

**Submission to the Senate Education,
Employment and Workplace Relations
Committee Inquiry into the Social
Security Legislation Amendment
(Employment Services Reform)
Bill 2008**

10 November 2008

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Mr John Carter, Committee Secretary
Senate Education, Employment and
Workplace Relations Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600
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10 November 2008

Dear Mr. Carter,

Thank you for your invitation to make a submission to the Inquiry into the Social Security Legislation Amendment (Employment Services Reform) Bill 2008. The Centre for Independent Studies opposes the introduction of this bill.

Please find attached a recent publication by Professor Peter Saunders, published by the Centre in June 2008, which argues that the proposed changes will undermine the principle of mutual obligation. Saunders argues that 'mutual obligation works mainly by enforcing compliance, which is why it is so important to maintain effective sanctions.'

Since the publication of this paper, the Melbourne Institute of Applied Economic and Social Research has published findings that show that unemployed people who take up part-time or low-paid jobs are more likely to move to full-time or better-paid jobs than those who remain unemployed.¹ These findings vindicate the 'work first' strategy that underlines mutual obligation policies.

Moreover, a recent OECD report into poverty and inequality highlighted the need for a 'work-first' strategy, arguing that 'developed countries have to do much better at getting people into work, rather than relying on unemployment, disability and early retirement benefits.'²

If you have any queries about this submission, please do not hesitate to contact me (details below).

Kind Regards,

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1. Bruce Headey and Diana Warren, 'Families, Incomes and Jobs : A Statistical Report of the Hilda Survey, Volume 3,' Melbourne Institute of Applied Economic and Social Research, University of Melbourne, www.melbourneinstitute.com/hilda/statreport/statreport-v3-2008.pdf, 85.
 2. Organisation for Economic Co-operation and Development, 'Growing Unequal? Income Distribution and Poverty in OECD Countries,' (Paris: OECD, 2008).

A Whiff of Compassion? The Attack on Mutual Obligation

Peter Saunders

EXECUTIVE SUMMARY

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Mutual obligation requires people receiving welfare benefits to undertake a prescribed activity or forfeit some or all of their payment. This requirement has gradually been extended to cover most of those claiming unemployment allowances, as well as single parents with school-age children and new Disability Support Pensioners whose impairment is relatively mild.

Mutual obligation has had a positive impact in moving people from welfare to work. Program effects are as strong as any recorded overseas, but the main impact has been through compliance effects (for example, imposition of activity requirements strengthens people's commitment to finding and accepting work).

Mutual obligation is popular with the public, but many welfare advocates regret the move away from the principle of unconditional welfare rights. These critics have concentrated their opposition on the financial penalties that fall on welfare claimants who fail to carry out the activities required of them. They oppose suspension of benefits and say nobody should be penalised if it causes hardship.

Meeting their demands would effectively undermine the mutual obligation system. Over the years, government has modified penalties in an attempt to appease the critics, but opposition remains strong, and is often emotive.

The new Rudd government has announced changes that meet many of the critics' demands and threaten to undermine mutual obligation. These include:

- Greater discretion for Job Network agencies in reporting 'participation failures.'
- An end to automatic eight-week suspensions for claimants who record three 'participation failures' within twelve months (they will now be 'reviewed' instead).
- Financial penalties will not be imposed in cases where this might cause hardship.
- Part-time work requirements for single parents will be eased.

In addition, the government wants to reduce the pressure on welfare claimants to accept jobs (the 'work first' principle), and to emphasise training instead:

- Work for the Dole, which currently begins after six months of unemployment, will not now begin until twelve or eighteen months (and in some cases even longer than that).
- Claimants who are not considered 'job-ready' will receive training, special assistance, or both, for at least twelve months.

This rolls back a program—Work for the Dole—that is a proven way to move people from welfare to work, in favour of substantially increased training, which is known to be ineffective in most cases.

The result of all these proposed changes will be that government spending on moving people from welfare into jobs will increase but outcomes will worsen. The government should think again.

Professor Peter Saunders was the Social Research Director of the Centre for Independent Studies until June 2008. He remains a Distinguished Fellow of the Centre, and is the author of *Australia's Welfare Habit, and How to Kick It*.

It is early days in the life of Kevin Rudd’s Labor Government, but a whiff of compassion is in the air. Welfare organisations that have languished in the cold since 1996 are getting calls from ministers and have a seat at the table ... organisations like the Australian Council of Social Service [ACOSS], the National Welfare Rights Network, Catholic Social Services Australia ... are in the ascendancy ... “What I find heartening is that humanity is back,” [the ACOSS President] says ...

To those who failed to get a job, the Howard government was pitiless—and it extended that regard to the organisations that represented them ... The Howard government pursued a “work first” agenda that meant the unemployed had to take up any job. So the welfare lobby has responded with relief to the Rudd Government ... Compassion is in the air.

—Adele Horin¹

In conspicuous compassion, feelings are conflated with emotion, and genuine caring dissolves into mawkish sentimentality ... The welfare and poverty debate in this country is repeatedly subverted by appeals to emotion rather than looking at the evidence, and by an unflinching commitment to a discourse of victimhood.

—Paul Comrie-Thomson²

Welfare dependency erodes personal autonomy, undermines people’s sense of responsibility for their own lives, and weakens civil society.

Introduction: The welfare dependency problem

Over 4.2 million Australians (more than one in five of the entire population) are direct beneficiaries of government payments at any one time.³ Almost two million of them are age pensioners, and approaching two million families receive some form of family support benefit. But there are also some 1.7 million jobless people of working age relying on income support payments (table 1).

