

Increasing Economic Participation and Opportunity: The Key to Sustaining Our Prosperity

The Hon Kevin Andrews MP

Ladies and gentlemen, last week the Howard Government announced major reforms to Australia's welfare system which are designed to increase economic participation and opportunity.

These reforms, which in many respects are long overdue, recognize that every Australian of working age has the right, and deserves the opportunity, to participate in Australia's prosperity.

The best way for people to do this is by having a job and engaging in the economic and social life of our nation.

Many welfare recipients of working age are unhappy with their situation and often see welfare payments as a dead end, providing little or no hope for improvement in their socio economic status.

I believe that people on welfare strive to be financially independent, they want a job and they have hopes and aspirations like any other Australian.

Why should we imagine that the typical single parent – who according to the data is aged between 30 and 39 years old, and is raising two children alone as a consequence of divorce or separation - does not have the same aspirations as the rest of us?

Likewise, why should the one third of recipients who are on Disability Support Pension with musculoskeletal disorders, be consigned to a sedentary existence

until they qualify for the aged pension, because they have not been provided with suitable rehabilitation, both physical and vocational?

Removing the welfare trap

At the beginning of the 21st century, Australia has a well educated, healthy and economically productive population. Over the course of the post war period we invested considerable resources to achieve positive economic and social outcomes.

Such outcomes are inevitably accompanied by economic prosperity. Jobs growth has been, and continues to be, strong; real incomes have risen; and productivity has increased. At such a time, less and less people should be reliant on welfare for their primary source of income.

That maxim that the best form of welfare is a job has never been more prescient.

At a time of sustained economic growth and unemployment at 28 year lows, it is unacceptable to have 2.7 million or 20% of working age Australians on income support. More than 1.3 million people in receipt of income support have little if any participation requirements.

It is also unacceptable to have 800,000 jobless households, in which many generations of Australians do not know what it is like to have a job, let alone steady employment and regular income.

Apart from the economic dislocation that this causes, we should have grave concerns about the psychological impact on people living in such an environment.

I believe that there is nothing to be achieved in seeking to apportion political blame for this situation. Those people who are on welfare have every right to be so, because they have satisfied the relevant criteria and eligibility.

But we do have a choice: a choice to accept the social and economic costs of welfare; or to tackle the issues for the benefit of individuals and their families.

No one denies the fact that a government must preserve a well-targeted social safety net, while at the same time encouraging working-age people to find jobs and remain employed. The welfare reforms in the Budget delivered last week demonstrate the Howard government's strong commitment to this principal.

At the same time, people on welfare deserve more; and it is vital for Australia's continuing prosperity that they be given every assistance and opportunity in which to achieve better outcomes.

The need for substantial reform

Ladies and gentlemen, there has never been a better time to address the issue of welfare reform. There are both positive and negative factors which precipitate the need for action.

First there is the human and social dimension. Today many people are locked out of the economic life of this nation.

The DSP has become a 'dead end payment' for many people; and sole parents are spending 10 to 12 years on welfare, losing skills, confidence and employment contact in the process. Their children are more likely to face poverty as a consequence.

In my consultations about the welfare measures, many people, including sole parents and the disabled, said they wanted a job. People recognize the economic and social benefits of work.

To date, the prevailing view of welfare has been seen through the eyes of incapacity and disability. While this view is no doubt motivated by compassion, it can reinforce a perception of helplessness in the eyes of both recipients and society. Once a person is disabled or incapacitated, their contribution to society can be ignored.

I believe it is preferable to treat people on the basis of their capacity and their ability. Throughout our lives, we have various capacities and abilities. We begin life as vulnerable individuals, and may leave it the same. But each person has a dignity that should be supported and upheld.

Work and family life are core sources of that dignity. That is why we should look to people's capacities and abilities, not their incapacities and disabilities.

Participation in the life of the community is not simply economic, but workforce participation is an important component. Our duty to our fellow citizens asks of us a commitment to assist them to participate fully in the life of their nation.

Secondly, the ageing of the population will result in fewer new entrants into the labour force. If we do nothing to address this issue, then we will see a substantial reduction in the growth of the labour force over the next 10 to 15 years.

At present the net growth in the Australian workforce is 170,000 people each year. Access Economics has estimated that, over the decade from 2020 to 2030, it is

expected the workforce will only grow by just 125,000 people. That averages out to a mere 12,500 people per year.

The resultant side effects will also lead to an ever diminishing tax and revenue base for our governments. This will seriously impact on the ability to provide a range of government services, including old age pensions, working age income support payments and health services.

