Maintaining the Social Contract in the Face of Reform

Deborah Cobb-Clark
Melbourne Institute

Pathways to Growth: The Reform Imperative
Economic and Social Outlook Conference 2014

THE UNIVERSITY OF MELBOURNE
FACULTY OF BUSINESS & ECONOMICS
MELBOURNE INSTITUTE® of Applied Economic and Social Research

What is the social contract?

"… persons' moral and/or political obligations are dependent upon a contract or agreement among them to form society." IEP (2014)

And in Australia …?

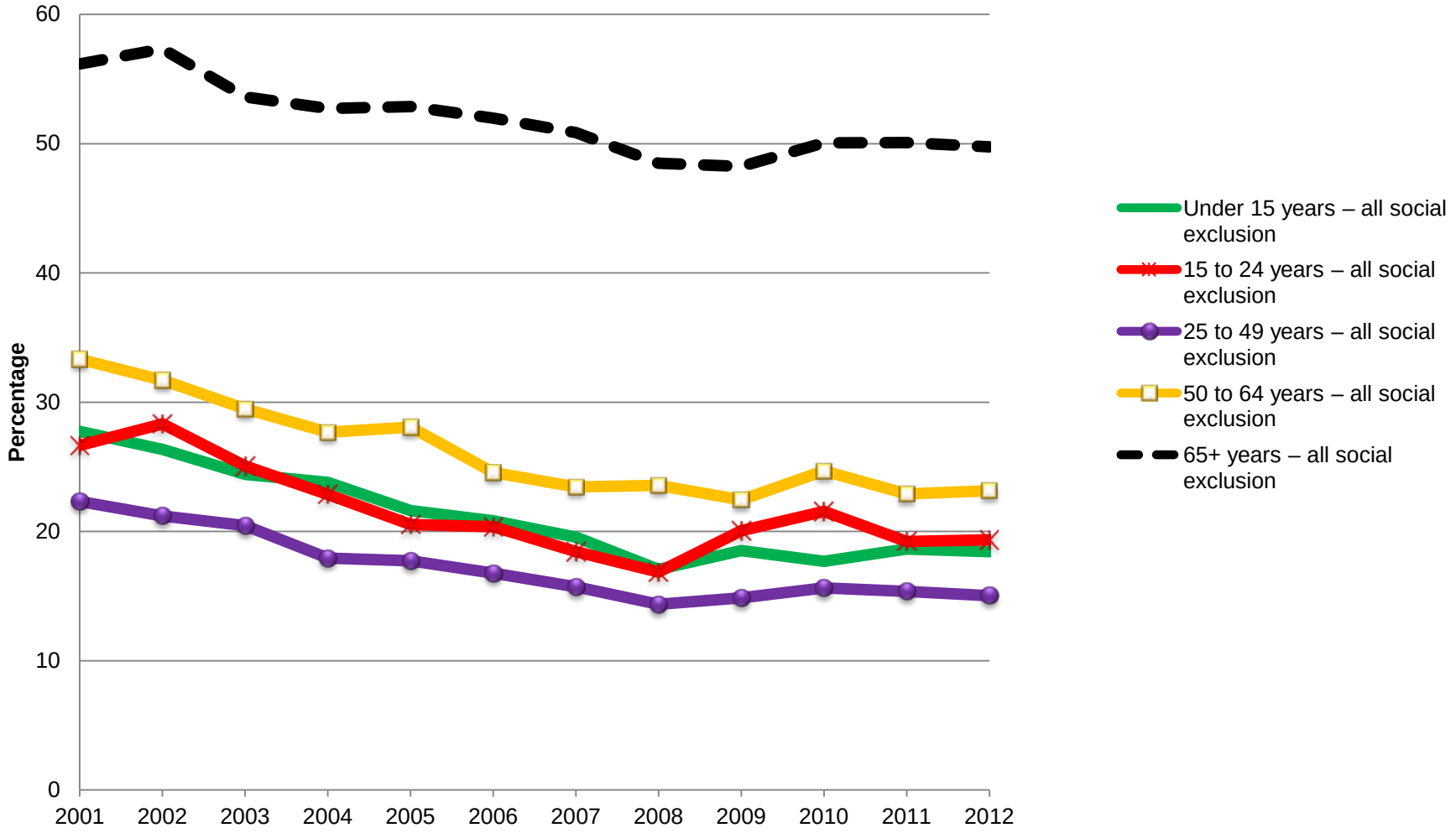
- Reciprocity (mutual obligations)
- Equity & redistribution
- Social inclusion
- Risk sharing
- Social justice
- Intergenerational fairness

Overview

- Consider what an end to the “age of entitlement” might mean for the social contract;
- Argue that labour market initiatives (partnerships) targeting currently marginalised groups are key to maintaining the social contract;
- Focus specifically on the challenges of:
  - youth and their families;
  - those with mental health issues;

Setting the Stage

Social Exclusion by Age Group (2001 – 2012)



Source: Brotherhood of St Laurence & Melbourne Institute, *Social Exclusion Monitor Bulletin* , October 2013, with update.

How Households Get Their Income

Bottom Quintile

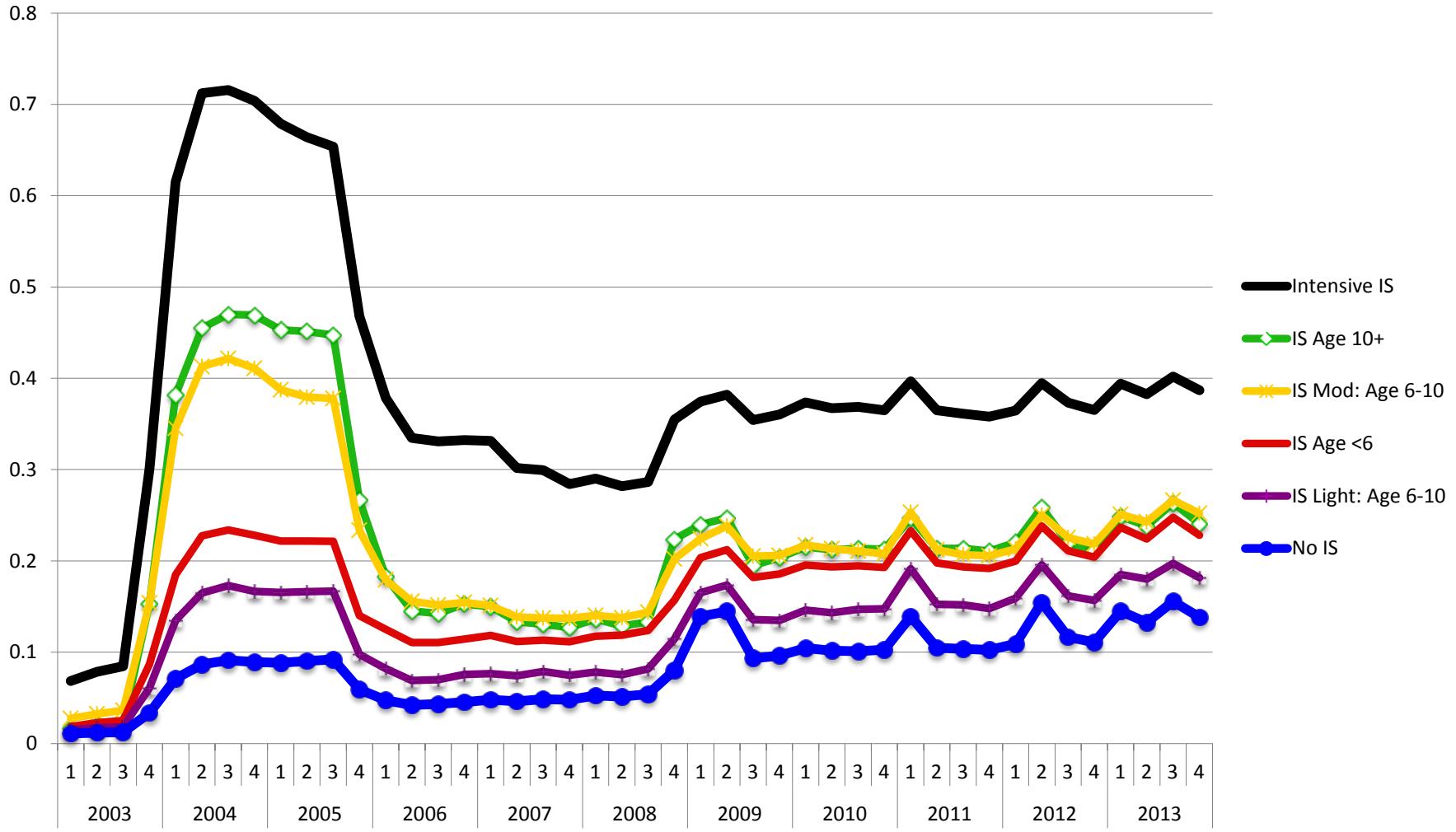
	Wages	Self-Employment Income	Capital Income	Government Transfers	Taxes
AUS	27%	7%	9%	62%	-4%
OECD-30	56%	11%	6%	45%	-18%

Top Quintile

	Wages	Self-Employment Income	Capital Income	Government Transfers	Taxes
AUS	113%	10%	9%	1%	-33%
OECD-30	102%	18%	9%	8%	-37%

Source: OECD (2011), *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing. *http://dx.doi.org/10.1787/9789264119536-en*

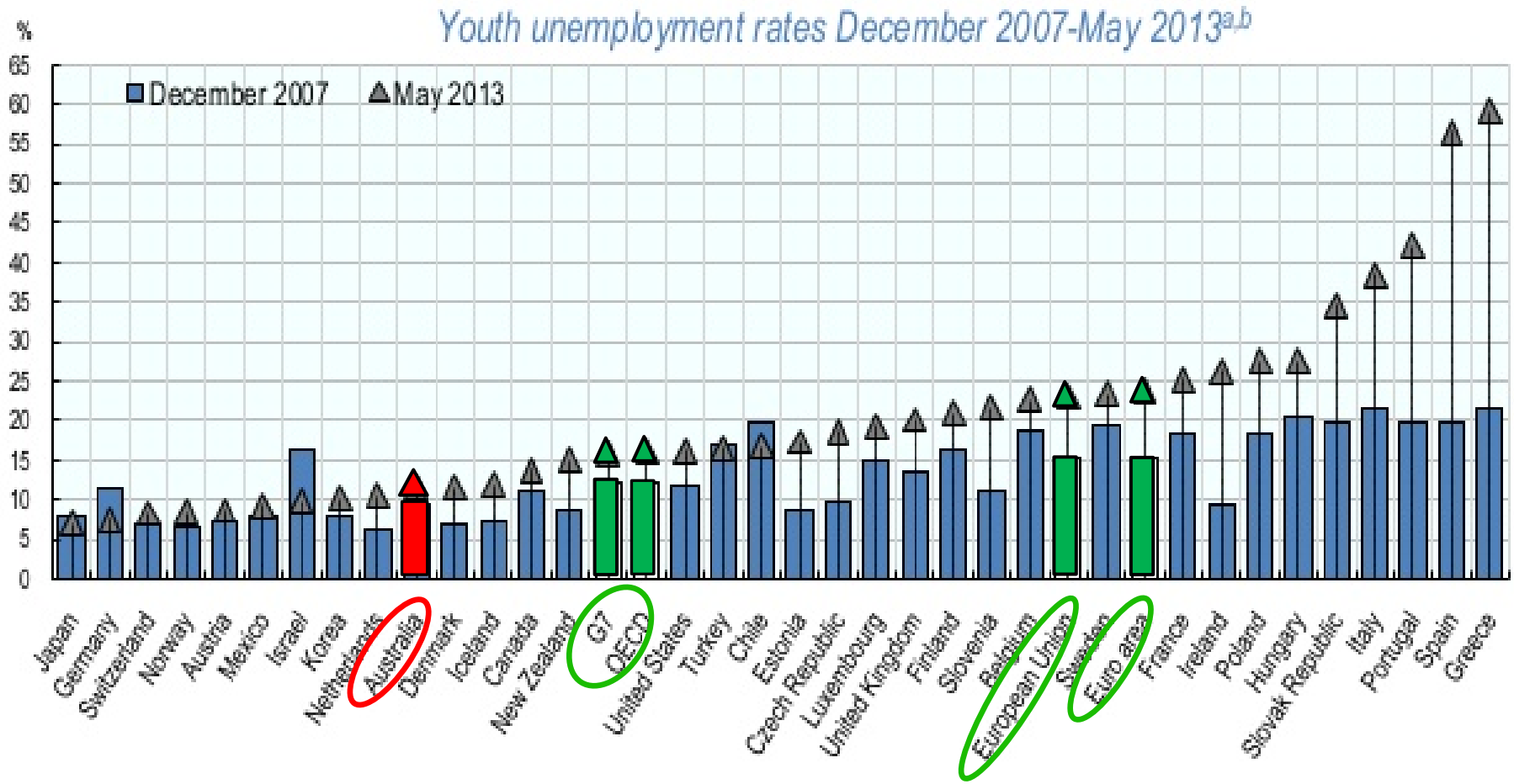
Income Support by Receipt by Family Income Support History