Commonwealth, state, and local governments in Australia spend more than 10% of our GDP on social security and welfare provisions.⁴ In the Howard years, government spending on welfare payments rose from 40.5% of the total budget in 1996 to 44.3% eight years later.⁵ Yet this was an avowedly ‘centre-right’ government, operating in a period of unprecedented economic growth with rapidly falling unemployment. In these circumstances, we might have expected welfare spending to fall substantially, but the total welfare budget increased every year between 1998 and 2006. The biggest increases were the 5.8% annual average growth in family payments and the 4.2% annual average growth in disability payments.⁶ The new Rudd government is unlikely to reverse the trend.

Table 1: Main working-age income support payments 2006–07⁷

	Cost (\$000s)	Recipients
Newstart Allowance	4,493,978	
<12 months		160,203
>12 months		257,590
Youth Allowance (unemployed)	482,291	68,698
Parenting Payment Single (PPS)	4,696,298	395,495
Parenting Payment Partnered (PPP)	1,216,792	144,427
Disability Support Pension (DSP)	8,651,399	712,163
Total	19,540,758	1,738,576

This is not only an economic burden: welfare spending at this level also represents a major social problem. Welfare dependency erodes personal autonomy, undermines people’s sense of responsibility for their own lives, and weakens civil society.

The policy of 'mutual obligation' is a crucial component of any attempt to reduce welfare dependency.

As I have noted elsewhere, part of the solution must involve an expansion of low-skilled jobs so that people on welfare can find suitable employment.⁸ But this will not be enough. We also have to ensure that people on welfare take up opportunities to work when they are offered. This is what is sometimes called a 'work first' strategy. There must be jobs for them to do, but we must also ensure that people are nudged, nagged, or pushed into doing them rather than becoming habituated to welfare dependency.

This is why the policy of 'mutual obligation' is a crucial component of any attempt to reduce welfare dependency. It establishes the principle that if you are on welfare, you should be looking for a job, and if you cannot find one, you should still be doing something in return for the income the state gives you. There are troubling signs, though, that this policy of mutual obligation is about to be severely weakened.

The eleven years' war against mutual obligation

The idea that welfare payments should be conditional on a willingness to perform some activity has its origins in the 1980s, when the Labor government led by Bob Hawke introduced a requirement that long-term unemployed people should participate in 'Intensive Assistance'—personalised support offering tailored education or training—in return for their welfare payment. The Keating government developed this further with its guarantee of a subsidised job placement for all long-term unemployed claimants, and penalties for those who refused to participate.

These early initiatives in what Keating called 'reciprocal obligation' marked an important departure from the principle of needs-based entitlement (the idea that anyone in need has a right to welfare), which had driven social policy thinking up to that point. For the first time, entitlement to financial assistance became conditional on your willingness to perform some activity designed to improve your ability to find a job, or at least to keep you active while you continued looking for one.

In the Howard years, this conditional principle was further developed under the banner of 'mutual obligation.' If you needed money, the government would help you until you found a job, but you were expected to do something in return. This could be training or part-time study, a part-time job, remedial literacy or numeracy classes, service in the Defence Reserves or the Green Corps, or some form of community work (known as 'Work for the Dole').

Work for the Dole is the default mutual obligation activity. It provides unemployed people with experience working on heritage and environmental projects, community services, and restoration or maintenance of community facilities. Projects are run by non-commercial 'community work coordinator' agencies that contract with the government to offer places on specified programs. Participants normally work from 9 a.m. to 5 p.m., two days a week. They do not receive pay over and above their welfare payment, but they do get a top-up to cover transport and other work expenses.⁹

We can identify at least four key objectives behind the introduction of mutual obligation:

1. It helps prevent habituation to idleness. A long period of inactivity not only threatens to erode people's technical skills, but leads to the habits of working to atrophy: getting up at a set time, making yourself presentable, following a superior's commands, and so on.
2. It can equip people with new skills or work experience, enhancing their employability and increasing their attractiveness to potential employers.
3. The activities themselves make a positive contribution to the life of the community. Work for the Dole projects, for example, create or enhance community facilities that would not otherwise receive funding.
4. Finally, requiring welfare recipients to undertake regular activity in return for their payments helps ensure that a life on welfare benefits does not become more attractive than a low-paid, routine full-time job.

The mutual obligation policy was originally applied only to young unemployed people under the age of twenty-five—after six months on the dole, they had to undertake an approved activity for a couple of days every week as a condition of continuing to receive benefits. Later, the policy was extended to older unemployed people, and in 2006, it was widened still further to apply to single parents with school-age children and to new Disability Support Pension (DSP) claimants with mild incapacities. For both these new groups, claimants were required to look for part-time jobs and undertake a part-time mutual obligation activity until they found one. But despite this policy's gradual extension, most people on income support are still not subject to mutual obligation.

Mutual obligation has always commanded strong public support:

- A 1999 survey found three-quarters of the population supported compulsory activities for young and long-term unemployed claimants, and up to two-thirds favoured extending these requirements to unemployed people over fifty, parents with pre-school-age children, and people with disabilities.¹⁰ More than half thought sole parents should work part-time once their youngest child started school.
- A 2000 survey found 85% support for DSP claimants being required to undertake appropriate activities in return for their payment, and 86% approved of compulsory activities designed to improve their ability to gain employment. More than half thought DSP recipients should be penalised financially if they failed to undertake an activity required of them.¹¹
- In 2003, the Australian Survey of Social Attitudes reported that 75% of the population thought people receiving welfare benefits should be under more obligation to find work, and only 14% believed it had been made too hard to qualify for welfare benefits.¹²
- In 2005, a government-commissioned survey found 'almost universal support for participation requirements for unemployed people aged under 50.'¹³ More than three-quarters of respondents thought it was reasonable to expect single parents of school-age children to work part-time.

