



Workforce participation:
Incentives and hurdles for jobless
Australians

CEDA / ATRF Tax Reform Forum
Canberra March 2008

An historic opportunity for social inclusion

- Unemployment is at a 30 year low
- A shortfall of 195,000 workers in next 5 years (DEWR)
- More labour shortages as population ages

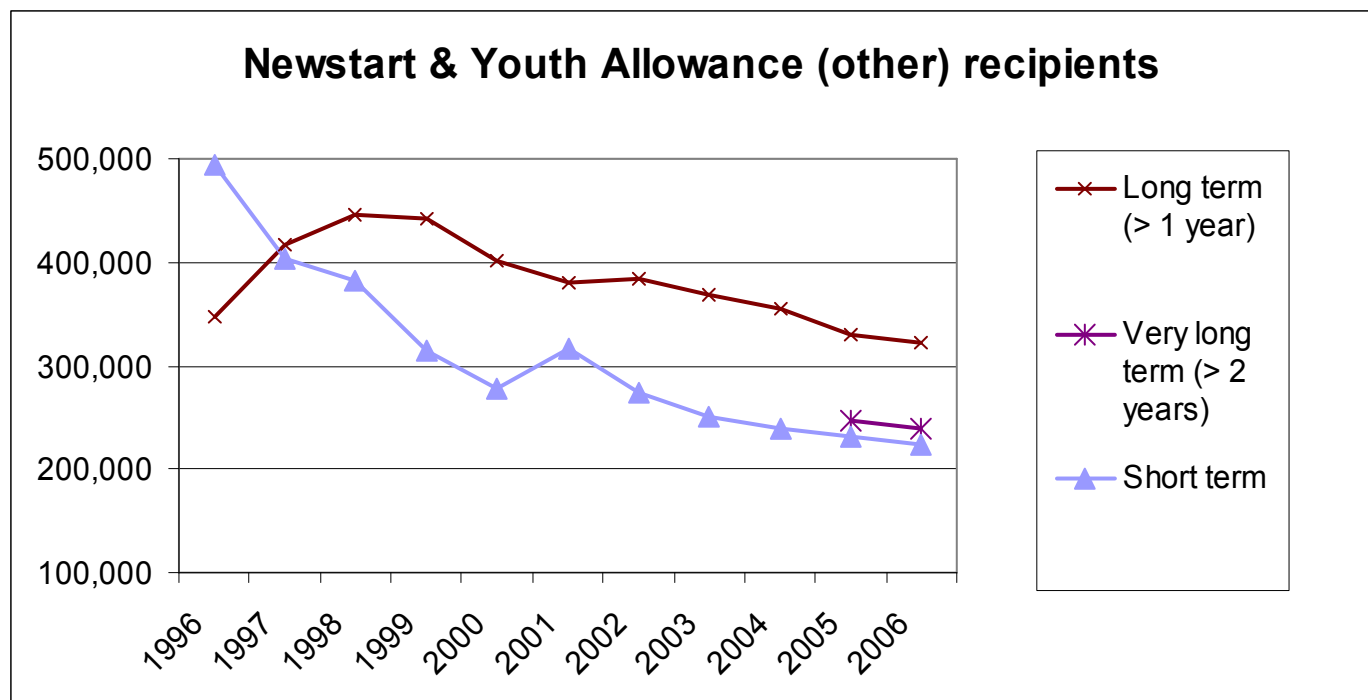
Profile of the 1.8 million people on income support:

- 700,000 on Disability Support Pension
 - 600,000 on Parenting Payments
 - 500,000 on unemployment payments
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- 1.5 million are jobless
 - 300,000 work part time