Source: Youth in Focus Project -- Transgenerational Data Set – NOTE: Excluding FTB-A & Youth Allowance Student , New Strata

Youth and their Families

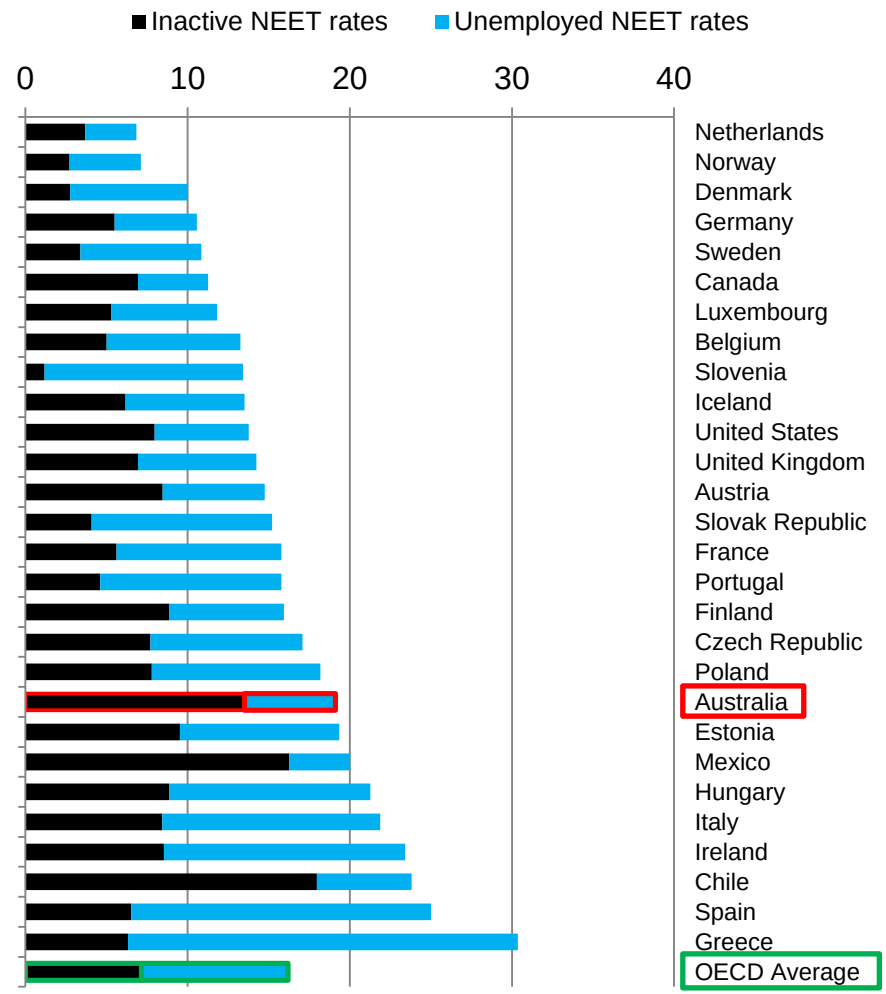
OECD Youth Unemployment



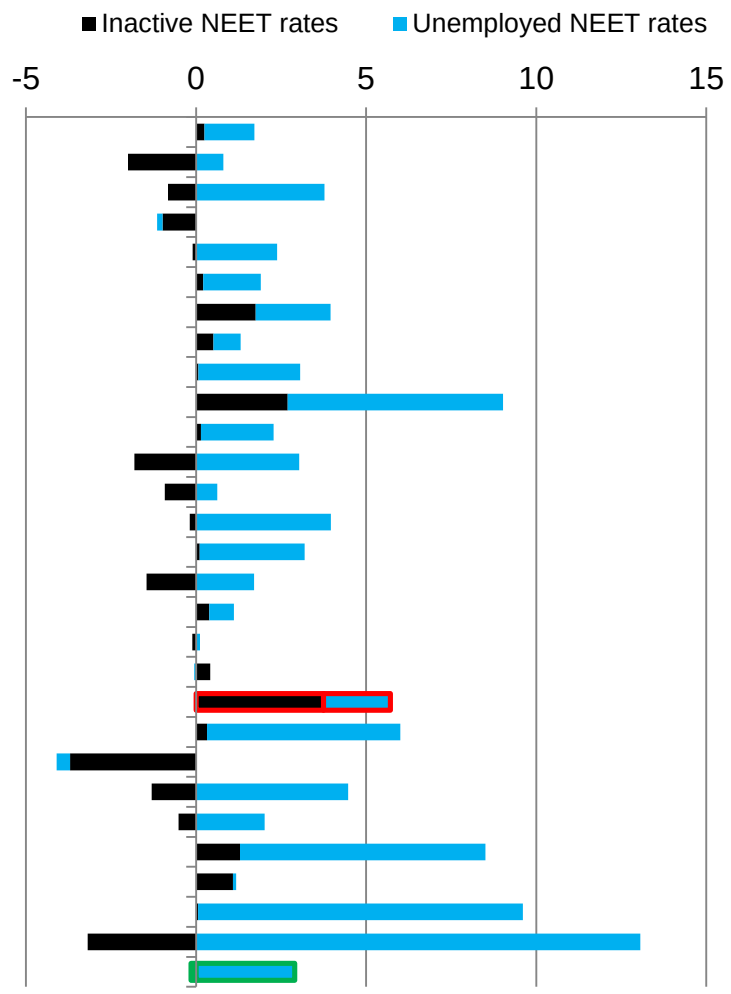
Source: OECD calculations based on the *OECD Short-Term Indicators Database*

Not in Employment, Education or Training

Share of youth not in employment education or training (NEET) in % of all youth

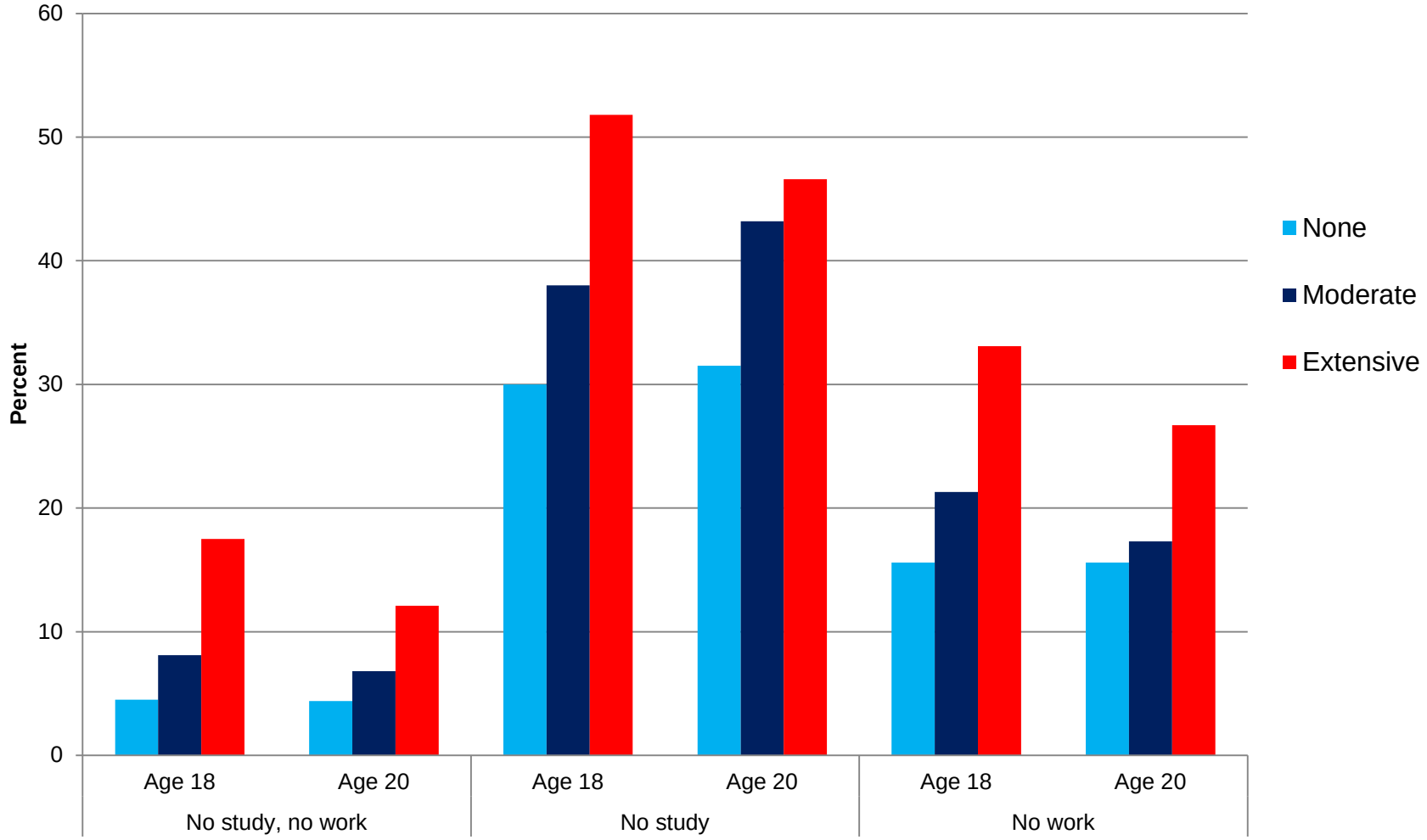


Percentage-point change in NEET rates, 2007-2011



Source: OECD (2014). Social policies for youth: Selected indicators on the situation of disadvantaged youth (NEET), *http://www.oecd.org/els/soc/youth-social-indicators.htm*