Among academics and welfare professionals, however, there is some discomfort about the move away from unconditional welfare. There is a belief that 'Welfare support should be available as an unconditional right when need can be clearly demonstrated.'¹⁴ Some think there should be a right to an income 'whether we work or not.'¹⁵

When the Howard government first introduced mutual obligation for unemployed people, many welfare experts attacked it. They denied that welfare recipients owe any 'obligation' to those who finance their benefits. They suggested that requiring claimants to undertake activities they would not freely choose to do amounted to 'exploitation.' They maintained that mutual obligation is socially divisive and stigmatising, and that it puts the blame for joblessness on the unemployed rather than on the lack of employment opportunities for them in the economy.¹⁶ Two academic lawyers even suggested that mutual obligation breaches the International Covenant on Civil and Political Rights, which states that 'No one shall be required to perform forced or compulsory labour.'¹⁷

Emotion and hyperbole resurfaced when mutual obligation was later extended to Parenting Payment Single (PPS) recipients with school-age children. Australia was almost unique among Western countries at that time in giving single parents the right to stay on full-time welfare until their youngest child turned sixteen. The average recipient was spending twelve years on welfare,¹⁸ and because PPS paid more than Newstart Allowance and required no mutual obligation activity, there was an incentive to move from unemployment allowances onto Parenting Payment. Seven out of ten women entering PPS as a result of having a new baby had previously been on Newstart, and once on PPS, more than half went on to have additional children.¹⁹ Over 50% of those who claimed PPS until their youngest child turned sixteen were still on income support five years later.²⁰ They had effectively made themselves unemployable.

Mutual obligation has always commanded strong public support.

For eleven years, mutual obligation has been attacked ... with little regard for evidence or logic.

Despite all this, the suggestion that single parents might be expected to look for part-time employment once their children started school provoked hysteria among some sections of the welfare lobby. Catholic Welfare dismissed the proposal as 'staggering in its harshness.'²¹ The National Council of Single Mothers and their Children warned of 'homelessness and starvation for infants and mothers and more beggars in the street.'²² The St Vincent de Paul Society argued that single mothers who were forced out to work would breach their duty of care to their children, exposing them to prosecution for neglect.²³

The same emotive overreactions also met the proposal to extend mutual obligation to DSP claimants whose incapacities were mild enough to allow them to take on part-time employment.

Just like single parents switching to PPS, thousands of jobless people who are capable of working have been moving from Newstart Allowance onto the more generous and less demanding DSP. Between 1995 and 2007, unemployment fell 45%, from 560,000 to 252,000, but DSP numbers rose by 51%, from 462,000 to 697,000. There is a strong and significant correlation between the two sets of figures.²⁴ A recent OECD report on Australia confirms that 'The number of people having difficulties in the labour market has not declined ... today more of those difficulties are associated with or labelled as health problems.' In other words, jobless people have increasingly been classified as 'unable to work' (on DSP) rather than 'looking for work' (on unemployment benefit).²⁵ Half the men on DSP were previously on Newstart Allowance.

Yet when it was proposed that mutual obligation be extended to DSP recipients who are capable of doing part-time jobs, Labor's Wayne Swan (who was then the party's welfare spokesperson) described the idea as an attack on 'people whose bodies have been worn out after a lifetime of labouring for the country.' Catholic Welfare said the proposal was 'exposing all people living with disabilities to demonisation.'²⁶

Victims and barriers

For eleven years, mutual obligation has been attacked, often in shrill, exaggerated, and emotional terms, with little regard for evidence or logic. At the heart of this opposition lies a glaring logical contradiction.

We are repeatedly told that imposition of activity requirements is unnecessary because almost everyone on welfare longs to have a job. As one commentator puts it, it is 'inconceivable that any appreciable proportion of workers would willingly choose to remain unemployed as a way of life.'²⁷ Yet any attempt to require the unemployed to engage in work-related activities is attacked as unjust and inhumane, and the Howard government is chided as 'pitiless' for having demanded that welfare recipients accept work when it is offered to them. The unemployed are said to be desperate to work, but we are told it is unfair to ask them to do anything in return for their benefits.

Critics try to square this circle by talking about 'barriers to participation.' People 'want to work,' they say, but they are 'prevented' from doing so by 'barriers' beyond their control. These 'barriers to participation' mean it is 'unfair' to demand that welfare recipients do something in return for their benefits, for they cannot participate, however much they would like to. The blame for their inactivity lies not with them, but with government. Here are some examples of the claims made:

- Some welfare claimants are 'suffering' from 'substance abuse problems' that 'prevent' them from working. This 'barrier' persists because there are not enough government programs to help them break their addiction.
- Similarly, some welfare recipients 'cannot' work because they are bringing up young children on their own with nobody else to help look after them. Again, this 'barrier' is not their fault, nor even the fault of their absent partner. The fault lies rather in the government's failure to spend more money subsidising child-care places for their children.

- Some long-term welfare claimants lack the vocational skills they need to get a 'proper job.' It would be 'unfair' to expect them to accept low-paid, low-skilled, or casual employment, so it is the government's responsibility to provide them with training to help them overcome their 'skills barrier' and find rewarding employment.

The details vary, but the explanation is always the same. Individuals are blameless. They would work if they could, but public policy failures stop them.

In his research on welfare recipients in the USA, Lawrence Mead notes that very few of them say they are unwilling to work. Rather, they express a desire to find a job, but then list all the reasons why they think it is not possible. Mead describes them as 'dutiful but defeated.'²⁸ Even when opportunities come along, they do not take them, because they have convinced themselves that they cannot do what is required. They have learned to be helpless.

Through the rhetoric of 'barriers,' welfare advocates in Australia are guilty of exactly the same sort of fatalistic and self-defeating thinking. They encourage their clients to be fatalistic and passive, and to think of themselves as victims, reinforcing the belief that they cannot help their circumstances.