The Treasurer last week noted that in 20 years time the same number of taxpayers are going to be asked to support double the number of people over retirement age.

The Australian Government's 2002 *Intergenerational Report* also warned that 'Although the ageing of the Australian population is not expected to have a major impact on the Commonwealth's budget for at least another 15 years, forward planning for these developments is important, to ensure that governments will be well placed to meet emerging policy challenges in a timely and effective manner.'¹

In addition to this, we have been spending ever increasing money on welfare at a time of strong and sustained economic growth.

Research undertaken by Ann Harding, director of the National Centre for Economic and Social Modelling, indicates that 'our welfare system has been very successful at redistributing income from the rich to the poor'.²

Australian Government spending on the Disability Support Pension alone will exceed \$8 billion in 2004/05. In 1980, 2.3% of working-age adults were claiming

¹ 2002-03 budget paper no. 5 Intergenerational Report, Overview

² The Weekend Australian April 2 – 3 2005, 'The Howard Surprise,' by Paul Kelly

the Disability Support Pension (DSP) by March 2005, this proportion had more than doubled to over 5% or 705,000 people.

As I said earlier, the majority of those people who receive welfare, do so legitimately. However, such an exponential increase is not only unsustainable, it is socially undesirable.

In order to ensure that this does not become the norm, it is also important that Australia maintains and builds on its economic prosperity. We as a nation can only do this if we operate to our full capacity.

The economic record of the last decade is an impressive one. Australia's prosperity is no accident. Unemployment has been reduced to 5.1% and due to the creation of more than **1.6 million** new jobs, employment is at a record high with more than **7 million** Australians in full time work.

Higher productivity growth has delivered increasing real wages, low inflation and low interest rates. This has made the Australian dream of home ownership a reality for many working Australians.

Between 1996 and 2004 real wages rose by 13.3 per cent compared with less than 1.2 per cent rise under 13 years of Labor. Over this period, the government has also delivered substantial tax cuts to low, middle and high income earners.

Despite the protestations of the Labor Party, we make no apologies for giving working Australians more money in their pay packets to provide a better life for them and their families.

We should never take strong economic growth and prosperity for granted. When one remembers the state of the Australian economy just 25 years ago, in which real per capita incomes were growing at less than 1% and both inflation and

unemployment reached double digits, we have never had a better opportunity to increase the economic participation of all working age Australians.

Now is the time to act and put in place the policy foundations for continued future economic growth and the prosperity that inevitably accompanies it.

Increasing economic participation

The Howard Government's \$3.6 billion Welfare to Work Reform package will not only ensure that more Australians participate in our prosperity, it will also contribute to the maintenance and continued growth of this prosperity.

The reforms are designed to increase workforce participation, to help people escape from welfare dependency, and to enable employers to re-think how they can create flexible jobs to attract new employees.

The government has listened closely to the concerns and wishes of stakeholders and I believe that our reforms appropriately reflect this.

People will be assessed according to their capacity and availability to work. This is the opposite to what has previously existed, where the focus has been on a persons incapacity and inability to work.

Where possible and appropriate, working age people in receipt of income support should be given every encouragement and assistance to enter the job market and find a job.

Work obligations

The challenge of implementing reform is to get the right balance between obligations and support. This must be accompanied by appropriate incentives and support mechanisms to ensure that job seekers continue to be provided with services. I believe that these reforms strike the right balance.

People with a disability and parents in receipt of income support will face new work obligations. If a person is assessed to be able to work at least 15 hours a week at full award wages and with the receipt of 2 years or less assistance, they will not be eligible to receive DSP.

Sole and partnered parents in receipt of income support will be required to seek part time work of 15 hours or more a week while their youngest child is aged 6 to 15. They will have 12 months to find employment voluntarily.

The requirements for sole parents are reasonable by international standards. At a recent OECD meeting of Employment Ministers, it was highlighted to me that sole parents in **Austria, Germany, France, Italy, Norway and Switzerland** are required to look for work when their youngest child turns three.

In **Denmark** lone parents on benefits are not given any special treatment regarding job search – they are only entitled to one year of leave before they are required to look for work.

The government has no intention of adopting this policy and believes that an obligation to seek work when the youngest child turns 6 is appropriate. I mention the situation in other nations to illustrate the point that our new requirements remain generous by international standards.

Income support payments

In respect to income support payments, people who are in receipt of DSP on May 10 - some 700,000 people - will remain on DSP. People who apply for DSP after 30 June 2006 and can work 15 hours or more will receive Newstart Allowance. Existing Parenting Payment Single and Parenting Payment Partnered recipients remain on these payments until their youngest child turns 16 years old.