Study & Employment by Family Income-Support History

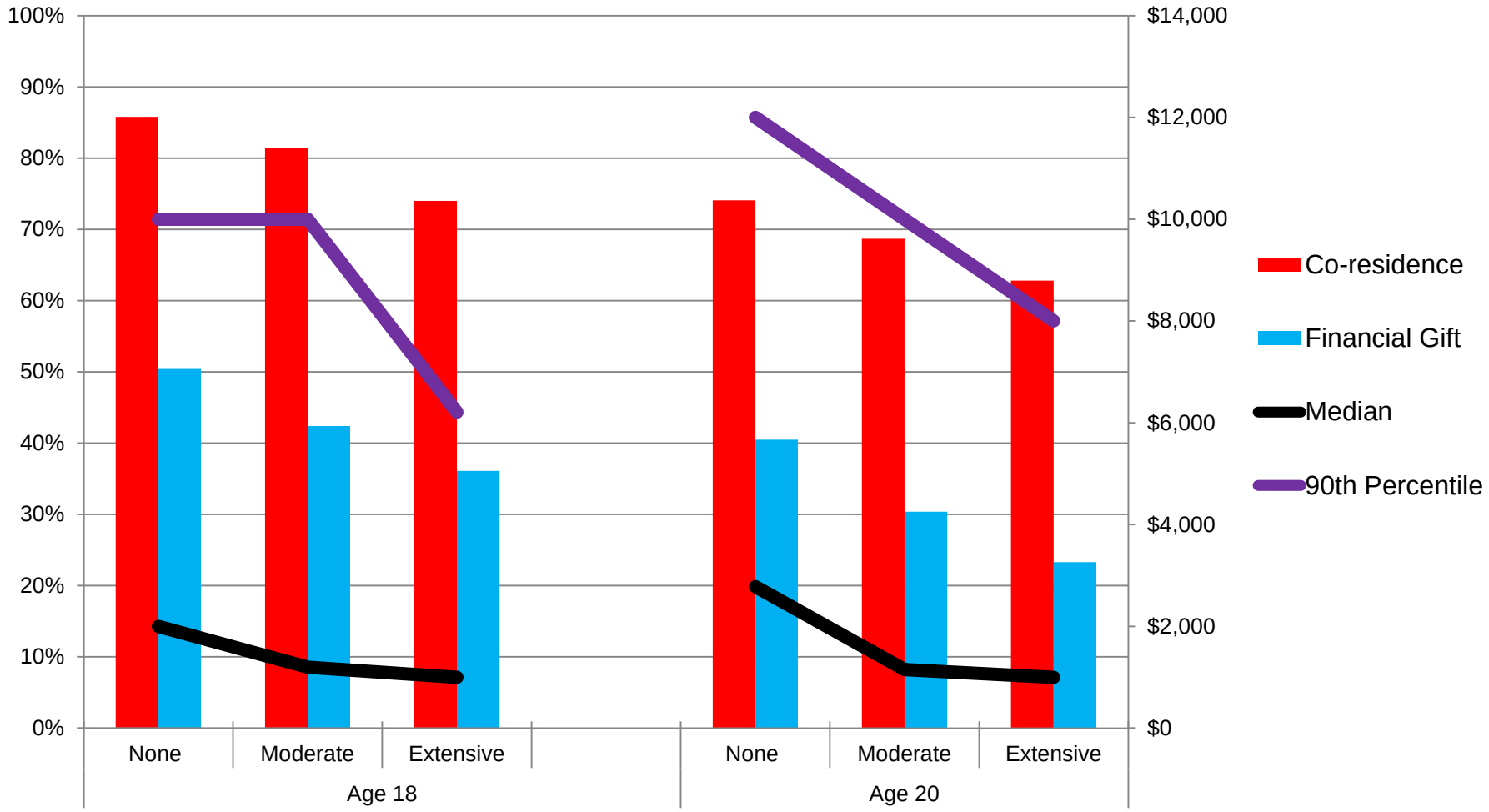


Data source: Cobb-Clark, D. & Gorgens, T (2014). Parents' economic support of young-adult children: do socioeconomic circumstances matter?, *Journal of Population Economics*, 27 (2), 447-471 & Youth in Focus.

Many young people are heavily reliant on their families to get by …

and this will only intensify with proposed changes to working age payments.

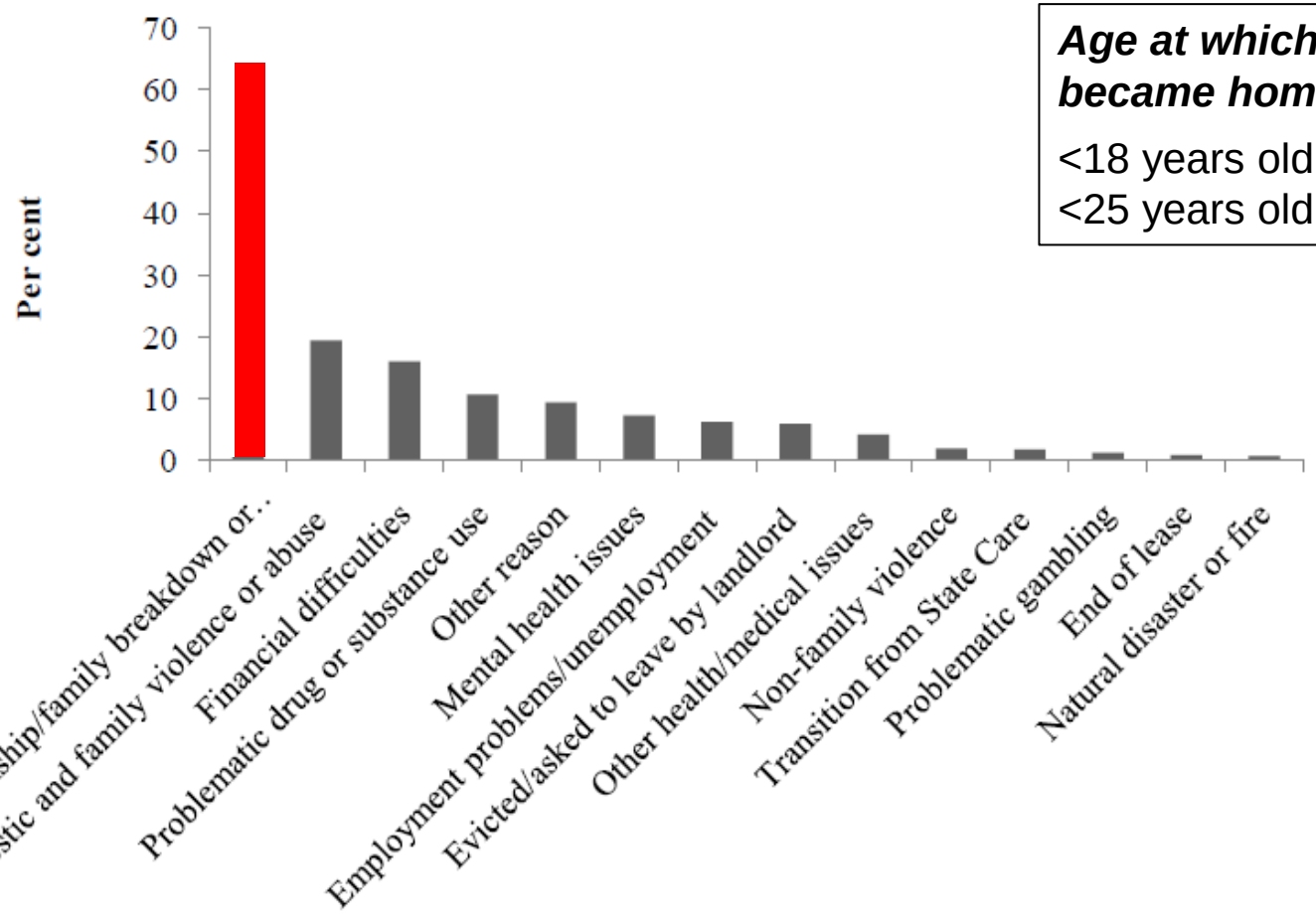
Parental Support by Family Income-Support History



Data source: Cobb-Clark, D. & Gorgens, T (2014). Parents' economic support of young-adult children: do socioeconomic circumstances matter?, *Journal of Population Economics*, 27 (2), 447-471 & Youth in Focus.

Homelessness

Figure 3. Reason/s first became homeless[1]



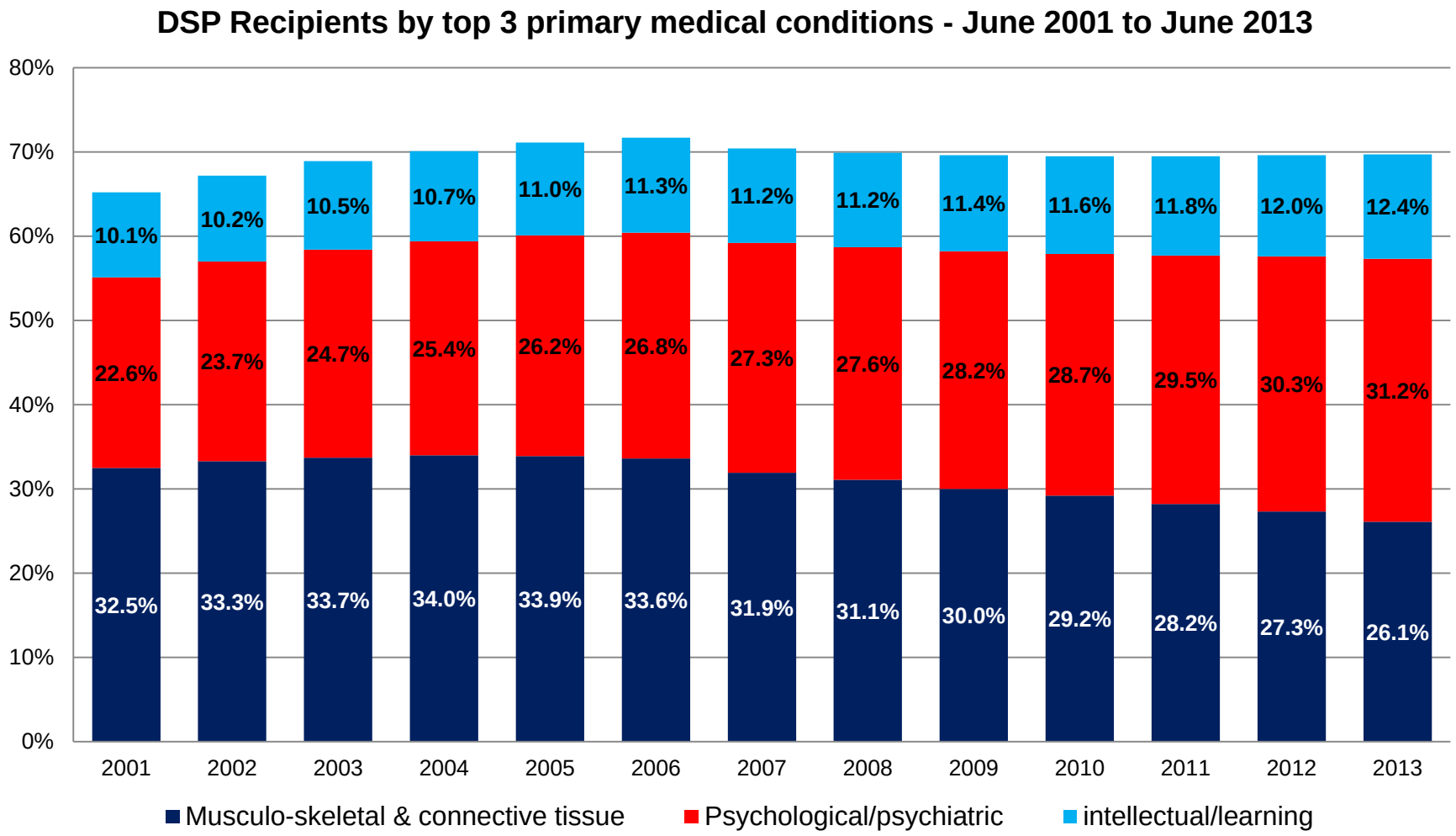
Age at which first became homeless:

<18 years old: 51.3%
<25 years old: 72%

Source: Scutella R., Johnson, G., Moschion, J., Tseng, Y & Wooden, M. (2012). Journeys home research report No.1: Wave 1 findings.