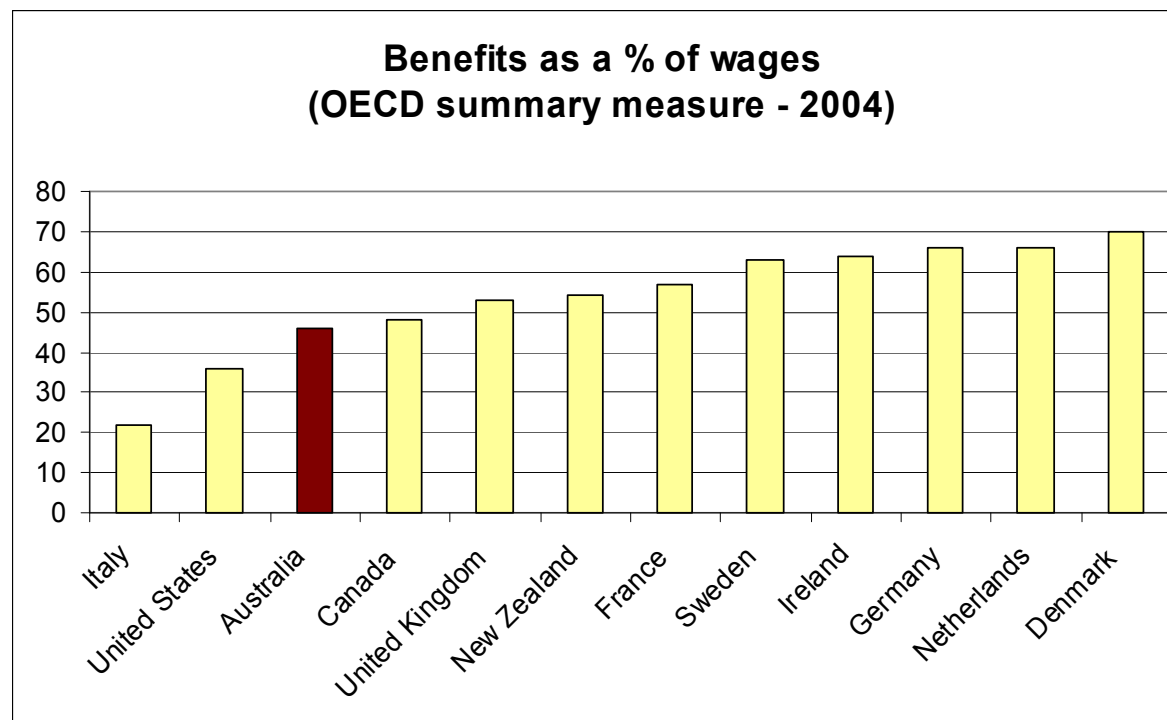
But those still out of work are more disadvantaged

- Low skills: 62% of DSP recipients, 72% of PP recipients, 64% of very long term unemployed on NSA have Year 10 or less
- Limited work experience: 60% of recipients have been on NSA for over one year, 30% for over 2 years
- Poor mental health: 45% of PPS, 30% of DSP recipients, and 35% of long term NSA recipients have a mental illness (e.g. depression)
- Experience of personal violence: 48% of PPS recipients have experienced personal violence (20% in the past year)
- 12% of PPS recipients, 6% of NSA recipients and 7% of DSP recipients considered suicide in the past 12 months

