

## **Submission to the Senate Economics Committee Inquiry into the Government's Economic Stimulus Initiatives**

**by the Welfare Rights Centre, Sydney**

**23 September 2009**

### **1. *Introduction***

The Welfare Rights Centre, Sydney welcomes this opportunity to provide brief comments on the issues before the Committee. This inquiry, coming almost one year after the onset of the global financial crisis, provides an opportunity to assess the costs and benefits of the Australian Government's response to the most challenging economic environment since the Great Depression. It also allows current policy settings to be fine-tuned and re-calibrated as we (hopefully) and cautiously enter the delicate phases of recovery.

In this submission we explore how Government policies have affected those who exist largely on the margins of our society, who are out of work temporarily or for extended periods, and at risk of being permanently excluded from the tremendous benefits and opportunities that are available to many in our community. Our comments relate to Terms of Reference (2) (c) i, ii, iii and vi and are focussed on how the stimulus arrangements have affected people who are unemployed, at risk of unemployment or need assistance to gain a stable foothold in the labour market.

### **2. *OECD report card on Australia's response to the global economic downturn***

A sensible starting point to begin with is the assessment of how Australia has fared in the midst of the worst global economic crisis for a generation is to look at the recent international evidence of the employment situation in Australia and compare this to the rest of the world's most developed nations.

Australia's unemployment rate rose from 3.9% in February 2008 to 5.8% in August 2009, an increase of 40%, the highest in six years. The OECD notes that this is well below the OECD average for the period, at 8.3%. In the absence of the stimulus, employment would have been 150,000-200,000 less by the end of 2010, or employment levels would have been

1.4 to 1.9% less without the stimulus measures.<sup>1</sup> Relative to other nations, Australia's response was considered to be high, accounting for 5.4% of 2008 GDP. Australia has experienced a slight increase in the growth of the economy, which grew by 0.6% in the most recent two quarters, compared to a contraction of 4.6% which was averaged across all OECD nations.

Fortunately, the levels of those unemployed have not trended upwards as rapidly as predicted 12 months ago by the Federal Government. Its prediction was that unemployment would reach 8.5% by 2010.

This is an extremely positive result, particularly for those concerned about the impacts of the global recession in increasing the likelihood of a permanent underclass of unemployed people.

However, these results need to be assessed with caution in light of the following:

- the OECD finding that the substitution of full-time employment with part-time work is a looming challenge for the Australian economy. Recent trends indicate significant growth in the numbers of Australian workers who are under-employed, with the OECD finding 3% of men and 9% of women had moved from full-time to part-time employment. The number of under-employed workers is 885,000 – and has increased by 23% in the last two years.
- while official employee numbers were unchanged in August 2009, the hours worked by all employees are down by 2.9% over the past year. If those hours were worked by newly hired employees, they would equate to 275,000 full-time workers.
- young people in particular are amongst those groups hit hardest by the general increase in unemployment in the community. In past downturns the prospects for younger job seekers deteriorated more swiftly and with greater severity than for other groups. At 16.4%, the unemployment rate for 15-19 year olds is almost three times the adult rate and the OECD points out that this rate is increasing at a rapid pace.<sup>2</sup>

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<sup>1</sup> Organisation for Economic Cooperation and Development, *Employment Outlook 2009 – How does Australia compare?*

<sup>2</sup> Organisation for Economic Cooperation and Development, *Employment Outlook 2009 – How does Australia compare?*

- jobless people who did not benefit from the last upturn in the economy are now going to have an even harder time getting into work, as those newly unemployed with relevant and recent skills and experience will be favoured by employers over those who are long-term unemployed.
- by international standards, Australia treats people who are unemployed poorly. A recent report by the OECD found that of the 30 developed countries that made up the OECD, the level of financial support for unemployed people was the lowest of all nations.
- the evidence of the financial stress experienced by unemployed people is overwhelming. For example, research indicates that among Newstart recipients, 54% lacked \$500 in emergency savings, 28% were unable to pay a utility bill, and 23% lacked a decent and secure home.<sup>3</sup>
- recent research on social disadvantage in Australia shows that in 2008 unemployed people experienced the most sustained levels of social exclusion of all groups. About 44% did not participate in community activities and 64% could not go out with family and friends and pay their way. Since the initial survey in 2006, the level of deprivation increased by a staggering 24% and that was during a period when the economy was growing.<sup>4</sup>
- one in three people receiving allowance payments have no income apart from their benefit, Unemployed people are three times more likely than single age pensioners to have no other income apart from their Social Security payment.
- current job seekers represent an ever-increasing group of disadvantaged job seekers, with the Department of Education, Employment and Workplace Relations arguing that “these job seekers are some of the community’s most disadvantaged people.”<sup>5</sup>

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<sup>3</sup> Australian Council of Social Service, *Who is missing out? Hardship among low income Australians*, ACOSS Info Paper, December 2008.