Those with Mental Health Issues

Disability Support Pension Recipients (2001-2013)

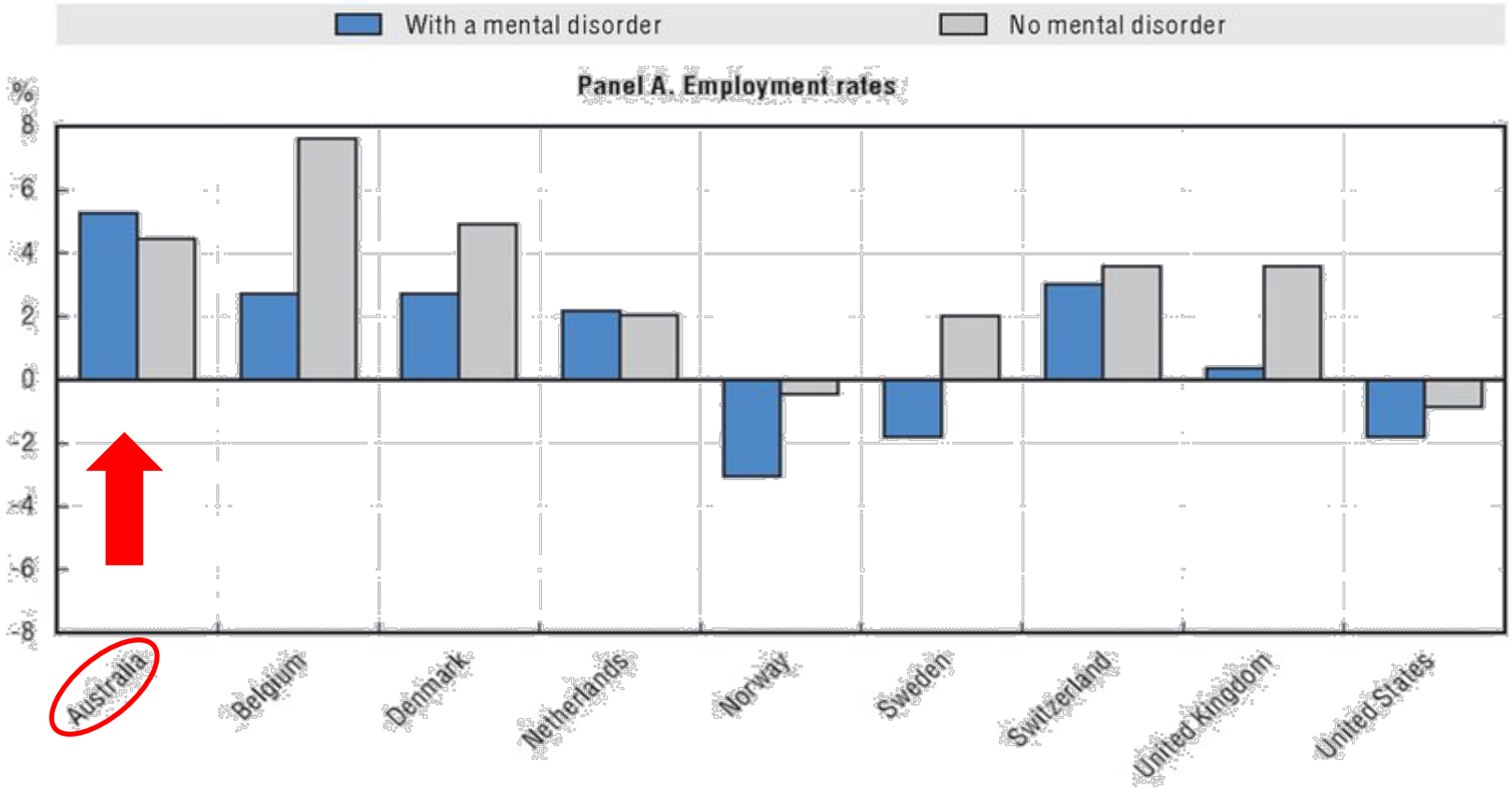


Data source: Department of Social Services (2013). Characteristics of disability support pension recipients.

Employment of those with MH Disorder (OECD)

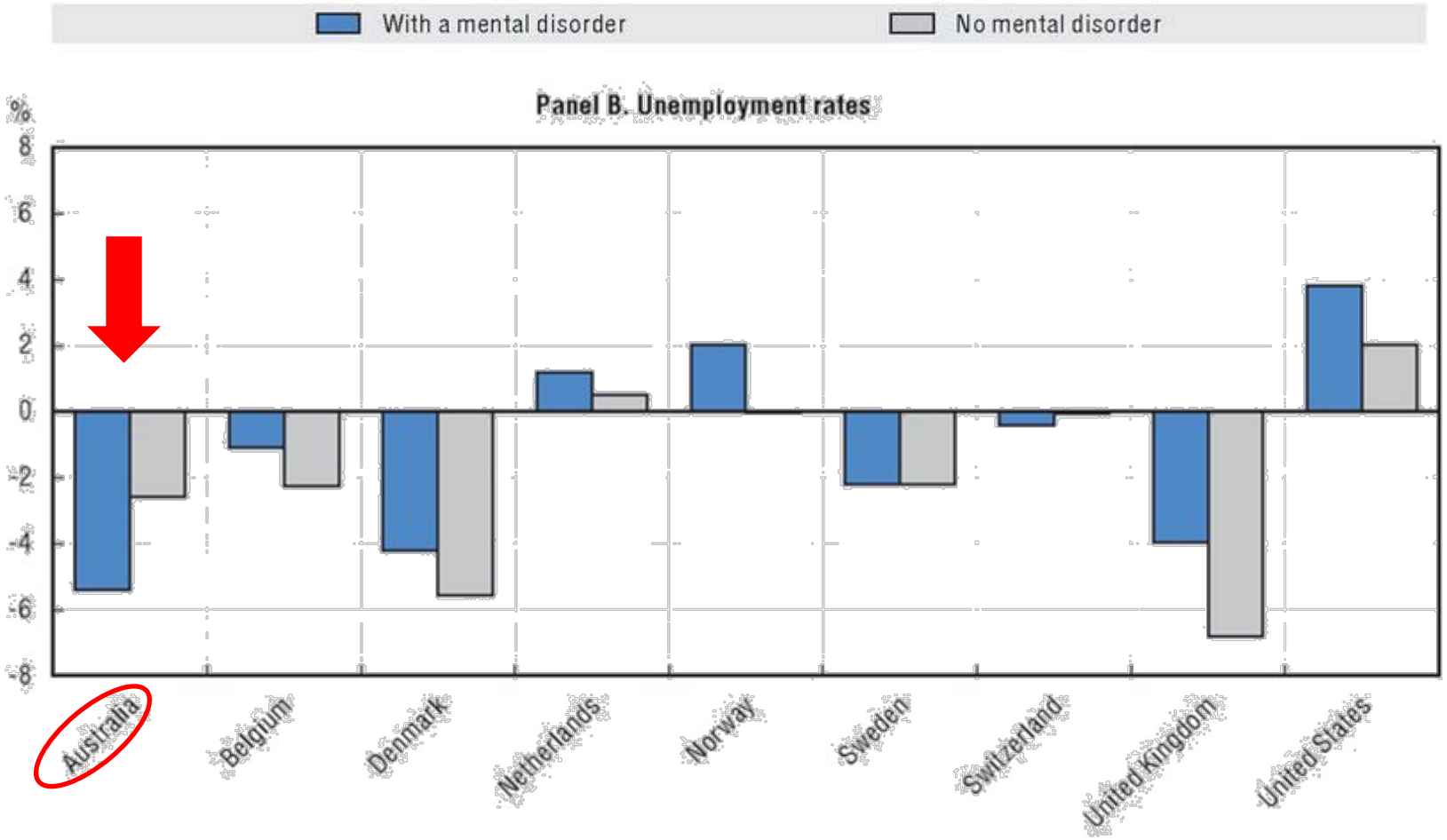
Figure 2.5. **The employment and unemployment gap of people with a mental disorder has increased**

Percentage-point change in employment and unemployment rates for people *with* and *without* a mental disorder between the mid-1990s and the mid- to late 2000s



Source: OECD (2012). Sick on the job? Myths and realities about mental health and work. http://dx.doi.org/10.1787/9789264124523-en

Unemployment of those with MH Disorder (OECD)

