



Senate Education, Employment and Workplace Relations
Committee

*Inquiry into the Social Security Legislation Amendment
(Employment Services Reform) Bill 2008*

Public Hearing

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OPENING STATEMENT

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Introduction

Catholic Social Services Australia is grateful for the opportunity to appear before this inquiry today, and commends the government for its efforts to reform this important area of social policy. The system proposed is much fairer than the system that it is intended to replace. We hope this inquiry is an opportunity to improve it further by removing some of the unnecessarily harsh elements that remain.

The problem of compliance in the welfare system is not a new one. A recent article in *History Today* cites a report prepared for the British Government commented in 1834:

It has been found that the pauperism of the greater number has originated in indolence, improvidence or vice and might have been averted by ordinary care or industry.¹

The view that inactivity or non-compliance is a major or even a significant cause of welfare dependence, unemployment and related poverty seems to have received greater prominence in recent public debate around these issues – but beyond anecdotes, there is little if any evidence to support such propositions.

It is a disgraceful commentary on recent public policy in this area that so many severe penalties have been applied to so many individuals and their families, and yet so little is known about the impact of those penalties (particularly when the harm caused by such penalties has previously been very well documented).

So what do we know?

We know that economists disagree about the effectiveness of tougher compliance regimes. For example, British economist Andrew Oswald writes that “The best new scientific evidence is that hounding the workless makes no difference to how quickly they find jobs.”

We acknowledge that other economists have looked at the issues and formed different conclusions. These suggest that tougher compliance regimes *can* be effective at encouraging recipients to comply with activity requirements and move into employment more quickly in some circumstances.

Economists have found two positive effects:

Effect on penalised recipients: some researchers have found that penalised recipients are more likely to enter employment when non-compliance results in benefit reduction. According to Gerard van den Berg and Bas van der Klaauw, this effect is long lasting. It does not disappear after benefits are restored to the original level.

Threat effect on non-penalised recipients: the threat of penalties encourages faster exit to employment.

¹ Poor Laws cited in “Poverty from Workhouse to the Welfare State”, *History Today*, July 2008

Systems built around these principles would be founded on the view that threats are the most effective form of motivation for those targeted.

We also know there are limits to the effectiveness of penalties

Some job search activities are easier to monitor than others. When recipients search for work using the service provider's vacancy database or attend interviews with a case manager, this is easy to monitor. But when recipients search for work through informal channels such as personal networks, job search intensity is extremely difficult to monitor.

In some cases informal job search may be more effective than formal job search. In many cases job search (formal or informal) will be more effective than participating in activities such as Work for the Dole (some programs have what is known as an 'attachment effect'). As a result, tough compliance regimes have the potential to discourage rapid exit to employment if not carefully managed.

We also know that severe penalties have a very high cost?

Costs to vulnerable individuals

Our submission cites SPRC research that has previously conducted a detailed study on the impacts of breaching. DEEWR has also conducted its own survey more recently, though I am not aware of the details being widely published. In their submission to this inquiry they wrote:

Early in 2008, DEEWR undertook a survey of job seekers to assess the impact of eight week penalties. The survey had 1,012 respondents, 658 of whom had served a penalty and 354 who had not, to provide a comparison group. The survey findings indicate that, while reliance on welfare organisations is quite low among the job seeker population generally – at around two and a half per cent - it is double that for those who incur eight week non-payment periods. The same survey showed that around 50 per cent of job seekers rely on family for support during non-payment periods (compared to around 15 per cent of the job seeker population generally), which indicates that the impact of the penalty often extends beyond the job seeker. It should be noted that an eight week non-payment penalty for a single adult job seeker receiving full rent assistance amounts to \$2,228.

The survey also found that over 50 per cent of job seekers serving eight week penalties had failed to pay rent or board on time during the penalty period and around 15 per cent of this group were evicted. In comparison, over a similar period, around 20 per cent of the general job seeker population failed to pay rent or board.

I hope that the publication of the full report might be a consequence of this inquiry.

We know welfare penalties have costs to families

The results of these surveys show that the negative impact of breaching often falls on other family members, not just the non-compliant individual themselves.

Effects may include eviction from housing, having electricity and other services cut off and losing access to credit. There may also be long term effects on families

where an income earner's ability to obtain credit and access to rental accommodation is constrained.

We suspect welfare penalties have costs to broader communities

There is some evidence from the UK that increasing the rate of income support penalties increases the rate of crime. There is very little evidence exploring this issue in Australia.

Is it possible to get the benefits of financial incentives without the costs?

In the first instance it is not enough to link welfare payments to activity testing and compliance arrangements and call it mutual obligation. Government routinely fails its obligations to the unemployed by providing demonstrably inadequate income support, inadequate access to essential services such as mental health care, dental care, education and training. Governments of all persuasions would be well placed to ask questions about their own provision of adequate services to the unemployed, with the same vigor as they place obligations on the unemployed.

Governments would also do well to exhaust opportunities to achieve greater compliance without the harmful and sometimes unintended consequences of increased penalties.

One option would be to introduce a Conditional Cash Transfer program such as that currently being trialed in New York City (Opportunity NYC).

A Conditional Cash Transfer program would allow income support recipients to earn additional income by participating in additional activities. Such programs could also include additional payments for improvements in shared goals such as children's school attendance.

Another alternative is to 'make work pay' by introducing an earned income tax credit. Under an earned income tax credit regime the incentives in to enter and remain in employment would increase. An earned income tax credit may be particularly effective for recipients whose earnings are likely to be low and who are unable to use low paid or casual employment as a stepping stone to more attractive job opportunities.

Both these options would have the added bonus of providing much needed fiscal stimulus. They would channel money to individuals and families whose income is largely spent immediately on essential items, would provide additional support the disadvantaged and would have a positive effect on work incentives.

To quote the conclusion of the article I drew on earlier:

“though the shrill calls of the media often set the tone, the problem of persistent intergenerational poverty remains as real as ever. The question of the extent to which individual fault causes poverty is of course a legitimate one.

But what we should not forget is that throughout welfare history there has been a circular relationship between poverty and behaviour; if behaviour can cause poverty; poverty can cause certain types of behaviour. Ignore this and we risk a return to the punitive, moralising and ultimately futile – assumptions of the Poor Laws.”