The McClure Report

Background

In September 1999 the Minister for Family and Community Affairs, Senator Jocelyn Newman, announced the government's intention to review the Australian welfare system, and the appointment of a Reference Group headed by Patrick McClure to consult with the community and provide advice to help develop a Green Paper on welfare reform.

The Reference Group presented an Interim Report in March 2000, and our response to that report is available on the website. Their final report was tabled in Parliament on 14 August, and the government has promised to respond to this report before year end. Early indications are that there will be general support for the findings in the report.

The government saw welfare dependency as one of the major social problems to be considered by the Reference Group. The announcement by the Minister of the appointment of the group was contained in a paper entitled "The Challenge of Welfare Dependency in the 21st century".

In simple terms, welfare dependency is a product of a lack of employment opportunities, and/or a support income system based on means testing.

The task facing the Reference Group was to provide a suitable response to the problem within the limitations imposed by the terms of reference and the existing income support system. If these limitations prevented the removal of welfare dependency then their only option was to consider legislative change to reduce the effects of welfare dependency through conditional income support.

Limitations imposed by the terms of reference

Although the Minister has from time to time referred to the task of the Reference Group as one of advising on "welfare reform", the terms of reference specifically limited the review to people of workforce age - i.e. between age 16 and pension age. This was in line with the emphasis on welfare dependency which was highlighted as the problem of major concern.

This limitation in the terms of reference appears to confirm the view that welfare policy has now been split into two areas, the dividing line being the pension age.

For people above pension age the government saw no reason to consult with the Reference Group before easing the means test in conjunction with the introduction of a new taxation system. Additional income support has been provided for part pensioners and the income level for some entitlement has been raised. Presumably this was not a matter of welfare reform. (Refer Newsletter 17 July)

On the other hand, for people under pension age the wish of the government is to extend the concept of mutual obligation beyond the unemployed, and the terms of reference did not distinguish between types of beneficiaries. This paved the way for the Reference Group to advise on how this concept can be extended to groups such as single parents and disability pensioners.

The terms of reference also excluded consideration of methods to reduce the unemployment rate - an exclusion which is understandable because of government policy to rely solely on economic growth.

There are three avenues for reducing unemployment. Reliance on economic growth is just one of these, and it has limitations as explained in the previous newsletter of 11 August.

A second avenue is through job creation. In principle, job creation is anathema to economic fundamentalists, and to political parties which rely heavily on strict economic theory and principles. The government in fact does have a job creation scheme, but for political reasons it refuses to use that term. To attract support from its constituency the government has introduced job creation under the guise of mutual obligation as "work for the dole", and it has
minimal effect on the overall unemployment rate because of the nature of the jobs it creates. However, it is a scheme which the Reference Group was obliged to take into account, and to support.

The third avenue is work sharing; either by regulation limiting hours of work, which is outside the scope of welfare reform, or through greater acceptance of part time and casual employment, which does fall within the scope of welfare reform. Unfortunately, consideration of a system of income support free of means test as an avenue for reducing unemployment was not within the terms of reference. Consideration was limited to the existing system of means tested income support, which provides a disincentive rather than an incentive to accept part time or casual employment.

Also, within the existing system the means testing formula is not the same for both pensions and allowances. The formula for allowances, e.g. for the unemployed, provides a far greater disincentive than the formula for pensions.

The requirement to keep within the framework of the existing means tested income support system severely limited the ability of the Reference Group to take into account measures to create more employment opportunities. A means tested system of income support contributes nothing towards job creation or work sharing - on the contrary such a system inhibits job creation or work sharing. The Reference Group has been asked to consider steps to be taken to help equip people to enter the workforce, but without additional work opportunities these steps will only lead to frustration rather than satisfaction.

**Limitations imposed by the existing income support system**

A means tested system of income support cannot in its own right initiate or encourage reform to reduce welfare dependency, for welfare dependency is a product of means testing. Means tested income support is designed to provide a safety net, not an incentive for self support.

If the objective is to eliminate welfare dependency then ideally means testing must be removed from the income support system. However, if the means testing of income support is to be retained, then the only option for reform is to reduce the impact of welfare dependency through reform of the conditions of eligibility - a step which requires legislative change.