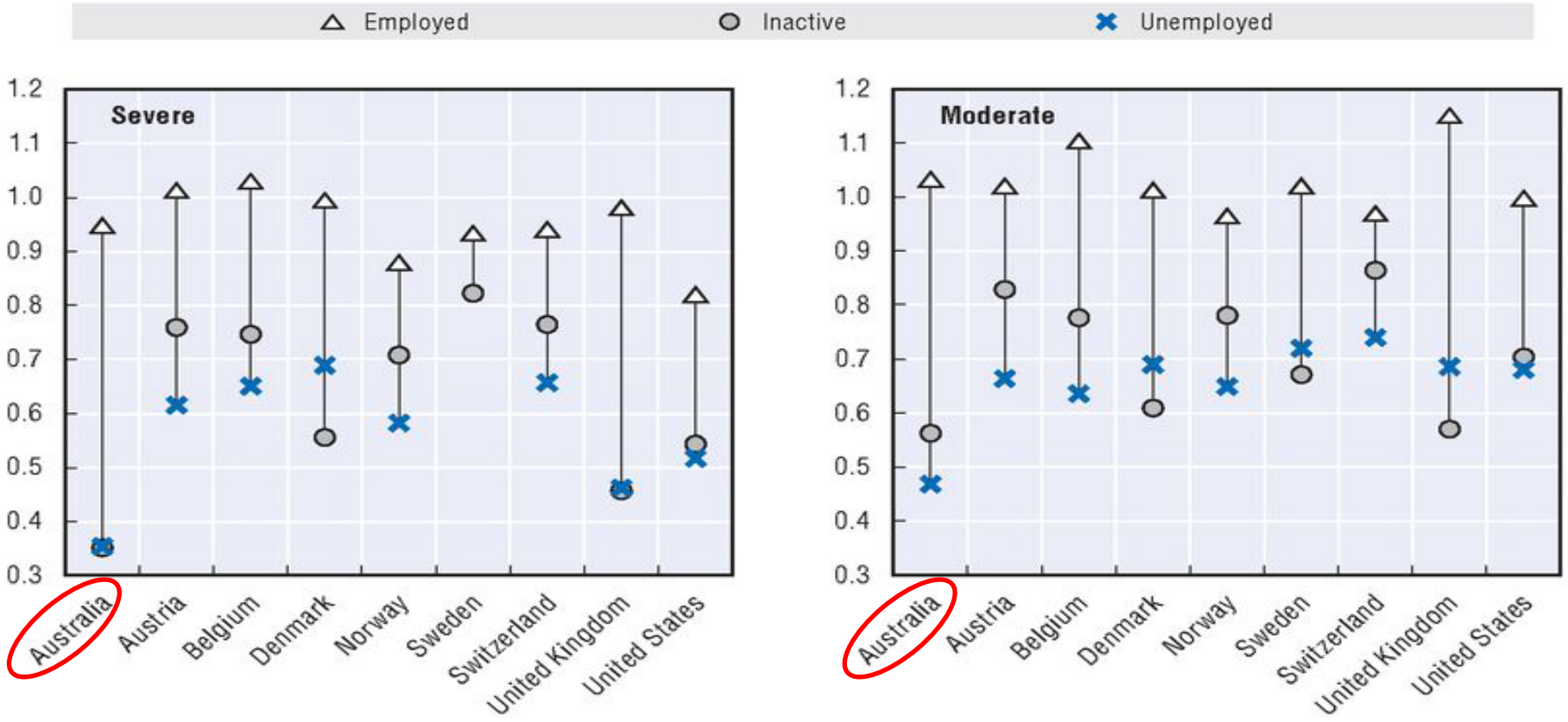


Source: OECD (2012). Sick on the job? Myths and realities about mental health and work. http://dx.doi.org/10.1787/9789264124523-en

Income of those with MH Disorder (OECD)

Figure 2.6. **Unemployed and inactive people with a mental disorder have much lower incomes**

Income[a] levels of people with a severe and moderate mental disorder as a ratio of the average income of the total working-age population, by labour force status, late 2000s



Source: OECD (2012). Sick on the job? Myths and realities about mental health and work. *http://dx.doi.org/10.1787/9789264124523-en*

How do we maintain the social contract in the face of current reforms?

Improve access to the labour market and employment opportunities for groups with reduced access to the social safety net.

Reduce the LM barriers for youth;

- Penalty rates;
- Apprenticeships/vocational training;
- School to work transitions;
- Programs to provide workplace experience;

Recognize that not all youths will have family support and build in safe-guards;

Understand that … "mental health is a new priority challenge for the labour market" (OECD 2012)

- More focus on common mental health issues;
- Identify mental health issues among the unemployed as well as disabled;
- Strengthen the activation elements of the disability system and make work pay;
- Develop partnerships with employers to help people find work;
- Co-ordinate employment and mental health services;

References

- Australian Bureau of Statistics (2014). *Labour Force, Australia*, cat. 6202.0.
- Brotherhood of St Laurence (2014). *On the treadmill: Young and long-term unemployed in Australia*.
- Cobb-Clark, D. & Gorgens, T. (2014). Parents' economic support of young-adult children: Do socioeconomic circumstances matter?, *Journal of Population Economics*, 27 (2), 447-471.
- Department of Social Services (2013). Characteristics of disability support pension recipients.
- OECD (2014). Social policies for youth: Selected indicators on the situation of disadvantaged youth (NEET), *http://www.oecd.org/els/soc/youth-social-indicators.htm*
- OECD (2013). Latest labour market developments and the OECD youth action plan. Presented at *OECD High Level Parliamentary Seminar.*
- OECD (2011). *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing. *http://dx.doi.org/10.1787/9789264119536-en*

References

- OECD (2012). Sick on the job? Myths and realities about mental health and work. *http://dx.doi.org/10.1787/9789264124523-en*
- Scutella R., Johnson, G., Moschion, J., Tseng, Y & Wooden, M. (2012). Journeys home research report No.1: Wave 1 findings.
- Youth in Focus -- http://rse.anu.edu.au/research-projects/youth-in-focus/

Background Slides

Why focus on the issue of intergenerational mobility?

- Intergenerational mobility may improve **equity** by reducing inequality, promoting social justice and distributing resources more equitably;

- Intergenerational mobility may be an instrument for achieving greater economic **efficiency** by ensuring that individuals' talents are fully utilized.

- The way resources are allocated across generations affects overall **social welfare** – defined across generations – through the endowments that each generation inherits (Atkinson 1981; 1983);

Australian Youth Long-term Unemployment

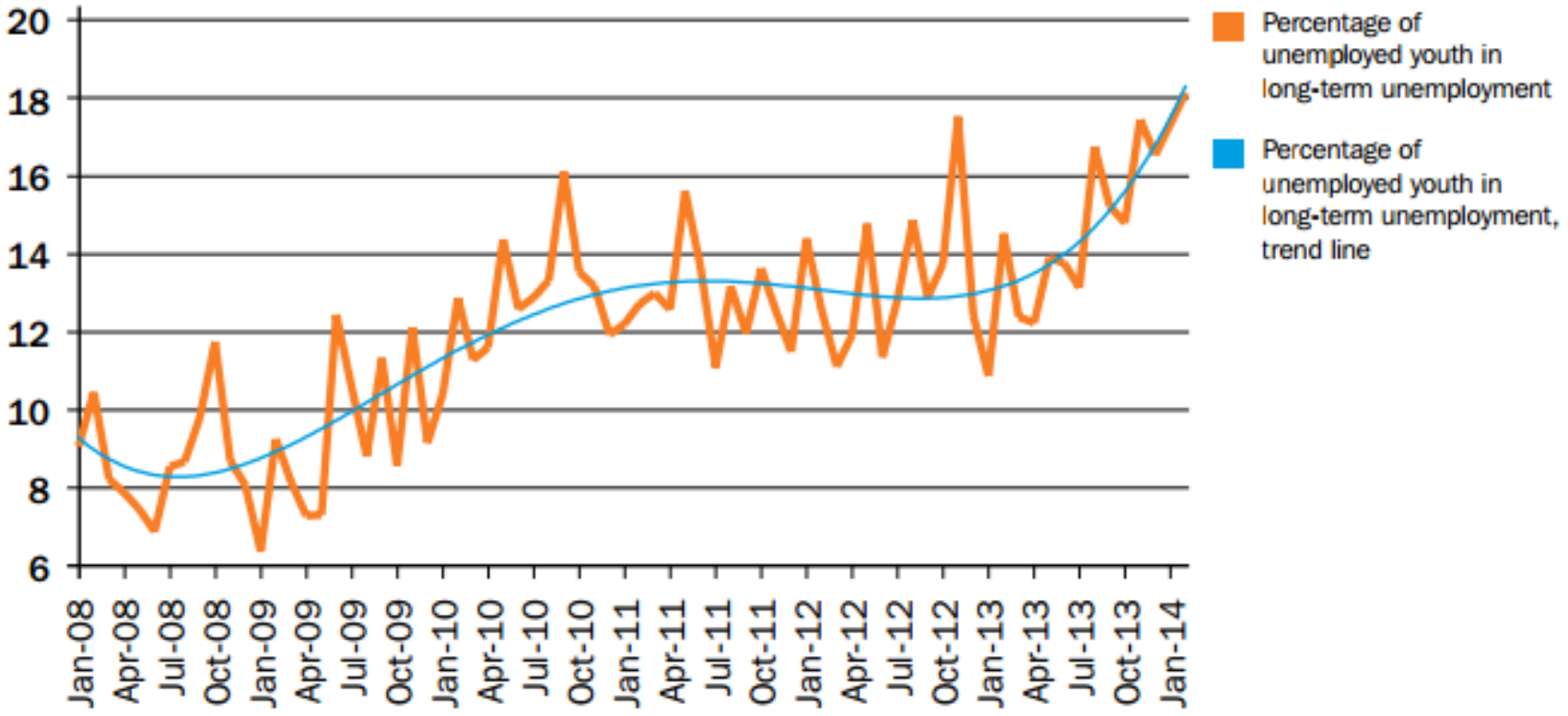
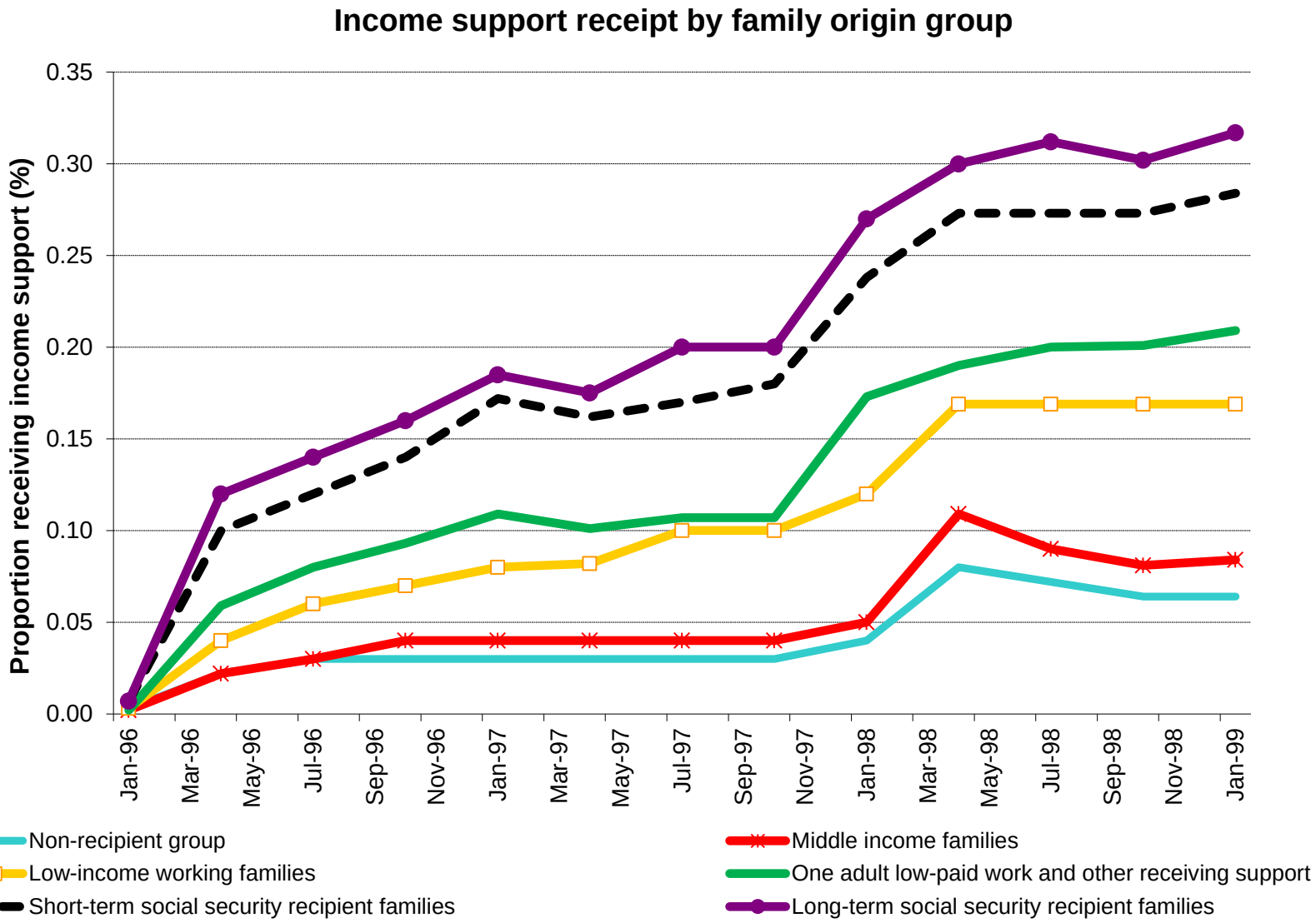


