

## A More Equitable Society

*Reference Group on Welfare Reform, 'Participation Support for a More Equitable Society, Interim Report, March, 2000*

*Reviewed by James Cox*

Welfare systems in many countries are not working as expected. Most people agree that welfare benefits should be paid to those people, such as the severely disabled, who cannot be expected to work. But the payment of benefits to others of working age was intended to help them through a temporary period of low income. As the Reference Group points out, the number of Australians receiving benefits has increased during a period when the proportion of the population of working age that is employed has risen. Moreover, long term receipt of benefits has become more common.

Although the reasons for these developments are complex, there is a suspicion that they are partly a response to the incentives provided by the welfare system. Some people may drift into an easy life of dependence on benefits if the administration of benefits is not very stringent. Because so little is expected from beneficiaries, long-term benefit dependence is an unsatisfactory and demoralising way of life. Especially in the United States the conviction has grown that it is wrong for society to allow people to live like this. There, individual States have developed welfare reform plans to meet objectives set by the national welfare reform. Although these plans differ from State to State they tend to include:

- Diversion strategies to discourage people from applying for benefits except as a last resort. For example, applicants may be asked to consider whether alternative sources of support (eg. from family members) are available.
- Extended and more stringent work requirements. For example, applicants may be required to make a number of phone calls to potential employers before becoming eligible to receive benefits.
- A limit to the length of time for which a benefit can be received.
- Provision of assistance for transport and childcare for those beneficiaries who take up employment.
- Provision of assistance, such as the Earned Income Tax Credit, for low-income persons in employment.

These changes have been introduced at a time when the US economy has been growing rapidly. Moreover, the gap between benefits and income from employment has grown in recent years because benefits have been held constant in real terms but the earnings of the lower paid have increased. Nevertheless, the changes noted above have contributed to a remarkable reduction in the numbers receiving welfare. Since 1994 the numbers receiving welfare have halved. Fifteen States have had declines of 60 per cent or more; three have experienced

declines of 85 per cent or more. Although the numbers receiving welfare have fallen, total government spending for those with low incomes (including the Earned Income Tax Credit) has not.

Other countries have taken less radical measures to make work more attractive and long term receipt of benefits less attractive. Although the British government did not proceed very far with 'thinking the unthinkable' on welfare, it has provided more extensive benefits to low income working families. The New Zealand government has increased the obligations (including the obligation to work) required of beneficiaries in certain circumstances.

The report under review is the most extensive attempt yet by an Australian government to address these issues. It builds on the possibly unexpected success of the work for the dole program. Press reports suggest that the Prime Minister's Office was heavily involved in preparing the report. Although the authors of the report agree that long-term dependence on benefits is undesirable, they are most anxious not to offend beneficiaries or groups that represent them. This may well be politically astute. But, as a consequence, the case for change is made only in muted form in the report. Some examples of this are presented below. A clearer statement of the arguments would have been controversial but might have been more effective in persuading people of the need for changes to welfare.

The Reference Panel's Interim Report includes seven case studies to illustrate how the new system would affect welfare beneficiaries in certain circumstances. In most of these, the new system would result in continuing receipt of full or part-rate benefits. In some cases benefits would be payable subject to new conditions or would be supplemented by earnings. However, the expectation seems to be that benefits would often continue to be payable. This contrasts with the strong message provided in the US reforms that work is almost always to be preferred to continuing receipt of benefits. The Reference Panel's emphasis on the continuing availability of benefits may well be realistic and consistent with Australian values. But it is most certainly a different message to that of welfare reformers in the US.

The Reference Panel was anxious to avoid making policy proposals that will worsen the situation of beneficiaries or require large amounts of additional government spending. It recommends, therefore, incremental changes that involve further development of the policies of recent years. As the authors recognise, it is unlikely that implementation of these recommendations would significantly reduce the numbers receiving welfare benefits.

