

Catholic Social Services Australia

Submission to the Senate Education, Employment
& Workplace Relations Committee inquiry on the
Social Security Amendment (Supporting More
Australians into Work) Bill 2013

11 June 2013

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Introduction

If they had been proposed at any other time Catholic Social Services Australia (CSSA) would welcome the measures in the Social Security Amendment (Supporting More Australians into Work) Bill 2013. While modest, all three measures benefit recipients of working age payments.

However these measures represent the bulk of the government's response to an inquiry into the adequacy of the allowance payment system for jobseekers and others. And as a response to the serious problems examined during this inquiry, the government's response is manifestly inadequate.

The Bill fails to address the Inquiry's main finding - Newstart is inadequate

The majority report's primary finding is that current rates of Newstart are inadequate. These measures are not an adequate response to this finding.

Payments need to increase because governments cannot eliminate the need for income support

As government senators to the inquiry explained in their additional comments: "in spite of the best intentions and efforts, policies and services, unemployment will always exist." Economic growth, employment services and mutual obligation requirements are not enough to eliminate the need for adequate income support payments.

Few would argue with the idea that a job is the best form of welfare. Sustained economic growth and an efficient labour market are the primary means of promoting the wellbeing of the Australian people.

However, even when the gains from pursuing growth and efficiency outweigh the losses, some individuals will end up missing out on opportunities for work. Technological change, shifts in consumer demand, and global competition can alter the demand for skills and leave some workers without the skills and experience employers demand.

The most vulnerable individuals are those with the lowest levels of human capital and whose social ties and obligations limit the kinds of jobs for which they can apply.

Individuals who lack both the specific vocational skills employers demand and the more general skills they need to benefit from education and training are particularly vulnerable. So too are those with chronic health problems or disabilities that prevent them from finding or retaining jobs for which they have skills and experience.

Obligations to spouses, children and ageing parents can limit the hours people are able to work as well as discouraging them from moving to pursue job opportunities. Older jobseekers may be particularly reluctant to surrender social support networks, sell the family home and move to an area of higher employment, particularly if there is only a slim chance of a steady job.

Individuals who accumulate a number of these problems and limitations are likely to have the most trouble adjusting to change and are at high risk of spending long periods on income support.

The committee accepts that Newstart Allowance is inadequate

Government members of the committee stated that “the real value of Newstart Allowance has receded so significantly that it is exacerbating poverty and becoming an impediment to employment for many.”

The majority report of the committee agreed that “Newstart Allowance does not allow people to live at an acceptable standard in the long term.” But according to a recent paper by economist Bob Gregory:

Despite a 25-35 per cent decline, relative to community living standards, the committee recommended allowances should continue to fall.¹

Rather than recommending an increase in payments the committee stressed the importance of helping recipients move into paid employment. However they also commented that “Overall, Job Services Australian and other employment support programs are effectively assisting people to move from welfare to work” and did not recommend that the level of assistance to the most disadvantaged jobseekers should be increased.

The government has traded off adequacy for stronger work incentives

There is no doubt that allowing Newstart to fall against community living standards exacerbates relative poverty. Yet, successive ministerial public responses since late 2011 have re-cast the issue in terms of the low Newstart level being an incentive to find work.

As Gregory explains, Australian policymakers have adopted a peculiar version of the “make work pay” approach:

The essence of “make work pay” is to improve employment incentives by increasing income when employed relative to income when not employed and, in this way, induce more [income support] recipients to spend more time in employment. Australian “make work pay” policy does not increase income when employed. Employment incentives are improved by reducing income, relative to community standards, when not employed. Australian policy deliberately increases poverty, relative to community living standards, while on [income support].

Government members of the committee correctly observed that: “It is also not helpful to start with the assumption that people who are long-term unemployed do not want to work, and can somehow be 'encouraged' to work by being driven into poverty.”

According to Gregory:

... increasing relative poverty among the disadvantaged, low skilled and less educated, while on [income support], matters a great deal for the well-being of long duration groups. This places a heavy responsibility on government to demonstrate that positive effects of the “make work pay” policy counterbalances negative effects of long periods of large relative income declines.