Figure 2: Proportion of unemployed youth in long-term unemployment (%) Australia, 15–24 age group, Jan 2008 – Feb 2014

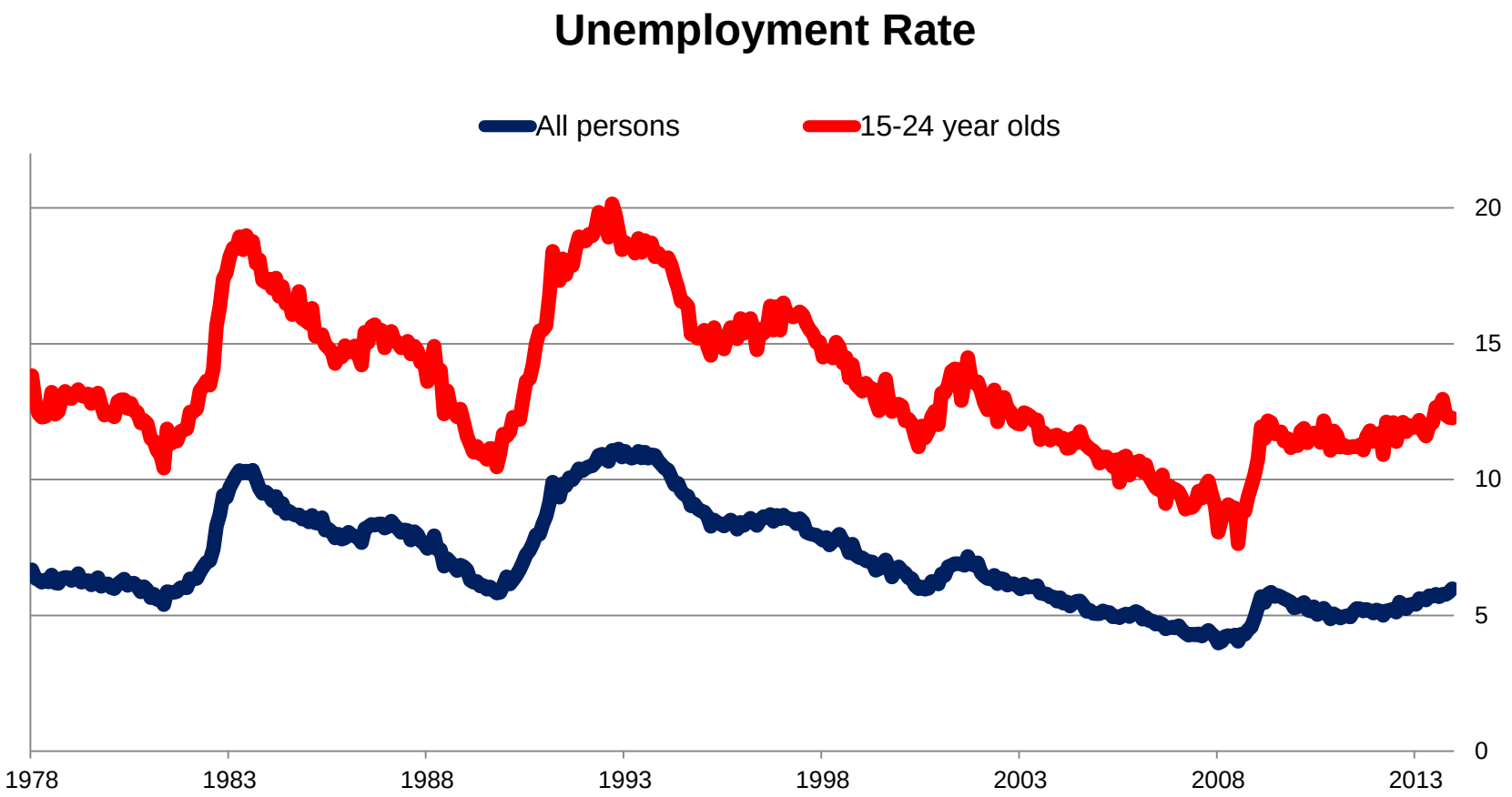
(Source: ABS, Labour force, Australia, (cat. no. 6291.0.55.001), data cube UM3, trend estimates derived using a polynomial of order 5.)

Source: Brotherhood of St Laurence, *On the treadmill: Young and long-term unemployed in Australia*, 2014.

Intergenerational Correlation in Income Support

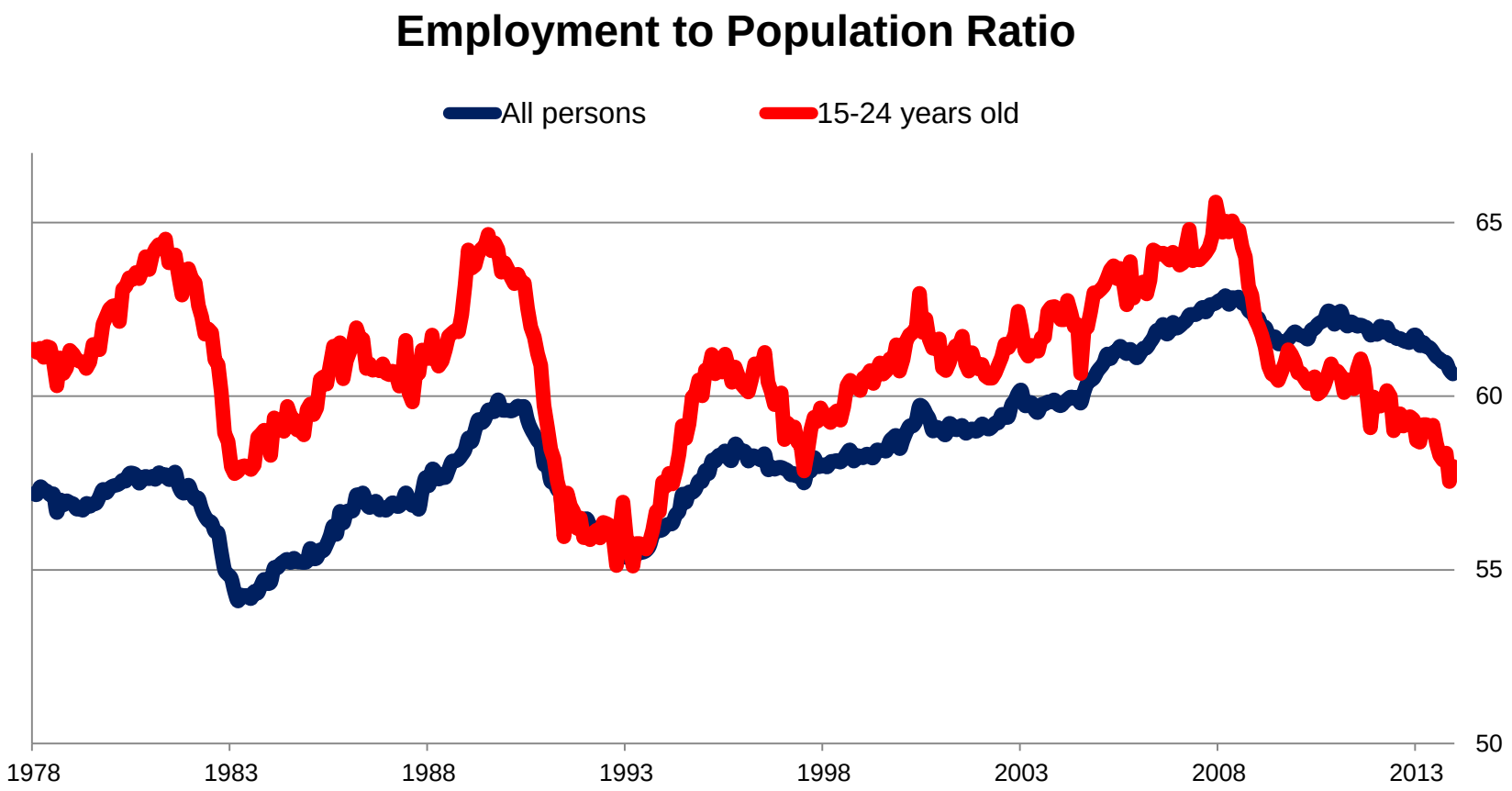


Australian Youth Unemployment (Ages 15-24)



Source: ABS, Labour Force, Cat. 6202.0. seasonally adjusted

Australian Youth Employment Rates (Ages 15-24)

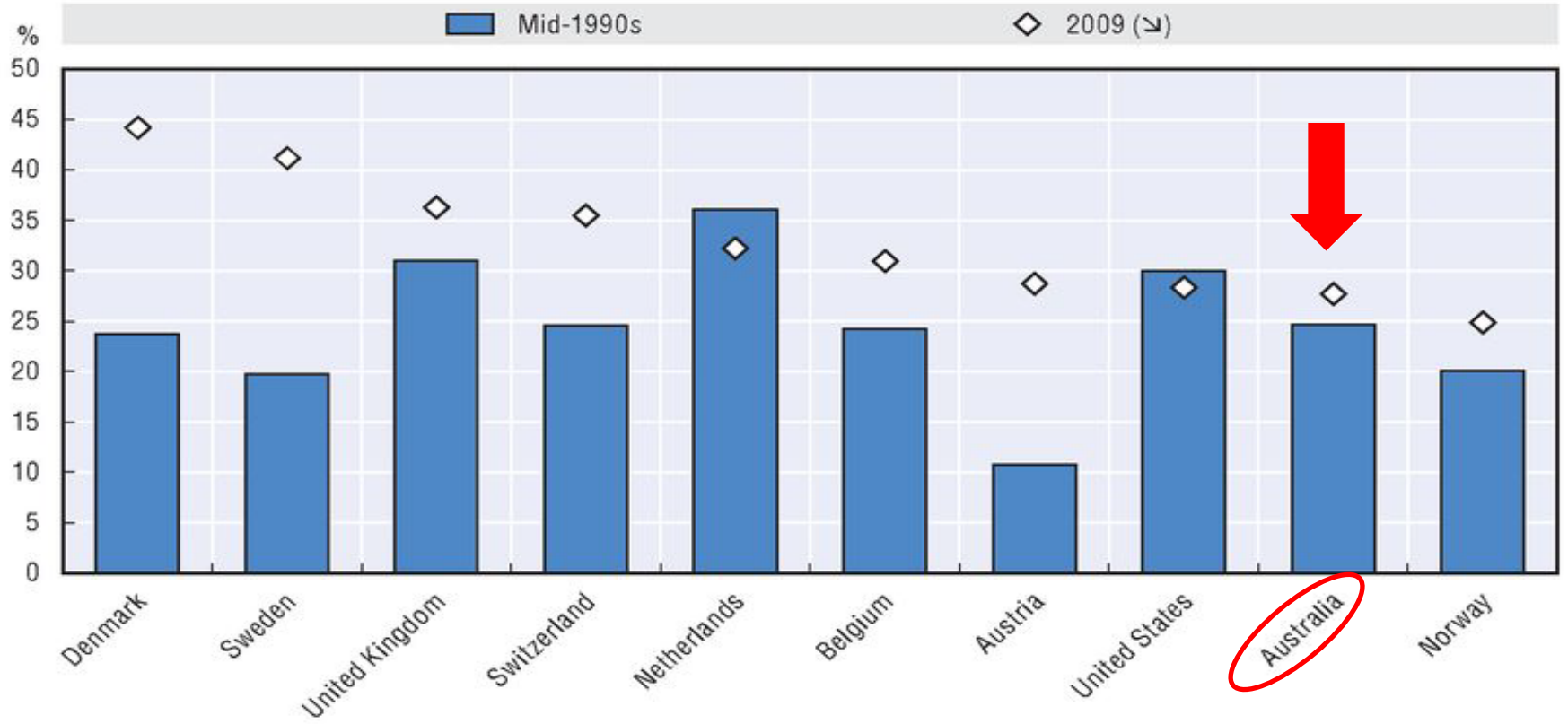


Source: ABS, Labour Force, Cat. 6202.0. seasonally adjusted

Growth in Disability (OECD)