<sup>4</sup> Saunders, P. and Wong, M. *Still doing it tough: an update on deprivation and social exclusion among welfare services clients*, 2008.

<sup>5</sup> Department of Education, Employment and Workplace Relations Submission to the Senate Education, Employment and Workplace Relations Committee *inquiry into the Social Security Legislation Amendment (Employment Services Reform) Bill 2008*.

- the Government's own data indicates that one in three people who are unemployed have a mental health condition, 18% have drug and alcohol issues, 13% are ex-offenders and 5% live in extremely marginal accommodation.<sup>6</sup>
- the social and other human costs associated with unemployment and poverty are well documented and well understood by most. Living in a state of perpetual poverty exacerbates stress and mental illness, as well as contributing to family and relationship breakdown. In the worse of cases, chronic poverty and joblessness can contribute to homelessness, criminal and anti-social behaviour and, in some tragic circumstances, suicide.
- payments for unemployed people have traditionally been lower than for pensioners because, in the past, it could have been argued that periods of unemployment were limited. However, this argument no longer holds, with almost one in four unemployed people having been out of work for five years or more. In human terms, that equates to almost 112,000 people according to recent data provided to Senate Estimates.<sup>7</sup> Half of all unemployed people have been on payment for more than a year.
- Newstart Allowance can no longer be viewed as a short-term payment, with many job seekers facing long term unemployment. As a result of the tough and uncertain economic conditions, long term unemployment is likely to rise over the next 2 years or so, despite the positive predictions that the rate of job losses may not be as large as was initially predicted.

### **3. *Disadvantaged job seekers and the economic recovery***

Welfare Rights strongly supports the general direction of the stimulus packages that have been introduced by the Federal Government. The financial payments, targeted primarily at low income households, provided

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<sup>6</sup> Ibid, p. 2.

<sup>7</sup> Senate Estimates, Standing Committee on Education, Employment and Workplace Relations, *Questions on Notice*, Q. No. EW0015\_10, 2009-10.

the quick, direct injection of funds into the Australian economy that was desperately needed in the early days of the global financial crisis.

The second stimulus package delivered extra infrastructure investment, which has the additional benefit of addressing longer-term policy goals of extra education spending and increasing access and housing security and affordability for public and social housing targeting low income and disadvantaged households. These programs also had additional benefits in terms of their ability to stimulate positive employment outcomes and re-skilling opportunities for those at risk of unemployment and labour market marginalisation.

The Government decision to prioritise job retention, minimise job losses and provide opportunities for skills acquisition has been, in Welfare Rights view, the most appropriate response to the existing circumstances. It has proved to be beneficial to many people who may otherwise have ended up joining the Centrelink unemployment queues.

For example, the Rudd Government modified the Liquid Assets Waiting Period so that people losing their jobs were eligible for income support earlier if they had modest additional savings or financial resources. Welfare Rights has long argued for this policy to be modified so that unemployed people are not required to run down most of their savings. We also advocated for earlier access to a wider range of employment services for newly retrenched workers. The Government agreed and offered the extra, more intensive support for recently retrenched job seekers from April 2009.

Both of these positive changes are viewed as short-term measures and are due to end in 2011. It would be both illogical and counterproductive for these measures to finish in 2011 and the Government should commit to making these sensible, practical reforms a permanent feature of the range of policies aimed at getting people into work, and supporting those unable to find work.

A notable omission from the two fiscal stimulus packages, which saw billions of dollars being sent to millions of income support recipients and working Australians, was that single unemployed people without children missed out. The payments to pensioners and taxpayers in the first stimulus package were well targeted but they neglected those in the community on the lowest of incomes – namely those on allowances and student payments.

In the February 2009 stimulus package, only those unemployed people undertaking a training course or earning enough to pay tax were eligible for the \$950 bonus.

Any impartial assessment of Government policy over the past decade begs the conclusion that single, childless people generally do not do well in terms of Government assistance. For example, they did not benefit at all from the extra family payments and bonuses under the previous Government, or the Rudd Government's pre-Christmas payments, and unemployed people do worst of all.

The failure to provide any additional support for unemployed people seemed to pander to prejudices which stigmatise and denigrate the jobless. The current Government has not "demonised" people who are unemployed. Nevertheless, Government spokespeople have ensured that that sympathy is reserved for people who have lost their jobs through "no fault of their own".