This is not a new position for a committee or reference group to face. This was the position in the 1980's review and the 1990's review, and without change to the income support system it will be the position again when the next call for review is made.

In the late 1980's the review of the welfare system saw the introduction of the concept of "active benefits". This provided the framework and the social justification for establishing conditions of eligibility for unemployment benefits based on a stricter definition of the work test and extending it to an "activities test" based on more labour market programs.. This concept also provided a stronger basis for withholding benefits for non-compliance, as evidenced by the Social Security (Jobsearch and Newstart) Amendment Bill of 1991.

Concern regarding continuing high unemployment led to the appointment of an advisory committee in 1993 to, amongst other things, assess and report on the state of the labour market and options for addressing unemployment and improving labour market programs and income and other support for the unemployed. This committee presented its report in December 1993. In the following year the government presented its white paper "Working Nation", committing the government to more extensive and intensive labour market programs for the unemployed together with some minor changes to the means tests for income support.

With the change of government in 1997 came a change in the conditions of eligibility for the unemployed. In line with the conservative approach, conditions for eligibility included the requirement to 'work for the dole", and the concept of active benefits gave way to the concept of "mutual obligation" to provide the framework and social justification for tightening the eligibility rules.

This change was brought about by legislation. The means tested income support system remains, but with changed eligibility conditions for categories of beneficiaries, and with changed rules to determine eligibility. In reality it is these rules which are now under review.

**Recommendations.**
With the need to consider welfare policy reform within the framework of the existing income support system, the reference group faced the same problem faced in the reviews in the 1980's and 1990's - how to improve the system by legislative change to meet growing social needs within the boundaries of government policy and ideology. The result is a new concept, a Participation Support System, in which the provision of income support for compliance replaces the threat of reduction or loss of benefits for non-compliance. Is there a difference?

There are a large number of recommendations, ranging from short term action to medium to long term action, and proposals for additional research and evaluation. There are far too many to consider in this newsletter, but two features which warrant early comment.

The first feature, relating to the participation support concept, is the requirement for greater assessment of individual needs. As stated in the report:

*A systematic assessment process will need to be developed to ensure that service delivery offers targeted assistance based on an individual's needs, capabilities and circumstances. The assessment must include specification of the role of participation plans and incorporation of other aspects of the mutual obligations framework into the service delivery system.*

It is difficult to envisage how such a process would operate on a national scale, especially when it is recognised in the report that the process would be *more complex than under current arrangements, given the diversity of individual capacities and circumstances, and the range of participation options available.*

What must also increase the complexity and diversity is the extension of mutual obligation beyond the unemployed to include disability pensioners and single parents. This will not only increase significantly (more than double) the number of people to be subject to the individual assessment process, but these additional groups will bring with them a wide range of individual needs and requirements.

The second feature is the recommendation to implement an integrated support payment system with adequate income support and incentives for participation which, in the medium to long term, will consist of a common base payment for all eligible persons with a common formula for means testing, a needs based additional payment, and a participation supplement.

This feature may have wide cross-party appeal, but the experience of the last decade, with changes to legislation resulting from two reviews and a change of government, does not augur well for the acceptance of any medium to long term recommendations. Means tested income support has political appeal because it offers political parties the opportunity to be selective in the interest of political gain. Integration of benefits may not have wide appeal.

Overall the recommendations in the report suggest an extensive and intensive bureaucratic administration of the income support process to provide the individual care and concern considered necessary. In this regard the report reflects a paternalistic social philosophy which could easily stifle or inhibit individualism and self-determination, but which will no doubt have appeal for the advocates of a support income system heavily targeted and means tested. This support has already been indicated.

The recommendations are in direct contrast to those which would flow from advocates of universal income support free of means test. Their recommendations would support individualism, self-determination, and a minimum of government intervention, and would provide a basis for achieving "work for all". The paper following this newsletter sets out many of the benefits of universal income support - in fact that is the title of the paper.

**Following paper.**

The paper to be sent immediately following this newsletter is entitled "The Benefits of Universal Income Support". This is the final paper in the series "Universal Income Support", and will appear shortly on the website.

Hard copy of the series will be available within a few weeks. Please advise by e-mail if you would be interested in receiving a copy. I may be absent from this desk for a short time, so do not despair if there is no quick response.