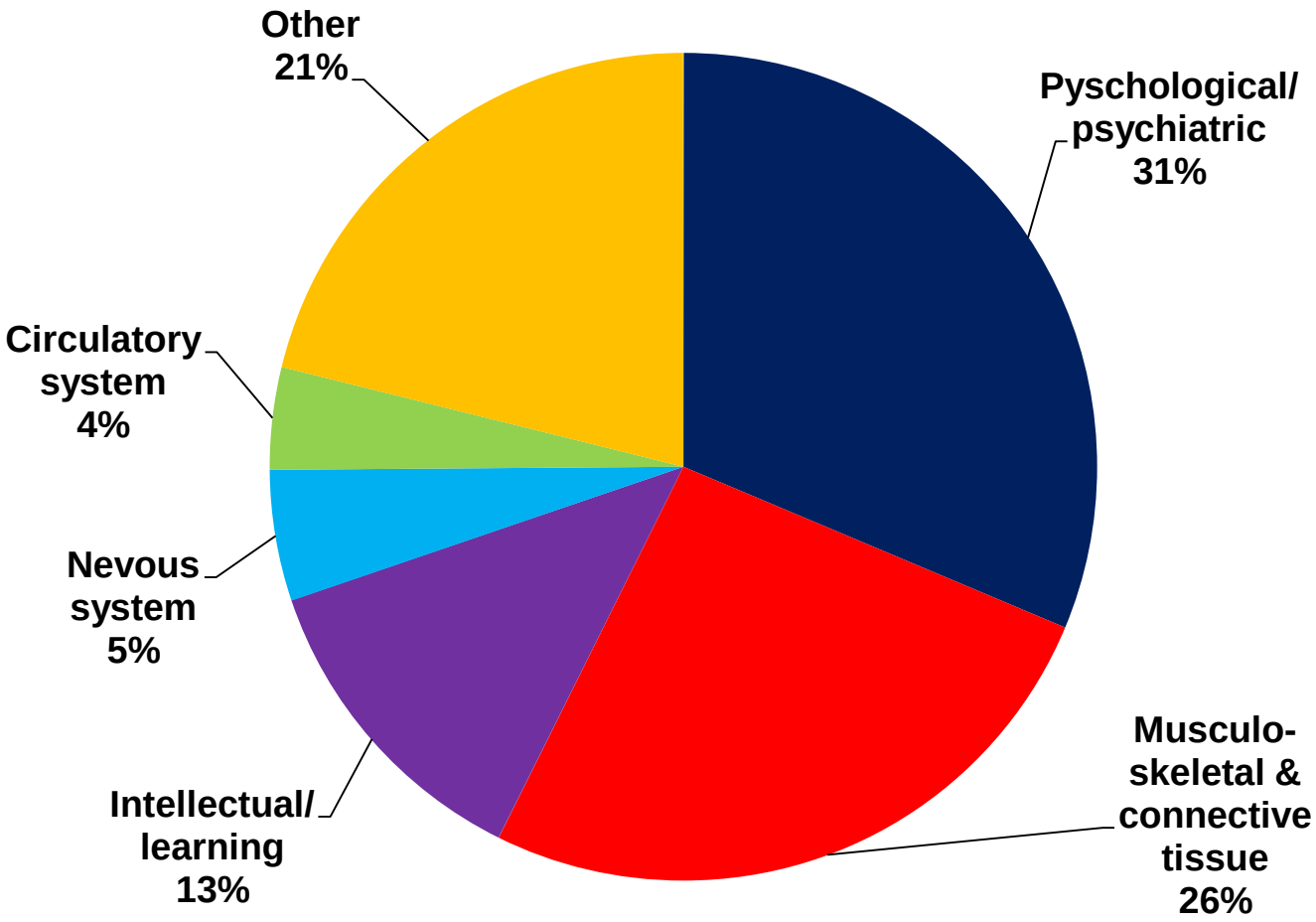
Figure 1.5. **Fast increases in disability benefit claims caused by mental ill-health**

Newly granted disability benefits for people with a mental health condition[a] as a proportion of all disability benefit grants, selected OECD countries, mid-1990s and latest available year



Source: OECD (2012). Sick on the job? Myths and realities about mental health and work. http://dx.doi.org/10.1787/9789264124523-en

Main Medical Conditions -- Disability Support Recipients



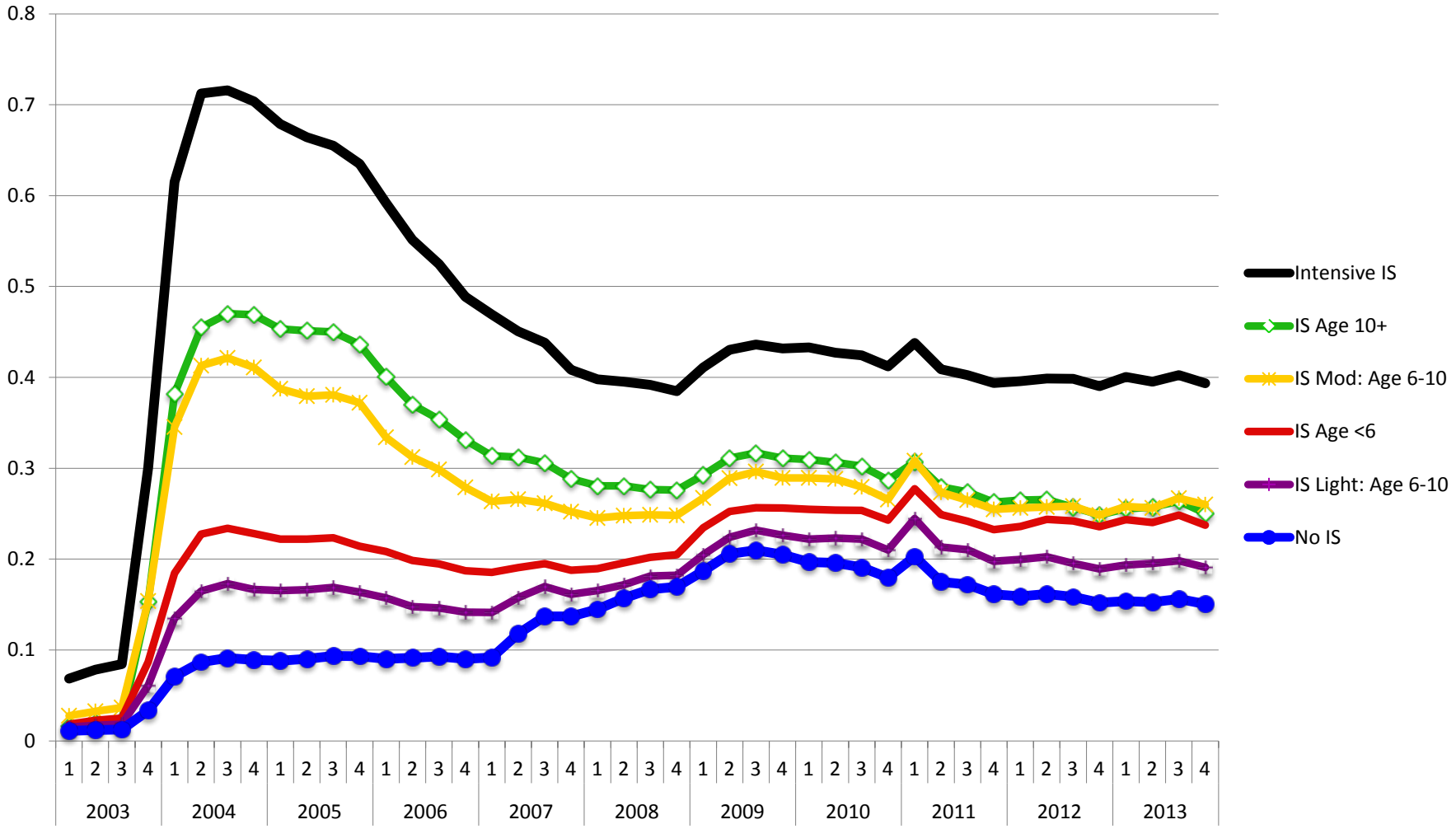
Source: Senate Estimates, found in “One third on pension for mental health,” The Australian, January 29th, 2014, p.6

Is Leaving Home a Hardship?