In his research, Mead concluded that this culture of fatalism has to be confronted, by 'hassling' people to get off welfare as well as by 'helping' them to find and hold down suitable jobs. The best preparation for getting a job, he says, is not counselling, training, or group workshops: it is working. Any job is better than staying on welfare, for it breaks the mentality of defeatism and gets people used to the idea of getting up in the morning, making themselves presentable, and going to work. It is also often the bottom rung of a ladder leading to better things later on.

This is precisely the logic of mutual obligation. Requiring people on welfare to undertake some regular activity in return for their benefits 'hassles' them into doing something positive, and breaks the cycle of negativity that traps them in long-term dependency. For many in the welfare lobby, however, this 'hassling' is precisely the problem. They say it 'victimises' and 'stigmatises' people who are the passive victims of circumstances beyond their control. They say we need not more hassle, but more 'compassion,' not more demands on the jobless to do something, but more government spending on programs designed to reduce the 'barriers' that 'prevent' them from 'participating.'

The battle over breaching

This rhetoric of victimhood lies at the heart of the welfare lobby's long-running battle against 'breaching penalties.' These are the sanctions imposed on welfare claimants who fail to comply with their mutual obligation activity requirements.

Welfare academics and pressure groups have persistently campaigned against punishing people who fail to carry out the activities required of them. Because they don't think welfare claimants should have to do these things in the first place, they have never accepted the case for punishing those who refuse to comply. As the St Vincent de Paul Society explains, 'Breaching has little to do with compassion ... The focus is on coercion and control ... The breaching system doesn't need tweaking. It needs scrapping.'²⁹ They are not the only ones expressing such sentiments.³⁰

Opponents of mutual obligation know that the battle over breaching penalties is crucial, for once you weaken the system of penalties, the whole policy is swiftly undermined. Obligations only have meaning if they are enforced. If breaches of the activity conditions attached to receipt of welfare go unsanctioned, the activity requirements themselves will simply be ignored.

Failure to perform a required activity must eventually be penalised by a loss of welfare payments. But this creates a dilemma for government, for withholding payments inevitably causes hardship, the very thing the welfare system is supposed to prevent. Critics have been alive to this uncomfortable dilemma, which is why they have persistently attacked the 'harshness' of breaching penalties. This is the battering ram with which they hope to demolish the whole mutual obligation system.

The rhetoric of victimhood lies at the heart of the welfare lobby's long-running battle against 'breaching penalties.'

No matter how much or how often the penalties have been modified, the critics have kept coming back for more.

As the critics have pushed against penalties, the government has tried to buy them off with a series of half-baked concessions. But no matter how much or how often the penalties have been modified, the critics have kept coming back for more. Throughout the Howard years there were repeated complaints that the system of sanctions was too 'harsh' and 'vindictive,' and that it needed yet further reform.

Ironically, many of the welfare organisations that are critical of breaching penalties are directly involved in applying them. This is because they have signed contracts with the government to run Job Network services for the unemployed. These contracts require them to help unemployed people look for jobs, to give them 'Job Search Training' (such as help in writing application letters and polishing their interview technique), and to organise the mutual obligation activities required of them. When their clients fail to meet these requirements, Job Network agencies are contractually bound to report them to Centrelink so the appropriate penalties can be applied.

But while they implement these policies, welfare organisations also resist them. In 2002, for example, the Productivity Commission found that welfare organisations were reporting significantly fewer breaches to Centrelink than other network providers. As one sympathiser put it, 'They often push their contractual obligations to the legal limits in order to avoid reporting a client to Centrelink for breaching.'³¹ Similarly, in 2007, a number of welfare bodies signed government contracts to administer a new 'financial case management scheme' designed to monitor possible hardship in families where breaching penalties had been imposed. But the scheme was fatally weakened when twelve organisations later walked out, arguing that breaching single parents was immoral. The Rudd government subsequently scrapped the scheme altogether.³²

In 2002, welfare organisations set up their own 'independent inquiry' into breaching penalties.³³ This concluded that breaching had operated in an 'arbitrary, unfair or excessively harsh' manner and that penalties are 'often too severe' and cause 'unjustifiable hardship.'³⁴ It recommended that Activity Agreements should be watered down, that service providers and Centrelink should have to jump through a series of new bureaucratic hoops before declaring a breach, and that Centrelink should consider waiving penalties altogether if they are likely to cause hardship (which almost any penalty is likely to do). The inquiry also proposed that no penalty should involve withholding more than 25% of benefits or last more than eight weeks. These recommendations have formed the basis for the welfare lobby's demands ever since.

In 2003, the federal government responded by reducing the penalty for a first breach and setting up a taskforce to ensure that Centrelink enforced the rules 'fairly.' Welfare groups publicly professed themselves pleased with this concession, but within a few months they were mobilising again to demand additional changes, this time at a Senate inquiry into poverty.

In its testimony to this inquiry, the Brotherhood of St Laurence called compulsory activity requirements 'obscene,' the St Vincent de Paul Society described breaching as an 'injustice,' and the Australian Council of Social Service (ACOSS) called for the earlier report's recommendations to be implemented in full.³⁵ The anti-government majority on the inquiry recommended that no penalty should exceed eight weeks, that all penalties should be fully recoverable once claimants take 'reasonable steps' to comply, and that no penalty should ever exceed a 25% reduction in payments.³⁶ This list of recommendations almost exactly replicated the welfare lobby's list of demands.

If these demands were implemented, they would spell the end of the mutual obligation system. Claimants who chose to ignore all their obligations would still receive three-quarters of their welfare payment every fortnight for an indefinite period without any further sanction being possible. Activity requirements would collapse under rules like this. Nevertheless, this has been the position advocated, not only by leading welfare groups, but also by the Labor Party for the last four years.