Long-term unemployment has fallen more slowly than short-term

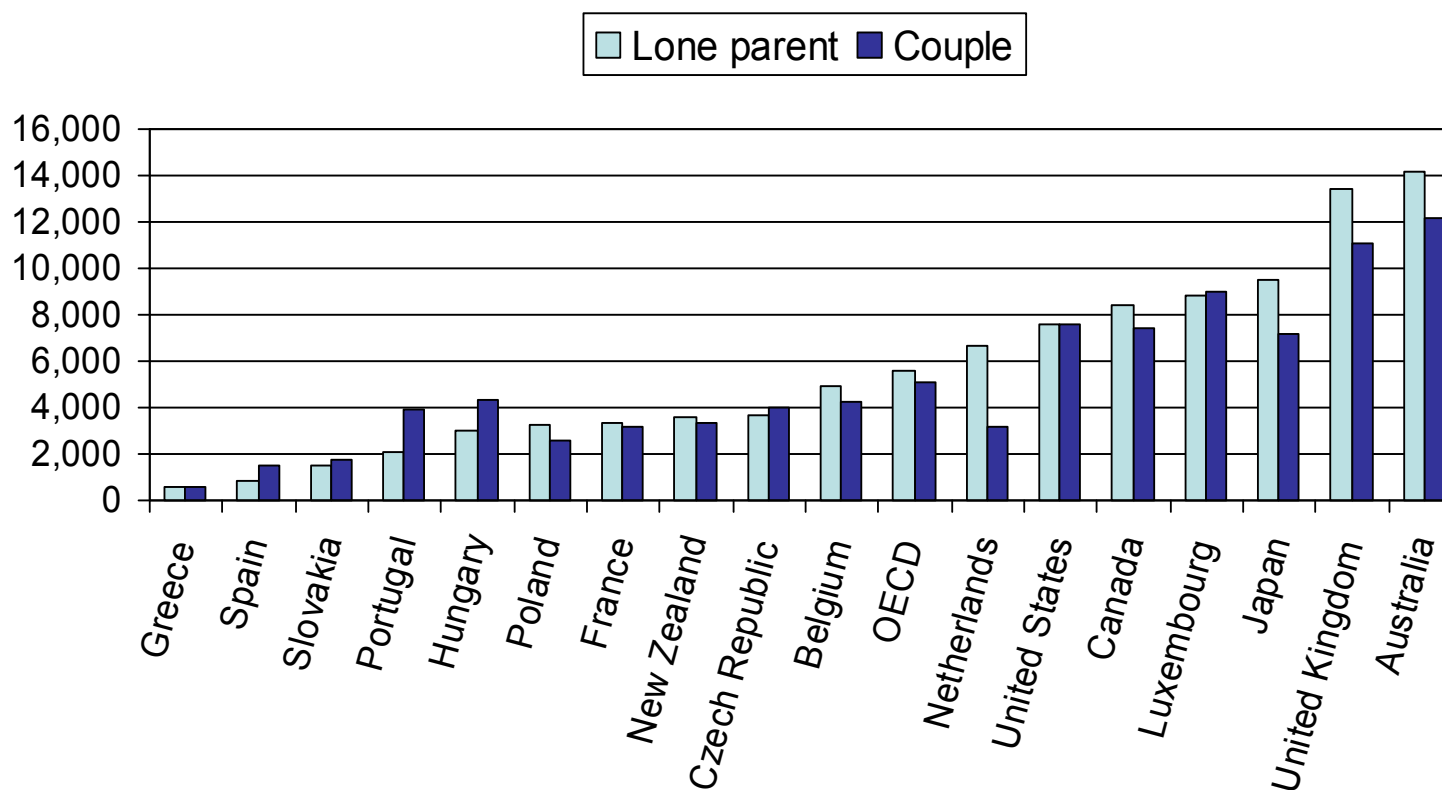


Financial incentives to move from benefits to a low paid fulltime job are *relatively* strong in Australia



