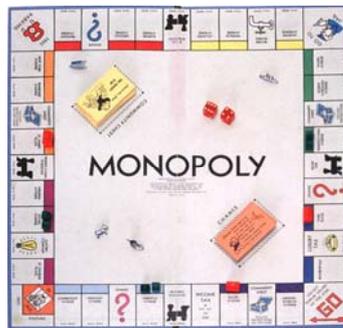


What Future for the Marginalised Minority?



Peter Saunders

The Centre for Independent Studies

New Agenda for Prosperity Conference, 27 March 2008, Melbourne
 Session 3: IS AUSTRALIA ADVANCING FAIRLY?

www.cis.org.au

Advancing “fairly” does not mean compressing incomes

Definition of a ‘fair society’ (per cent):

| | Market | Meritocratic | Egalitarian |
|--------------------------|--------|--------------|-------------|
| Strongly agree | 16 | 36 | 11 |
| Tend to agree | 44 | 49 | 23 |
| Neither | 14 | 8 | 11 |
| Tend to disagree | 20 | 6 | 37 |
| Strongly disagree | 6 | 1 | 18 |

Market: ‘In a fair society, people’s incomes should depend on how much other people value the services they provide’.

Meritocratic: ‘In a fair society, people’s incomes should depend on how hard they work and how talented they are’.

Egalitarian: ‘In a fair society, nobody should get an income a lot bigger or a lot smaller than anybody else gets’.

Source: Second CIS/ACNielsen opinion survey (August 2003). N=467.

www.cis.org.au

In a meritocracy, 'advancing fairly' means...

- Remove obstacles to individual achievement
- Allow people to enjoy rewards for talent and hard work
- Provide basic safety net for those who genuinely cannot provide for themselves
- Require those who can look after themselves to do so

Reflected in public attitudes to welfare:

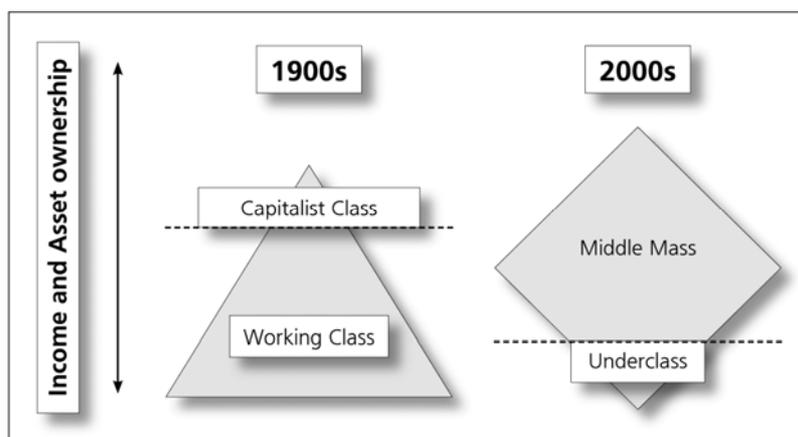
The welfare state makes people less willing to look after themselves: 56% agree; 27% disagree

Government should spend more on welfare benefits for the poor: 34% agree; 41% disagree

SPRC "Australian attitudes to unemployment" 1999

The 'middle mass' & the 'marginalised minority'

Figure 3.1: The changing socio-economic structure



Who are the 'Marginalised minority'?

Size of Workforce = 10.6 million

Working-age welfare claimants = 1.8+ million

Working age income support, spending and numbers of recipients, 2005-06

| | COST (\$'000) | RECIPIENTS |
|------------------------------|-------------------|------------------|
| Newstart Allowance | 4,527,720 | |
| < 12 months | | 174,209 |
| > 12 months | | 264,351 |
| Youth Allowance (unemployed) | 535,595 | 75,186 |
| Parenting Payment Single | 4,818,425 | 433,370 |
| Parenting Payment Partnered | 1,229,878 | 159,719 |
| Disability Support Pension | 8,256,566 | 712,163 |
| TOTAL | 19,368,184 | 1,818,988 |