The penalties system was again revised in 2006 when the government tried to meet the demand that welfare claimants who are breached should be able to resume payments

once they start complying. It also tried to reduce the severity of penalties for minor infractions of the rules.

Before 2006, unemployed people who failed to meet their activity requirements lost a fixed proportion of their benefit for a fixed number of weeks. The exact penalty depended on whether they had broken an administrative rule (such as failing to attend an interview at a Centrelink office) or an activity rule (such as failing to undertake training or job search, as laid down in their Activity Agreement). Activity Test breaches were the more serious, and they were penalised on a rising scale from an 18% reduction in payments for six months for a first breach to complete cessation of payments for eight weeks for a third breach.

These penalties appear to have been fairly effective. A 2005 survey found that 90% of breached claimants increased their participation after being penalised. More than two-fifths found work or increased their existing hours, and two-thirds said they became more determined to find work.³⁷ But critics argued the system was too punitive. People were being punished for minor offences, and those who rectified their behaviour after being sanctioned were not being adequately rewarded.

So it was that in 2006, the government offered recipients the chance to avoid a financial penalty by complying after failing to meet a condition of their benefit. People who failed to meet a condition of their payment without a reasonable excuse would now have a 'participation failure' recorded against them. If they did not then re-engage with their required activity, their payment would be stopped, but if they subsequently complied it would be reinstated.³⁸

Under this revised system, claimants who accumulated three 'participation failures' within a twelve-month period would have their payment suspended for eight weeks. An eight-week suspension could also be imposed for one 'serious' participation failure, such as deliberately losing a job, refusing to accept suitable job offers without good reason, or failing to turn up to Work for the Dole placements. These eight-week payment suspensions for serious failures could not be reduced through subsequent compliance.

These reforms were intended to reduce the harshness of penalties, but they ended up catching a lot more people in the net. In the last three months before this system changed, 15,000 administrative breaches and 18,000 Activity test breaches were recorded. But in the first three months following the change, 47,473 'participation failures' were recorded. Almost 4,000 people (0.6% of all those subject to compliance conditions) were suspended from payments for eight weeks (2,135 for one-off 'serious' failures, and the other 1,849 for three repeated participation failures).³⁹

Over the whole of the first year of the new system (2006–07), Job network agencies reported a huge total of 525,654 participation failures to Centrelink, leading to speculation that Centrelink was being overwhelmed by paperwork.⁴⁰ Centrelink suspended payments to 15,509 claimants for eight weeks, as compared with just 6,432 in the year before the changes.⁴¹ And as new participation rules for Indigenous people in remote communities began to take effect, suspensions climbed even higher—in the next eight months (to February 2008), Centrelink imposed another 31,789 eight-week suspensions.⁴²

This increase in suspensions reinforced the determination of welfare groups to get the system changed, and the new Rudd government gave them the opportunity when it established a review immediately after it came to power and invited them to make submissions. Jobs Australia (the peak body representing the not-for-profit organisations in the Job Network) spoke for many welfare groups when it complained of the 'obsession with jobseeker compliance' and the 'sinister and damaging vilification and punishment of people who need a hand up rather than being slapped down.' Arguing that the system 'has caused significant detriment and harm to some of our most vulnerable Australians,' it called for a shift from an emphasis on penalties to one based on help.⁴³ It was pushing on an open door.

Jobs Australia ... spoke for many welfare groups when it complained of the 'obsession with jobseeker compliance.'

The main impact of mutual obligation has not come ... through 'helping' people get work, but through 'hassling' them to leave welfare.

The erosion of 'work first'

Mutual obligation works in two ways. First, it helps people get jobs by providing them with new skills, boosting their confidence, and helping them search for employment. These are so-called 'program effects'—the outcomes from activities undertaken by unemployed clients. Secondly, mutual obligation 'hassles' people to find a job by attaching conditions to their receipt of benefits and by pushing them to accept work placements. These are the 'compliance effects'—the indirect results of simply requiring people to do something.

Mutual obligation has been effective on both types of outcome, but compliance effects have generally been greater than program effects.

Activities attached to mutual obligation do result in positive 'program effects.' A third of people who had successfully moved from welfare into work in 2004 said activities linked to their welfare payments had been important in helping them get a job, and another 17% thought the activities had helped in some small way.⁴⁴ Mission Australia reports that participants in its Work for the Dole programs increase self-esteem and motivation and improve job skills as well as enhancing their employment opportunities.⁴⁵ A 2005 Department of Employment review found that three months after completion, 55% of those who had undertaken Job Search Training were in employment, as were 46% of those who received Customised Assistance, and 32% of those who did Work for the Dole.⁴⁶ Comparing employment levels among 'treatment groups' with those of control groups, the review found work participation was eleven percentage points higher (59% employed against 48%) for those who had done Job Search Training, ten points higher for those exposed to Customised Assistance, eight points higher for those who had undertaken a Mutual Obligation activity, and seven points higher (39% against 32%) for those who had done Work for the Dole.⁴⁷

These are quite impressive results. The new Rudd government has sought to trivialise them, arguing that 'three-quarters of those who participated in Customised Assistance and subsequently found work would have found employment anyway.'⁴⁸ But this is unfair, for these net effects are stronger than any achieved in previous programs in Australia (including the Keating government's 'Working Nation' program), and are as good as any results achieved by comparable programs overseas. Most government schemes designed to get welfare recipients into jobs produce relatively small net impacts, and the Howard government's mutual obligation regime performed better than most.⁴⁹

It is nevertheless true that the main impact of mutual obligation has not come through its program effects, but through its compliance effects—not through 'helping' people get work, but through 'hassling' them to leave welfare. Mutual obligation works mainly by enforcing compliance, which is why it is so important to maintain effective sanctions.