The Reference Panel argues that 'over the past thirty years the proportion of the work force age population has risen and joblessness has declined. At the same time, the proportion of the workforce age population receiving income support more than quadrupled. This apparent contradiction reflects an increasingly unequal distribution of employment and joblessness' (p. 5). It adds that 'economic participation provides people with self-esteem and additional financial resources. Economic participation should remain the goal for people receiving income support who have the capacity for paid work' (p. 13). However, the Reference Panel weakens the emphasis on the desirability of paid work by introducing the broader concept of social participation. Social participation is

defined to include 'active involvement in reciprocal relationships that support those activities that are valuable for their contribution to society. They include the care of vulnerable others (children, frail older people and people with disabilities) and participation in community projects, voluntary organisations, educational, sporting and cultural activities'. The reform objective is defined to be 'a shift in focus from simply meeting people's immediate needs to helping them maximise social and economic participation over the longer term' (p. 12). The panel notes 'that there is value in recognising more explicitly the social contributions that people on income support already make. This recognition is important both to validate social participation and to counter the popular stereotype of people receiving benefits as passive non-contributors' (p. 13).

These quotations are representative of the report and not, I think, taken out of context. Although this may not have been its intention, it seems to me that the Reference Panel has sent a mixed message: work is valuable but social participation is almost equally as valuable. The main policy approaches considered by the Reference Panel are as follows:

- The introduction of a system for social service delivery that takes greater account of the needs of individuals than at present.
- The progressive introduction of a simplified and integrated payment structure for persons of workforce age to replace the present categorical income support structure.
- Improving incentives through the availability of a 'participation supplement' in addition to basic income support, and by changes to means test parameters.
- The encouragement of partnerships, especially in disadvantaged communities, between businesses, government and community groups.
- The development of a system of mutual obligation by including a requirement for income support recipients 'to take up opportunities for social and economic participation in accordance with each individual's needs, circumstances and capacities' (p. 61).

Diversion strategies, as emphasised in the US, are not on the list. The Reference Panel is very aware of the difficulties in moving rapidly in the direction it favours (a single, integrated payment structure for persons of working age) and argues that change will need to be phased in (pp. 35-36). It concludes that the 'complexity of these issues suggests that it would be difficult and risky to attempt to move to an integrated payment structure in one step'.

The authors also address the difficult question of how to reduce the disincentives to work arising from the income support system. This issue arises because assistance must be withdrawn as income increases. Income test concessions can encourage some work by making a contribution of part-time work and benefit receipt more attractive than previously. But, by improving the returns from part time work, income test adjustments can make the move from part-time to full time work less attractive than previously. The Reference Panel discusses this issue on page 44 of its report. Although the panel notes that bold initiatives

have been more successful than small changes in overseas countries they conclude, nevertheless, that 'financial costs and budget constraints may limit the opportunity for Government to act on these options in the short term'.

The Reference Panel discusses the introduction of additional assistance for low income working families in a similarly cautious manner. They note that any additional assistance would need to be fitted within Australia's existing complex and extensive system for providing assistance for those families, and that this could be difficult. The Reference Panel therefore favours modest approaches to improve incentives. These include the participation supplement and making some income support available for a period after a person returns to employment. One wonders why these additional incentives are needed if economic and social participation is to be required in future as a condition of receiving benefits.

Finally, and with considerable delicacy, the Reference Panel discusses the issue of sanctions. It only makes sense to talk about requiring participation as a condition of receiving benefits if sanctions (in the form of reducing or withholding benefits) are imposed on those who choose not to participate.

The Reference Panel does not support a punitive interpretation of mutual obligation. They suggest 'a broad interpretation of the concept, which envisages that responsibility for social and economic contribution flows reciprocally between all parties in society. If all parties accept their obligations freely, the spirit of mutual obligation can foster a productive social partnership' (p. 51).

This does not mean that people receiving income support can choose to meet whatever obligation they wish. A work requirement is reasonable in some circumstances; in particular 'it is reasonable to expect that most parents will make a gradual transition to economic participation as their children grow older' (p. 56). In the absence of sanctions some people may drift into non-participation; 'sanctions will be required on some occasions as a last resort' (p. 57).

Is the Reference Panel's report a turning point in Australian social policy? Recognition of the need for a more active income support system is not new. And there have been many attempts to reward economic and social participation through additional payments and adjustments to means tests. However, these changes have not been effective in reducing dependence on welfare. Perhaps the most important of the Reference Panel's recommendations is the suggestion that not only unemployment beneficiaries but some other types of beneficiaries, including it seems sole parents with older children, should be subject to an obligation to work in return for receiving benefits. If implemented, this would be an important change in direction for Australian social policy.

In general, the Reference Panel's cautious proposals are unlikely to have a large effect on the number of people of working age who receive benefits. The problems of welfare dependency and social exclusion are likely to continue to require attention by governments and expert committees.

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