Add 500,000+ on Carer Allowance, carer payment, widows allowance, partner allowance etc. Also 56,000 CDEP places
 1/3 of those on Parenting payment have some earnings of their own. A few on DSP and Newstart also have some earnings

(+ retired population on age pension = 1,922,129)

www.cis.org.au

Welfare dependency keeps rising despite increased economic growth and affluence:

- Spending on cash transfers (working and retired):

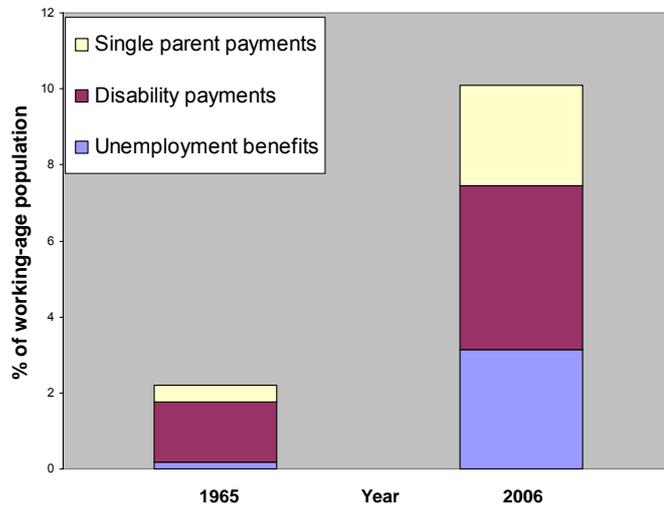
1960 3% GDP;
 1976 5.1%;
 1983 6.7%;
 2002 8.0%



- 1965: 22 income tax payers for every 1 person reliant on welfare payments. Today: 5

www.cis.org.au

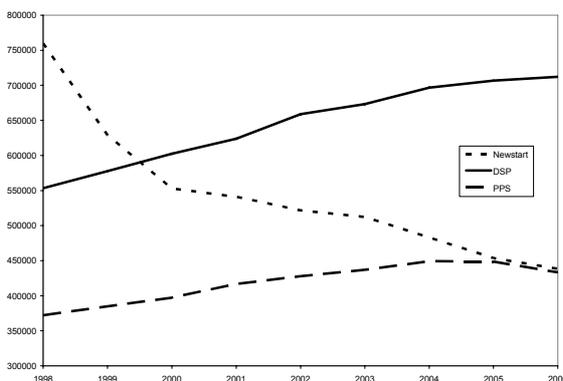
Working-age welfare dependency concentrated in 3 groups:



www.cis.org.au

The 'low unemployment' illusion

Newstart, Disability Support Pension and Parenting Payment (Single) recipients, 1998-2006



Disability Pension:

- Half inactive working age men are on DSP
- 500% increase since 1990 in men 'unable to work' (mainly musculo-skeletal and psychological)
- Half come from long-term unemployment

Parenting Payment:

- 60% didn't complete Year 10 schooling
- 70% of never-partnered claimants previously long-term unemployed
- Fewer than 1 in 5 left welfare in 7½ years

(Data from Bob Gregory FaHCSIA panel)

www.cis.org.au

Next steps to reduce welfare dependency

- **Disability: Backdate 15 hour capacity definition**
OECD Report *Sickness, Disability & Work* recommends extend new capacity measure to existing claimants. (Also allow same taper and free earnings as on DSP and relax benefit suspension rules?)
- **Single Parents: Tighten PT work requirement**
Limit eligibility for additional children while on welfare (70% of never-partnered new entrants to PP come from Newstart). Also scrap (rather than extend) net earnings rule.
- **Young unemployed: No dole option**
Emerson; Brotherhood – youth should be in work, training or education, with default option of military or Peace Corps
- **Long-term unemployed: Maintain 'Work First'**
Retain Job Network model with payments based on work placements.

www.cis.org.au

But must also increase demand for low-skill labour

1 full-time male job in 4 disappeared since 1970 (Gregory)

Job losses concentrated among the unskilled:

- fewer than 60% of unskilled men aged 25 to 59 are in FT employment
- 64% of people on Newstart for 2+ years, 62% of DSP claimants, and 72% of single parents on Parenting Payment have a Year 10 level education or less (ACOSS)

2 possible responses:

OPTION 1: Train low ability people to do new skilled jobs



OPTION 2: Increase demand for low-skilled labour



www.cis.org.au

Training: The motherhood & apple pie option

Supported by ACOSS, Job Network, Labor Party, BCA, AIG, despite evidence...