Simply requiring unemployed claimants to attend an initial interview, for example, reduces the welfare rolls by 5% or 10%.⁵⁰ And when more is demanded, the proportion of those disappearing increases even faster. When Work for the Dole was first introduced, one-third of those referred to the program left welfare rather than attend.⁵¹ In 2002, the Productivity Commission estimated the compliance effect of compulsory job search training was three times greater than the effect of the program itself in equipping people to make successful job applications:

Many job seekers who are referred to JST [Job Search Training] or IA [Intensive Assistance] do not actually commence with these programs ... to avoid having to participate in the program some job seekers increase their job search activity and find employment, or those inappropriately claiming income support stop doing so because of their lack of availability for participation.⁵²

Welfare advocates have responded to evidence like this by arguing that circumstances have changed. When unemployment was higher, they say, it was relatively easy to push job-ready claimants off benefits and into jobs (hence the high compliance effects). But all the easy-to-place welfare claimants have now disappeared from the rolls, leaving only

the hard cases behind. The people who remain cannot be ‘hassled’ into work because they are not ‘job-ready’—they need intensive support and long-term training before they are capable of work. This means we should now pay more attention to improving ‘program effects’ rather than emphasising compliance.

How valid is this argument? It is certainly true that the proportion of Job Network clients who are long-term unemployed and/or unskilled and poorly qualified has risen as total unemployment has fallen. When the Job Network was set up, unemployment was running at over 8%. It has virtually halved since then, and the cases that remain tend to be a lot more difficult and labour-intensive. The Department of Employment estimates that 29% of Job Network clients are ‘highly disadvantaged’ today, as compared with 20% five years ago.⁵³ Catholic Social Services reports that the proportion of its clients with less than a year 10 education has increased in five years from 19% to 25%.⁵⁴ And the CEO of Jobs Australia suggests that ‘A significant number of the people left in the queue have very complex needs, typically mental health issues, housing issues, family relationship issues, all sorts of things that may make it difficult for them to comply.’⁵⁵

Welfare groups draw the implication that it no longer makes sense to push people like these into jobs. The Brotherhood of St Laurence, for example, criticises the emphasis on achieving ‘rapid movement into any job without ongoing support for career advancement or skill development,’ and it claims the Job Network system is not well suited to handling people who are not job-ready.⁵⁶ The CEO of Job Futures agrees, arguing that ‘many of those who have been referred to these programs in the past require a great deal of support in dealing with personal issues before they are ready to join an employment program.’⁵⁷ And the National Employment Services Association says there should be more emphasis on ‘proper’ skills training rather than on rapid job placement, arguing that more training for long-term welfare claimants could help meet the nation’s growing skills shortage.⁵⁸

The new Labor government appears to have accepted most of these arguments. Launching a discussion paper on reform of the Job Network in May 2008, the employment minister, Brendan O’Connor, said, ‘The Job Network ... is now out of date, inefficient and complex ... The government’s new employment services system strongly emphasises “work readiness,” providing greater skills development, training, work experience and tailored case management for job seekers.’⁵⁹ His comments echoed almost word for word what welfare groups had been telling him.

The discussion paper calls for a big expansion in training schemes for the unemployed together with a significant weakening of Work for the Dole requirements and compliance procedures. It suggests that Job Network agencies should earn fees for placing people in training schemes, as well as for finding them jobs, and 238,000 new training places will be provided for jobless people at a cost of \$880 million.

When they first approach Centrelink, claimants will now be allocated to one of four ‘streams.’ Those deemed ‘job-ready’ will receive assistance in searching for work and if they are still unemployed after three months, they will have their skills assessed and be referred to an ‘intensive activity’ for a fortnight to boost their employment chances. Only after a year on the dole will they be required to enlist in a Work for the Dole scheme (or they may be switched to another stream).

Meanwhile, those who are not ready for work will be directed to one of three other streams, where they will develop an ‘Employment Pathway Plan’ involving training and other forms of assistance. If they remain jobless after a period of between twelve and eighteen months of training, they may switch to a different stream, or they will enlist in Work for the Dole.

What all this means is a lot more people will be doing a lot more training, and nobody will have to do Work for the Dole for at least a year after registering as unemployed.

Welfare groups appear happy with this new approach, for it delivers most of what they have been asking for. Catholic Social Services described it as a ‘long-overdue overhaul,’ ACOSS welcomed ‘more support for highly-disadvantaged jobseekers including greater emphasis on training,’ and the Welfare Rights Network saw it as a ‘big shift from punitive

The proportion of Job Network clients who are long-term unemployed and/or unskilled and poorly qualified has risen as total unemployment has fallen.

work-first approach to making people job-ready.⁶⁰ But there are strong grounds for believing that increasing training and reducing Work for the Dole will do nothing to reduce welfare dependency. These changes are more likely to increase it.

The training fallacy

The May 2008 discussion paper notes that Australia faces an ‘unprecedented skills shortage.’ It says it wants to ‘boost the skills and productive capacity of our workforce’ by giving unemployed people training in areas where skill shortages are most acute. But the paper neglects to identify what these skill shortages are.

We know from other research that most jobs growth is coming in professional employment, and that the acute labour shortages are at graduate and diploma level.⁶¹ So, if the new emphasis on training is to solve our skills shortage, jobless welfare claimants will have to be trained to very high levels. In reality, this is not going to happen. The idea that unqualified people on welfare can be trained to fill the highly skilled vacancies where the shortages are is clearly nonsense.

As I have shown elsewhere, training schemes for long-term unemployed people will not only fail to solve the skills shortage; they will also do little to help most jobless people find employment. James Heckman has reviewed the international evidence and he dismisses the suggestion that unskilled adult workers can be trained relatively easily to fit into more highly skilled jobs as ‘a dangerous myth.’⁶² He says: ‘The evidence points strongly to the inefficiency of subsidising the investment of low-skill, disadvantaged workers ... The available evidence clearly suggests that adults past a certain age and below a certain skill level obtain poor returns to skill investment.’⁶³ In other words, the government’s proposed new ‘investment’ in training is going to push lots of people through courses from which they will not benefit while wasting almost a billion dollars of taxpayers’ money.