#### ***4. A recovery for everyone? For a Protection and Support Package***

Reports of an economic recovery are becoming more frequent and the Government's economic stimulus packages appear to be one of the important factors in protecting Australia from the full effect of the current global economic downturn.

Welfare Rights is also calling on the Government to look after those who might be left behind, particularly if the recovery is a "jobless" one. For people without a job, whether the official figure hits 8.5% or not is less important than support, security and protection.

A "Protection and Support" stimulus package for people without a job would provide help in the downturn and during any transition phase to full economic recovery. The package needs to protect the newly unemployed and support people who are longer term unemployed.

**The Welfare Rights Centre recommends the following package to Government:**

- 1. revive full employment as an economic goal. Over the last few decades the emphasis has been on “get a job” strategy without a parallel economic goal to support individual needs and aspirations.**
- 2. introduce paid work experience programs and training programs designed to provide the equivalent of a Certificate 3**
- 3. target labour market support to the long-term unemployed**
- 4. increase the Newstart and Youth Allowance rates by \$30 per week and relax the punitive income tests**
- 5. reform the Income Maintenance Period to protect people with modest retrenchment packages**
- 6. increase the Liquid Assets Waiting Period permanently to \$7,500 and index it**
- 7. allow early access to superannuation in more circumstances and amend the current continuous income support rule**
- 8. appoint a Job Ombudsman to provide support and advocacy for people engaging with employment services providers.**

**A final measure in the “Protection and Support” package would be the addition of a Social Inclusion Allowance of \$25 per fortnight which values broader participation in community life in addition to paid work.**

## ***5. Keeping the lid on unemployment: investment in a future jobs fund***

The focus of the Federal Government’s policies since the advent of the global financial crisis has been to keep unemployment low, an approach strongly endorsed by Welfare Rights. It is important to assist people to obtain the skills to take advantage of employment opportunities when the economy recovers. However, it is just as important to provide an adequate income for those reliant on unemployment payments to meet living costs and cover expenses involved in looking for work and undertaking training and enhancing skills.

The Government should make the reduction of long term joblessness the centre of its economic and social policy response over the next few years. It should announce and commit to employment targets, so that the huge financial and social costs of entrenched long-term joblessness can be

avoided. In working towards this goal the approach should not be based on a punitive treatment of people who find themselves out of work and in need. Where employment is not possible, the Government should ensure that those out of work have the support and financial resources to be fully engaged in communal life.

The lesson of the past recession is that we must reduce the likelihood of the development of a permanent underclass which traps a significant minority - young, old and mostly poorly educated - into perpetual poverty. The lessons are that only dedicated and concerted action can avoid the slide into long-term joblessness. Within 2 years of the 1991 recession the number of long term unemployed people relying on Newstart Allowance doubled from 220,000 to 450,000. It took more than half a decade to make inroads into this figure. Too many of these people are still unemployed, with no hope and little future.

Recycling the unemployed through successive short-term training courses and Work for the Dole programs proved ineffective in getting the jobless into work. Work for the Dole had an abysmal track record and at best succeeded in getting only between 4 and 7 per cent into long-term jobs. Many positions secured by long term unemployed people ended up being transient, and around 30 per cent were back on benefits within 3 months, according to research by the Brotherhood of St Lawrence.

In the context of the current review of the stimulus arrangements the Government should consider a re-orientation of its investment in the Jobs Fund, which will see \$650 million in community projects over three years to July 2011. The program could include a special stream within the Jobs Fund and would provide wage subsidies for 6-12 months for people referred by Job Services Australia providers. The jobs would be those which are likely to benefit local communities.

**Welfare Rights proposes the establishment of a specific stream within the Jobs Fund worth \$175 to provide long term unemployed people with paid temporary employment in projects that will benefit local communities.**

## **6. *Housing, homelessness and the stimulus package***

The community and housing sector enthusiastically endorsed the initial elements of the stimulus package, which saw a commitment from the Federal Government of \$6.2 billion for community and social housing for approximately 20,000 new dwellings and repairs to around 2,500 existing structures. This significant financial investment occurred as the Government committed to addressing homelessness in Australia, with the announcement of bold and visionary policies to address this blight on the community, which on any one night, sees an estimated 105,000 people living on the streets.

The Government responded to the Commonwealth Coordinator-General's Progress Report on *Nation Building Economic Stimulus Plan* of August 2009, indicating a reorganisation of fund priorities and arguing that a range of factors had led to program efficiencies and savings.