Training

- OECD: "Labour market programs do work for adult women, but not for many other groups" (Martin, 'Labour market programs')
- Guyonne Kalb (FaCS Policy Research Paper 2003): young adults in France, US, UK "benefit little from training and employment programs"
- Nat Centre for Vocational Education Research (2008): only 10% unqualified school leavers who do VET courses complete them
- James Heckman: belief unskilled adult workers can be trained for more highly skilled jobs is 'a dangerous myth... The evidence points strongly to the inefficiency of subsidizing the investment of low-skill, disadvantaged workers'

Education (increase Year 12 completions)

Average effects/marginal effects fallacy (ACER data)

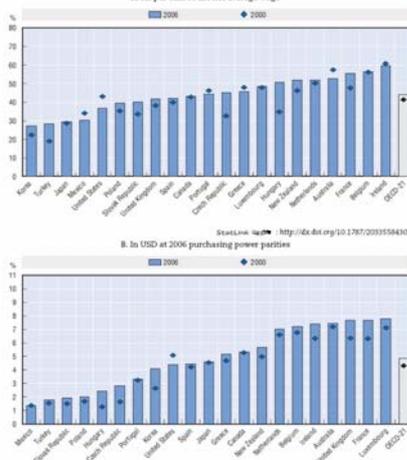
- Bright students increase FT earnings by 2% pa if stay to Year 12
- But doesn't apply to low ability students:
 risk of unemployment rises by 3% points if stay at school 2 more years;
 weekly FT earnings 2.4% lower for every additional year

The less favoured option: increase low skill jobs (20% fall in min wage > 100,000 more jobs)

Australia's gross minimum wage compared with selected other OECD countries

| Country | Real Hourly Minimum Wage (\$US PPP 2005) | As % of median wage (2003) |
|-------------|--|----------------------------|
| Australia | 7.58 | 0.57 |
| France | 7.20 | 0.61 |
| Netherlands | 6.76 | 0.51 |
| Belgium | 6.57 | 0.47 |
| UK | 6.34 | 0.44 |
| Ireland | 6.06 | 0.38 |
| New Zealand | 5.51 | 0.46 |
| Canada | 5.14 | 0.41 |
| USA | 4.57 | 0.32 |

Figure S.1. After-tax value of hourly minimum wage for a full-time worker



Potential growth in low skill personal service jobs

Personal service employment often immune to technology and globalisation threats.

Can meet new needs:

- Routine help for elderly in own homes (shopping; personal care)
- Child care support (informal and formal)
- Mentoring & neighbourhood wardens in disadvantaged areas (245 schemes in UK)



BUT... requires 'tidiness, punctuality, politeness and trustworthiness' (Deepak Lal)

- In 10 years, demand for 'motor skills' down 29%, demand for 'interactive skills' up 32%.
- 88% Australian employers see 'teamwork' and 'communication' as just as important as technical and vocational skills
- 2003 survey Australian employers want loyalty, commitment, honesty, integrity, enthusiasm, reliability, personal presentation, commonsense, motivation & adaptability

DO LOW SKILL/LOW ABILITY WORKERS HAVE THESE SOCIAL SKILLS???

Erica Smith: Complaints about school leaver absenteeism, laziness and lack of a work ethic are common. One training company reports ½ young people on its books failed to reach basic level of employability:

'When you have a kid who comes in who slouches and chews and swears, you would never put them forward to the host employer.'

Answer: conditional (paternalistic) welfare to restore personal responsibility?



www.cis.org.au