OECD evidence bears this out. It identifies only one jobless group that generally benefits from government training programs: mature-age women seeking to return to the labour force after a period spent raising children.⁶⁴ They tend to be highly motivated, often have a history of relevant work experience, and benefit from the opportunity to brush up on skills that have gone rusty during their period of economic inactivity. But most of the people who will be ushered into the government’s 238,000 new training places are not like this. They are unqualified school leavers, long-term unemployed men, and unskilled people on DSP and Parenting Payment. Vocational skills training generally achieves little for these groups. For the young unemployed, we know training is almost a complete waste of time.⁶⁵

All of this is well-known, but it is being ignored in the current policy debate. Moreover, a wasteful training initiative is being coupled with a watering down of Work for the Dole, which is a policy that we know does work.

As we have seen, the main impact of mutual obligation on participation levels has been achieved through its compliance effects rather than its program effects. Critics complain that unemployed people often fail to learn new skills on Work for the Dole placements, but requiring people to work for their benefits has its main impact through pushing them into jobs. The government is weakening the relatively successful compliance regime at the same time as it is increasing training in a futile attempt to improve program effects.

The most obvious prediction to be made from all of this is that the government is going to end up spending more money to achieve a worse outcome. This probability is made all the more likely by the sting in the tail in the May 2008 discussion paper—proposals for changes in penalties for non-compliance.

The beginning of the end of mutual obligation

Even before it published its reform proposals, the new government started easing up on the compliance regime. First, the Workforce Participation Minister wrote to Job Network agencies telling them to ‘use their discretion’ before reporting activity breaches to Centrelink. He told them that eight-week benefit suspensions should only be applied

‘when the jobseeker clearly has no reasonable excuse for the participation failure.’⁶⁶

Next, the Human Services Minister, Joe Ludwig, abandoned a scheme requiring welfare recipients to report to Centrelink on a fortnightly basis. He also told Centrelink to stop checking on the validity of job search attempts recorded in claimants’ ‘dole diaries.’⁶⁷ It was, he said, a ‘waste of effort.’

The signals from these two early statements were unmistakable—the government was backing off from enforcing activity requirements. This was then confirmed by the publication of the discussion paper in May 2008, which attacked the existing compliance regime as ‘complex, punitive and counter-productive.’⁶⁸

Under the existing system, nobody can have their payments suspended unless they commit a serious activity breach (such as refusing to accept work), or they accumulate three separate ‘participation failures’ within twelve months, but the paper dismisses this as ‘a penalize first approach.’ The paper further complains that welfare organisations in the Job Network are prevented from exercising their ‘professional judgement’ when reporting breaches, and it notes that suspending the payments of those who refuse to comply with activity conditions puts ‘vulnerable job seekers at great risk.’⁶⁹ All of this could have been written by ACOSS.

The paper repeats the Minister’s call for Job Network members to ease off on reporting breaches of activity rules:

Providers will have greater discretion not to submit Participation Reports, for example where they are satisfied with the job seeker’s explanation for their absence or where they believe it will assist the job seeker’s chances of obtaining employment ... the counter-productive ‘three strikes and you’re out’ approach of the current harsh regime will no longer apply.⁷⁰

The number of participation failures will thus be slashed by the simple expedient of telling Job Network agencies to stop reporting so many of them.

The paper suggests scrapping the current system of penalties and replacing it with what it calls a ‘more work-like “No show, No pay” compliance system.’⁷¹ This means that for each day that a welfare claimant fails to carry out a required activity, they will lose one day’s benefit. The paper argues that this is similar to what happens when workers fail to turn up to their jobs, but this is clearly not the case. Workers who repeatedly fail to turn up for work without good reason do not have their pay docked until they decide to put in an appearance—they get sacked. The new penalty regime will be much more lenient than this. It will therefore treat noncompliant welfare recipients more favourably than recalcitrant employees are generally treated by employers.

The eight-week suspension rule will be retained, but it will only be applied to ‘wilfully and persistently non-compliant job seekers.’⁷² The *Sydney Morning Herald* interprets this to mean that the penalty system is ‘all but scrapped.’⁷³ This is probably right.

Instead of having their payments suspended after three ‘participation failures,’ claimants who repeatedly fail to meet the conditions laid down for receipt of payments (and whose transgressions are actually reported by their Job Network service provider) will now have their cases ‘reviewed’ by Centrelink. The outcome of this review may be ‘referral for further assessment,’ or a switch to a different program or activity, or ‘no further action.’ Even where a review results in the imposition of an eight-week suspension, this can be ‘waived’ if the culprits agree to undertake twenty-five hours per week of training or work experience (less for those with only part-time activity requirements).⁷⁴

That’s not all. The discussion paper proposes that ‘If a person is unable to undertake intensive activities these could be waived if the person is in hardship.’⁷⁵ The meaning of this becomes clear in the sentence that follows: ‘Accordingly, there will be no need to retain the current Financial Case Management Scheme.’ This is the scheme for monitoring the impact of financial penalties on families and individuals who are thought to be ‘vulnerable.’ The implication of scrapping it is unescapable: there will be no need to monitor the impact of sanctions in future, because sanctions will never be applied where

The new penalty regime will ... treat noncompliant welfare recipients more favourably than recalcitrant employees are generally treated by employers.

The extension of mutual obligation to single parents with older children is having a positive impact in reducing their welfare dependency levels.

there is a possibility that they could create financial hardship. This is precisely what the welfare groups demanded back in 2004. It means there will effectively be no penalties for single parents (or other 'vulnerable' claimants), who will now be free to persistently breach their activity requirements.