- Average age of leaving home:
  - Men: 20.8 years old
  - Women: 20.5 years old
- Economic Resources:
  - Briefly experience a drop in total and equivalised household incomes
- Financial Hardships:
  - Increase after leaving parent's house; by 33%-points for men and 66%-points for women
  - Men typically go without meals and ask friends and family for help, while women also miss utility, mortgage and rent payments
  - Hardships are temporary and disappear within 5 years for men, but are larger and sustained for women

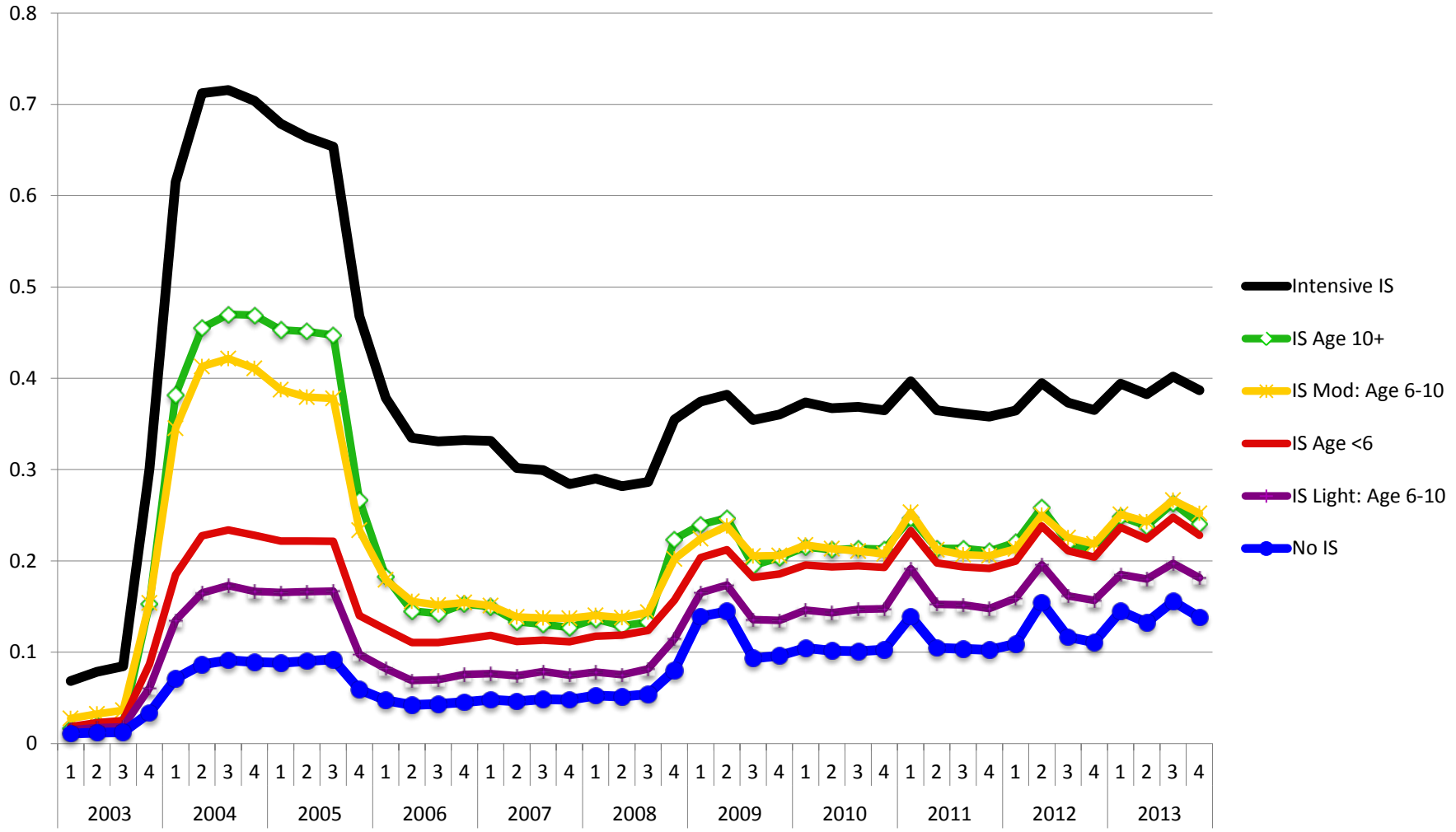
Source: Ribar D, C. (2013) Is leaving home a hardship? Melbourne Institute working paper.

Income Support by Receipt by Family Income Support History



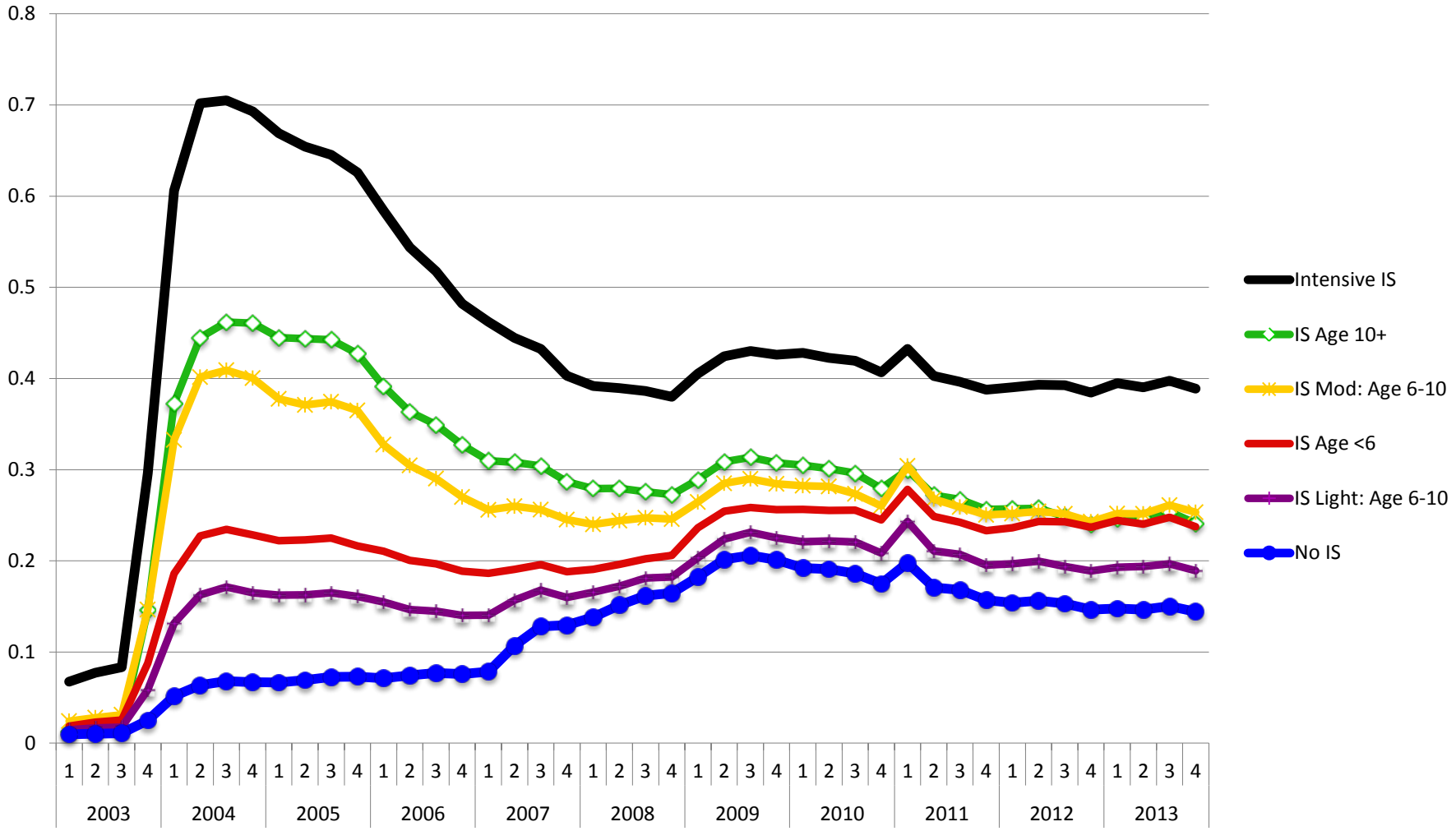
Source: Youth in Focus Project -- Transgenerational Data Set – NOTE: Excluding FTB-A , New Strata

Income Support by Receipt by Family Income Support History



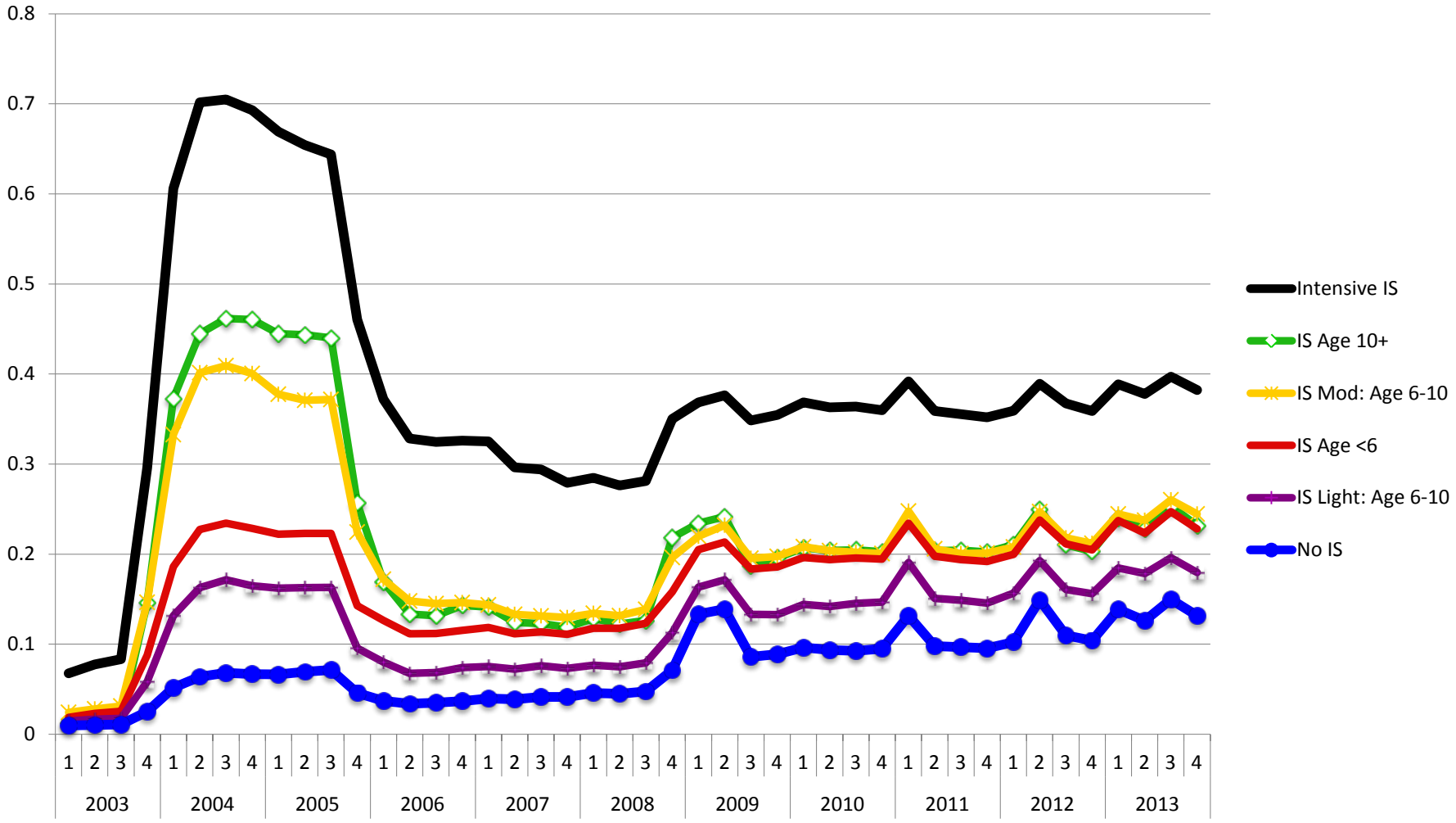
Source: Youth in Focus Project -- Transgenerational Data Set – NOTE: Excluding FTB-A & Youth Allowance Student , New Strata

Income Support by Receipt by Family Income Support History



Source: Youth in Focus Project -- Transgenerational Data Set – NOTE: Excluding FTB-A, Old Strata

Income Support by Receipt by Family Income Support History



Source: Youth in Focus Project -- Transgenerational Data Set – NOTE: Excluding FTB-A & Youth Allowance Student , Old Strata