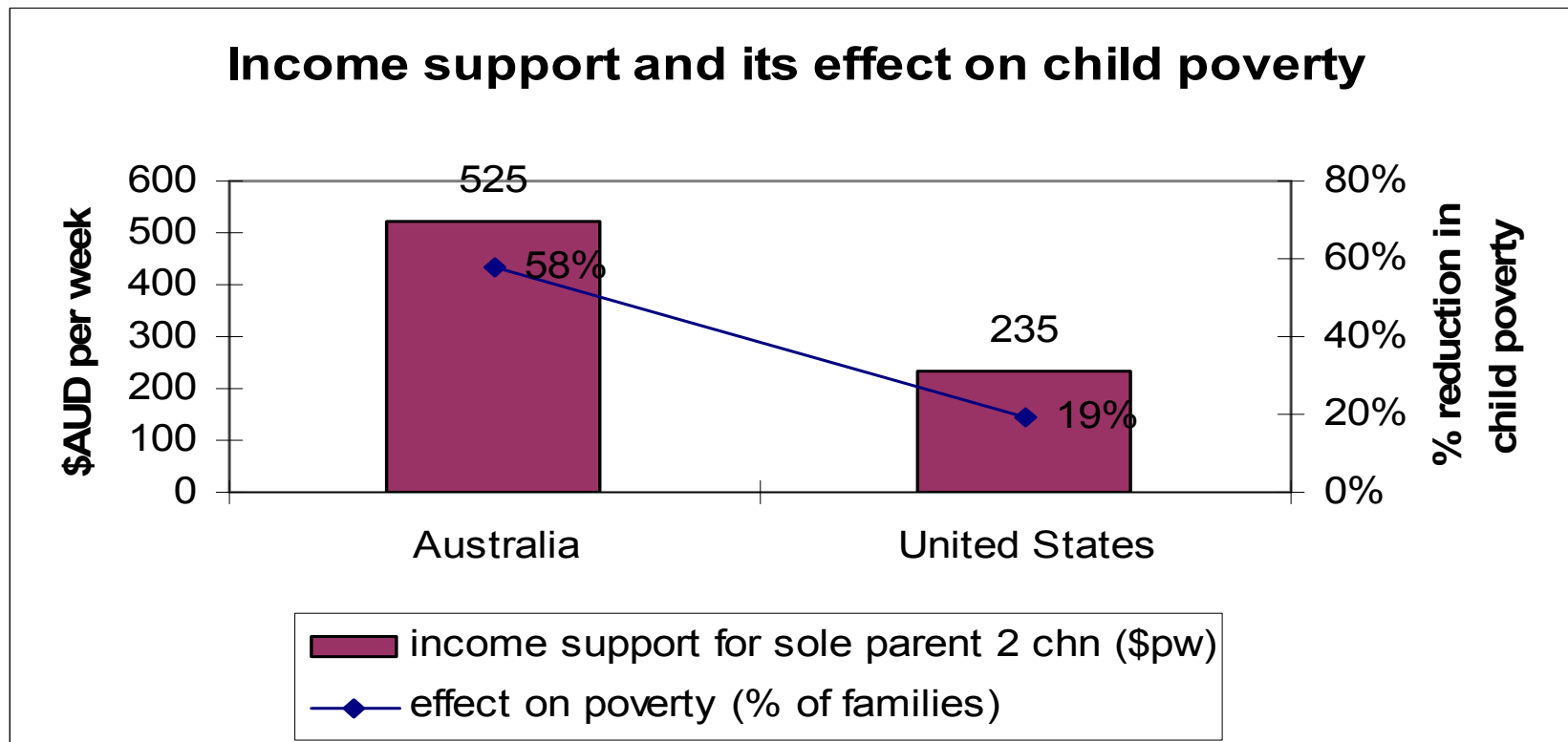
Source: OECD 2006, Employment Outlook
- average of 4 family types, 3 wage levels, over 5 years of unemployment -
includes all major income support payments and income taxes.

'In-work payments' for low paid working families are relatively high



Income support and tax credits for parents on minimum wages
(\$ per year)