What about the 'hidden unemployed'?

We saw earlier that a major factor in the fall in the official rate of unemployment has been the rise in the number of jobless people claiming DSP or Parenting Payment. The official unemployment numbers may be low, but there are still more than 1.5 million working age adults living on benefits, and many of them are quite capable of working.⁷⁶

Two years ago, mutual obligation was extended to more of these people when single parents with older children and DSP claimants with mild incapacities were for the first time required to seek part-time work. This change is paying off, particularly in the case of single parents. But the new government's proposed welfare changes threaten these gains, too.

There are clear signs that the extension of mutual obligation to single parents with older children is having a positive impact in reducing their welfare dependency levels. At the time the change was introduced, the government estimated that 70,000 single parents with older children were working less than the required fifteen hours per week minimum, and that another 80,000–90,000 were not working at all, making a total of around 150,000 who would now be required to increase their labour-force participation.⁷⁷ The government forecast that in 2007–08, 63,000 PPS and 19,000 Parenting Payment Partnered (PPP) recipients would switch to Newstart Allowance, and that 95,000 more PPS recipients and 26,000 PPP claimants would switch in 2008–09.⁷⁸ The key question is, how many of these will end up getting jobs? The signs are encouraging. Of the first 20,000 new 'priority 1' claimants processed by Centrelink (single parents with school-age children who were not working and had no previous contact with the Job Network), 6,400 found work.⁷⁹

The extension of mutual obligation to DSP claimants is having less of an impact, partly because, unlike the Parenting Payment reform, the DSP changes were not made retrospective. Existing claimants have been left on the pension, and this may even be discouraging them from seeking work, for if they find employment and then try to return to DSP, they will be assessed on the new capacity test.⁸⁰ The OECD has recommended that the changes be made retrospective to overcome this problem, and this would obviously produce a bigger and faster shift in the numbers.⁸¹ It was originally estimated that over the first three years, 60,000 people who would have gone onto DSP would instead go onto unemployment payments and start looking for work.⁸² In the event, the actual figures appear to be falling well short of this.⁸³ Furthermore, simply transferring from DSP onto Newstart does not mean claimants will find jobs—the Productivity Commission thinks the main impact of this change may simply be to push up the official rate of unemployment.⁸⁴

The May 2008 discussion paper says nothing about DSP claimants, but regarding single parents it proposes to establish a taskforce 'to examine whether there are better ways of balancing the role parents play in their families and communities, with the need to increase participation among child-bearing aged women.'⁸⁵ This is ominous for a number of reasons:

- The paper sees the case for single parents' labour force participation purely in terms of labour shortages in the economy. There is no recognition of the social case for requiring single parents to get back into work once their children start school, which suggests the key rationale for the current policy is being overlooked or ignored.
- The paper suggests the 'participation' requirement on single parents might be met in future by 'study and volunteering activities' as well as by employment. It also doubts whether single parents can be expected to look for work during school holidays.

Both of these comments point to a likely weakening of work requirements when the taskforce reports.

- The NSW Office for Women recently issued a report proposing that single mothers should be allowed to perform voluntary activities in the community in return for their welfare payments.⁸⁶ This looks like a suggestion that federal Labor could well adopt in future.
- At the moment, single parents do not have to accept a job unless it leaves them at least \$25 per week better off after paying their child-care and travel-to-work expenses, than they would be on benefits.⁸⁷ The government is thinking of making this earnings rule more generous, thereby exempting even more single parents from work requirements.⁸⁸
- As noted above, the discussion paper proposes to scrap the Financial Case Management Scheme. This can only mean that welfare claimants with dependent children will no longer be penalised with loss of benefits if they ignore their activity requirements.

Conclusion

The best way to move people off welfare and into jobs is to require them to work. Not everybody can or should be expected to work, but many of the 1.7 million working-age adults claiming income support could in principle be working full- or part-time. Over the last ten years or so, the number of claimants required to look for work has been increasing, but the majority are still exempt.

When welfare claimants are told to look for work, policies need to be in place for those who fail to find it. This is the core reason why we need mutual obligation. Mutual obligation activities hopefully contribute to the common good, and should if possible enhance the skills and self-esteem of those who undertake them, but their key function is to ensure that welfare claimants who fail to find work nevertheless do something in return for the income they receive.

Although mutual obligation is popular with the public, many welfare groups and social policy academics oppose the principle that people should 'do something' in return for their benefits. They still hold to the idea that welfare should be unconditionally granted to anyone who needs it. But rather than openly resisting the policy, they have sought to undermine it. They have tried to do this partly by weakening the penalties on claimants who fail to carry out the activities required of them, and partly by replacing 'work-like' activities with 'softer' alternatives such as training, even though this rarely helps get people into work.

Through the Howard years, the federal government compromised with critics of mutual obligation but never gave in to them. The Labor government led by Kevin Rudd, though, appears willing to cede most of what the critics want. The result will almost certainly be that welfare dependency will continue rising, for breaches of activity conditions will go unsanctioned and the incentive to get off welfare and find work will be weakened.

The Rudd government should distance itself from those who seek to undermine conditional welfare, and should rethink its current suite of proposals designed to weaken breaching penalties, roll back Work for the Dole, and increase provision of training courses. Keeping people on welfare for long periods while they go through pointless courses will do nothing to reduce welfare dependency levels, and will certainly not solve the nation's skills shortage. It is not even 'compassionate.' If we really want to improve the job prospects for hundreds of thousands of people now on welfare, who could and should be working, the answer lies not in training, but in lowering the price employers have to pay to hire low-skilled workers.

The best way to move people off welfare and into jobs is to require them to work.

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