²⁴⁷ Probert, Part-Time Work.
²⁴⁸ Gardiner, 'Rethinking Self-Sufficiency'.
²⁴⁹ Gardiner, 'Rethinking Self-Sufficiency'.

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Shared work-care models attempt to ensure that individuals are not disadvantaged in the labour market by their caring responsibilities. They also aim to share risk and uncertainty more equally throughout the labour market, instead of allowing these to be concentrated in the non-standard labour force. As with basic income, the Netherlands is leading academic and policy discussions over the possibility of introducing a shared work-care model.250

To varying degrees, both of these proposals weaken the nexus between work and income and imply greater diversity in labour market experience. In this they follow the pattern of current changes in the labour market and income support systems. Similarly, they also represent a shift away from full-time, permanent employment as the norm, accommodating and facilitating different forms of work. Importantly, however, they do so in ways that are intended to be spread through the whole population, unlike the current proposals, which imply that these conditions would be entrenched for the poor and unemployed only.251 In this way, changes in work-time arrangements and the new social needs being felt in the workforce (e.g. for work that allows for family responsibilities) can be seen as an opportunity to re-conceptualise work and self-sufficiency.252

These ideas are open to criticism for being radical and utopian. They would, indeed, require an improbable degree of change in the organisation of work and income. However, they are, at the very least, useful to consider, as they give examples of the way in which political-economic thought can respond to changed labour market realities, while applying a critical view to the premises by which the debate is typically limited.253 As Watson and Buchanan argue, the policy debate needs to move beyond “impoverished visions of the labour market” and “sterile questions about how to ‘manage’ a large low wage sector”.254 Imagining different futures of work may be

250 Gardiner, 'Rethinking Self-Sufficiency'.
252 See also Junor, 'Permanent Part-Time Work'.
essential in breaking the debate free from narrowly technical discussions and unchallenged assumptions.

The argument presented in this chapter, and in the thesis in general, is about the need for policy to take premises seriously. Social security policy is framed and limited by the moral value of work. Altered conditions in the labour market and changes in the income support system present a challenge to the moral value of work, yet this has not been openly explored. This thesis has shown how the disconnection between premise and practice is leading to contradictory policy, the burden of which will be borne by people who are already struggling. The apparent inviolability of the value of work also inhibits the development of the debate that is required to reframe social security policy on a more realistic and principled basis.

Taking premises seriously does not mean accepting them unquestioningly or applying them unvaryingly. It does mean trying to preserve a meaningful correspondence between values and practices. If policy is going to persist in operating with the premise of the value of work, then this premise should be taken seriously, not just used as an overarching moral statement that obscures the complexity of the situation. Taking the value of work seriously would imply a policy framework that places a high priority on ensuring that work is valuable and making sure that it is available. Clearly, such tasks are not easily achieved. But consistency would require that they be attempted.

The relationship between income support and work is increasingly marked by complexity and contradictions. These contradictions involve fundamental values and cannot simply be resolved by the continued adjustment of the social security system to meet changes in labour market. Rather, such contradictions challenge public policy to examine its premises and imagine alternatives. In doing so, policy has the opportunity to envisage a humane and principled future world of work, beyond the familiar rhetoric of the present.
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