Sole parents who apply for income support after 30 June 06 receive Newstart Allowance when youngest child turns 6.

There will also be significant changes to the Newstart Allowance income test. A new, lower **50%** Newstart Allowance taper rate will be applied to each dollar of private income earned in the range between \$63 to \$250 a fortnight inclusive. A new, lower **60%** taper rate will apply to each dollar of private income earned in excess of \$250 a fortnight.

The partner income test taper will be reduced from **70%** to **60%**.

These taper rates are substantially more generous than those which currently exist under the Newstart Allowance regime.

People with a disability and parents will also retain access to concessions and allowances.

The importance of the pensioner concession card (PCC) for example is not to be underestimated. The access that this provides to subsidized pharmaceuticals and other state and territory assistance is something that many people are reluctant to forego.

Having listened closely to the concerns of stakeholders, the government has committed to ensuring that people with a disability and parents in receipt of Newstart Allowance will retain access to the Pensioner Concession Card, Pharmaceutical Allowance and Telephone Allowance.

The Mobility Allowance will increase from \$69 to \$100 per fortnight; and people with a disability will receive an Employment Entry payment of \$312 and parents \$104.

Encouraging voluntary participation

People who are on DSP and parenting payment will still be encouraged to volunteer and participate in the workforce. These people will not be penalized for having a go.

I realise that many people with disabilities could be reluctant to move into employment and fear they will lose access to not only the DSP, but also other forms of special assistance. If their employment does not work out, for whatever reason, it is important they are not left worse off. Hence, people can return to the DSP if they cannot hold down a job for any reason, not just those that are disability related.

Services

Ladies and Gentlemen, the introduction of any new obligations must be accompanied by a commensurate level of services and support.

The government's Job Network will receive a \$681 million funding boost in order to provide new and increased existing services.

For people with a disability who need specialist assistance to find a job and stay in work, more than 20,000 new places over four years will be available under Disability Employment Assistance.

There will also be a greater focus on the provision of rehabilitation services. It is disturbing that many workers who suffer musculoskeletal type injuries for example, are often left to complete a period of time on workers compensation without having received appropriate rehabilitation and assistance. In a number of cases, these workers then move seamlessly onto pension payments such as DSP, subsequently never to work again.

With this problem in mind, there will be 42,000 additional rehabilitation places to assist people needing rehabilitation to return to work.

To help parents, there will be a new Employment Preparation service to provide tailored support services. This will be accompanied by a substantial increase in child care assistance and places, including 84,300 additional outside school hours care places. The increase in outside school hours places is greater than the total number of these places in 1996.

Employer demand

The government also recognizes the importance of providing employers with the information and assistance to make it easier for them to hire unemployed people.

To this end, \$50 million will be provided for more direct assistance and incentives to increase employment opportunities for parents, mature age people, the very long-term unemployed, and people with disabilities.

The government is helping employers to create more flexible jobs, to match the needs of people who maybe can't work all day, every day of the working week, or people who need special equipment or modifications to the workplace.

Last Friday I convened the inaugural meeting of the government's Employer Roundtable.

I have given the roundtable the responsibility to formulate a disability employment Demand Action Plan by December 2005.

The roundtable is being chaired by Mark Bagshaw, Manager of IBM Australia/New Zealand Accessibility Centre and other members include executives from some of Australia's leading organisations including McDonalds, Westpac, Toyota, Woolworths, Telstra and Sara Lee Household & Body Care.

The government will work with the business community to come up with practical policy ideas and advice. This is important, because it is employers who create jobs, not governments.

Welfare and workplace relations reforms

Finally, if we are to encourage and assist more people into the workforce, then we must pursue further workplace relations reform, which ensures that we have an efficient, flexible and open workplace relations system.

Welfare and workplace relations are closely linked and they are the key to ensuring continued strong jobs growth.

In a recent speech, Michael Chaney from the Business Council of Australia said that the benefits of changes to the workplace relations system since 1996 were estimated to be equivalent to \$4,200 in additional income per person per year in 2004, and the equivalent of over \$80,000 in wealth per person.

Chaney also estimated that had it not been for reforms to workplace relations the average unemployment rate would have been 8.1% in 2004 and not 5.8%.

I expect to be able to announce further reforms to the workplace relations system in coming weeks.

Conclusion

Ladies and gentlemen, the Australian people have given the Howard Government the opportunity to address the important issue of increasing workforce participation and moving people from welfare to work.

The government will pursue this necessary reform responsibly, always mindful of the fact that these measures are directed at securing the future prosperity of Australia and, most importantly, providing the opportunity for all Australians to participate in that prosperity.