The re-prioritising of the 2nd stimulus package saw \$750 million diverted from social housing program to the Building the Education Revolution plan. An extra \$750 million would build an additional 800 dwellings, according to the Coordinator General's Progress Report on the stimulus package. Anxiety from front-line organisations that are dealing directly with families experiencing housing difficulties expressed concern about this measure, as have ACOSS and a number of community sector housing organisations that have been working in cooperation with the Government to address housing problems.<sup>8</sup>

Welfare Rights urges the Government to reconsider this decision in light of the opportunities that will be squandered if Australia is to achieve significant advances meeting its stated objectives to halve homelessness by 2020 and in addressing ongoing problems with housing affordability.

**Welfare Rights supports the ACOSS recommendation that the Government meet its initial funding commitment to social housing, either by re-instating the \$750 million to social housing stimulus or committing these funds to a future affordable housing program.**

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<sup>8</sup> Four Corners, *Last Chance Motel*, ABC 1, aired 21 September 2009.

## **7. A debt moratorium to provide financial relief and stimulate economic activity**

Consideration should be given to other ways of ensuring that people on low incomes have greater opportunities to increase the ability to use their limited incomes to stimulate economic activity. The recognition that pensioners and others on income support payments spend most of their payments was behind the granting of bonus payments to pensioners in the first stimulus package. The Government should examine other approaches which would have a double benefit of assisting those on low incomes to improve their living standards while injecting much needed funds into the economy and stimulating economic activity. Welfare Rights suggests that one such measure worthy of serious consideration is to waive the recovery of all Centrelink overpayments, except for those small numbers of overpayments which are as a result of deliberate fraudulent behaviour.

Such a move would have an immediate stimulatory effect on the economy and would present an immediate injection of much needed funds. Waiving some debts would not come at a cost to Government. One percent of Age pensioners have a Centrelink overpayment and six per cent of people on working age payments have an overpayment, equal to around 600,000.

The main reason for debt is under or undeclared earnings. This can occur because people have limited or no understanding of what is required of them. Centrelink letters are often difficult to understand.

The number of people with Centrelink debts increased from 548,700 to 650,000 debts in 2007, and the value of the debt database has also been steadily increasing; from \$967 million in 2003 to \$1.3 billion in 2007.<sup>9</sup>

There was a 34% increase in the debt base, (\$333 million) and almost a 20% increase the number of customers with debts since 2003 (102,840). Currently \$70 per cent of Centrelink overpayments (\$303.4 million) (70%) are under repayment arrangements.

In 2007-07 the amount of debt identified was only a small proportion of total Centrelink social security outlays (1.25% of \$66.3 billion), but its actual value (\$834.4 million) is "quite large", according to analysis of the debt base by the Australian National Audit Office.<sup>10</sup>

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<sup>9</sup> The numbers of debts does not include Family Tax Benefits debts.

<sup>10</sup> Australian National Audit Office, *Management of Centrelink Debt – Follow-up Audit*, No. 42, 2007-08.

Indigenous income support recipients are 75 per cent more likely to incur a debt than non-Indigenous clients. While Indigenous people account for just 3.3% of the debt, they account for 4.7% of debts which Centrelink believes are preventable.

Hundreds of thousands of Australians incur a Centrelink debt each year which, in many cases, are largely avoidable. The system is so complex that income support recipients face considerable difficulties meeting or knowing how to comply with their reporting requirements. The increased casualisation of labour has resulted in situations where a person may be employed by a number of employers. If a person is not provided with regular payslips the amount put into the bank for many is regarded as the amount to be declared to Centrelink.

In addition, Centrelink systems are poorly coordinated and data matching activities are insufficiently resourced to permit for the finalisation of these reviews within the time-frame permitted under the law. Government messaging provided to income support recipients would suggest that all government records are matched on a regular basis this is not the case and in our experience many people incorrectly believe that notification to one government department is sufficient to ensure correct ongoing payments.

There is an alarming level of “churn” in the system, and increased levels of financial hardship associated with lower weekly incomes and additional workforce disincentives as the formula used by Centrelink in recovering income above the income free areas is excessive, and can be as high as 55 cents in the dollar above \$31 a week.

Standard rate of debt recovery is set to increase from 14% to 15% from 1 January 2010. The increase in the rate of debt recovery will see an additional \$102 million recovered from those with overpayments. At a time when family incomes are under pressure, the Government should not proceed with this increase to the rate of debt recovery.

**Welfare Rights recommends that the Government announce a moratorium and amnesty of the collection of Centrelink overpayments to complement the existing measures to assist disadvantaged Australian's through the recovery phase of the global financial crisis.**