Neither government or opposition committee members presented evidence that poverty is an effective lever for improving the wellbeing of jobless Australians or for reducing reliance on income support payments.

Alternative policies to strengthen work incentives

Allowing income support payments to fall below poverty levels is neither the appropriate or efficacious way to strengthen financial incentives to work. If work incentives rather than budget priorities are the major consideration preventing the government from raising the level of Newstart, then policymakers should look at alternative policies.

The committee argued that it was better to encourage and enable income support recipients to earn additional income rather than receive it as a 'handout'. However this is not the approach governments have taken with all transfer payments.

Family Tax Benefit A protects families from poverty when parents are unable to find work that pays enough to support their children. If governments adopted a consistent approach to discouraging reliance on 'handouts' it would allow the value of family payments to fall and require recipients in full-time low wage jobs to actively search for better paid work.

What governments have decided to do is provide means tested cash assistance to both working and non-working families with children. The Fair Work Commission takes the view that "tax-transfer system can provide more targeted assistance to low-income households" than minimum wages "and is a more efficient means of addressing poverty".²

The government could strengthen work incentives for recipients of working age payments such as Newstart by extending eligibility for cash transfers to those working in full-time low wage jobs.

In its submission to the inquiry the Australian Council of Trade Unions (ACTU) suggested a future independent inquiry should "consider the implications of increasing the 'cut off point' for Newstart beyond the full-time minimum wage."³

These kinds of measures would only be necessary if increases to income support payments resulted in unacceptable reductions in work incentives. There is no evidence that a \$50 a week increase would have this effect with minimum wages at the current level.

Comments on specific measures in the bill

Income free areas

The committee recommended increasing the income free threshold for long term Newstart Allowance recipients to 6 hours work per fortnight at the minimum wage. In this bill the government has accepted this recommendation and extended it to all recipients of Newstart Allowance, Widow Allowance, Partner Allowance, Parenting Payment (Partnered) and Sickness Allowance.

CSSA welcomes this measure as it will allow recipients who are in work to retain more of their earnings.

The National Welfare Rights Network has recommended that this approach also be extended to recipients of Special Benefit. CSSA supports this recommendation.

The bill also indexes the income free area against the Consumer Price Index (CPI). Given that the rationale for the increase is to link the income free area to earnings at the

minimum wage, it would make more sense to index the income free area to the minimum wage rather than CPI.

Pensioner Education Supplement

By encouraging income support recipients to undertake study, the Pensioner Education Supplement (PES) makes a contribution to long term employment prospects. CSSA welcomes the extension of the PES to single principal carer parents receiving Newstart Allowance.

However, as the Welfare Rights Network has pointed out, there are currently over 100,000 people on Newstart Allowance with a 'partial capacity to work' who would also benefit from the PES. This measure should be extended more broadly.

Pensioner Concession Card

CSSA welcomes the 12 week extension of eligibility for the Pensioner Concession Card (PCC) to single parents who are no longer qualified for Parenting Payment (Single) because their youngest child has turned 8 years of age and who do not qualify for another income support payment due to earnings from employment.

¹ Robert G. Gregory, 'The Henderson Question? The Melbourne Institute and 50 Years of Welfare Policy' ANU Centre for Economic Policy Research Discussion Paper No. 628, March 2013.
<http://cbe.anu.edu.au/research-papers/dpcepr/the-henderson-question-the-melbourne-institute-and-fifty-years-of-welfare-policy/>

² Fair Work Commission, Decision: Annual Wage Review 2012–13
<http://www.fwc.gov.au/decisionssigned/html/2013fwcfb4000.htm>

³ ACTU Submission to the Allowances Inquiry of the Senate Education, Employment and Workplace Relations Committee, 17 August 2012.
<http://www.actu.org.au/Images/Dynamic/attachments/7713/ACTU%20Submission%20to%20the%20Allowances%20Inquiry%20-%20August%202012.pdf>