Income support for jobless families: Oz Vs USA

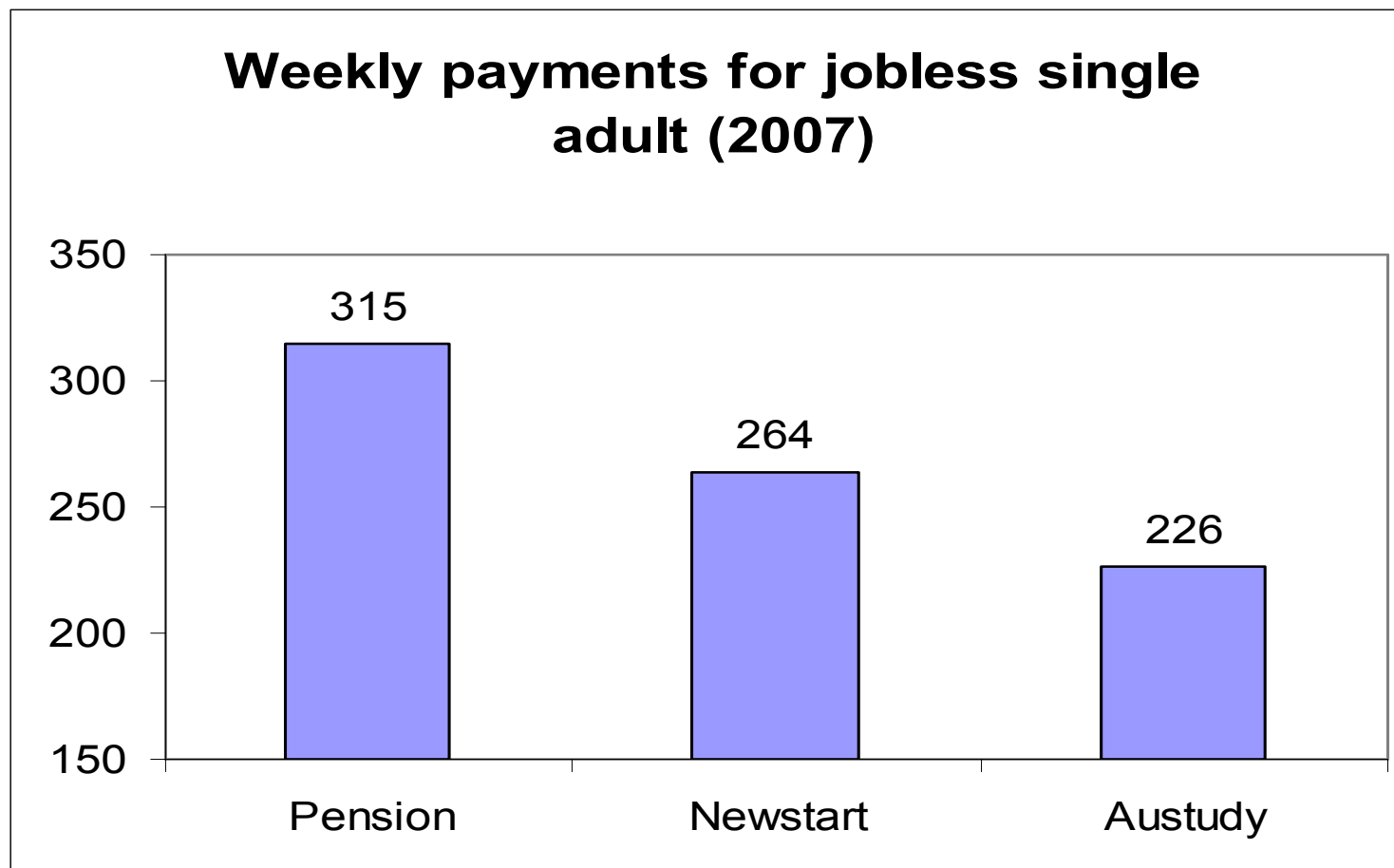


'Income support' includes Food Stamps,
'Effect on child poverty' includes effects of FTB, EITC and income taxes.

But EMTRs are very high for some jobless people

- Newstart recipients seeking part time work:
 - if on \$200pw they lose 75% of next dollar earned
 - most low skilled jobs in Oz are part time
- Recipients of multiple payments (e.g. Youth Allowance, FTB, CCB)
 - face EMTRs up to 100%

Job search and study don't pay



Options to improve work incentives

1. Ease Newstart income test, at least for those required to work part time
2. Untangle multiple income tests (especially for families receiving Youth Allowance)
3. Remove anomalies in rates of payment
4. Ease social housing income tests
5. Reduce transport costs
6. Introduce a 'better off in work' calculator

The role of employment assistance

Current spending:

- approx \$2B per year, low by OECD standards

IMF:

- A 1% increase in spending on LMPs boosts employment by an average of 1.9%

Typical short-term increase in job prospects:

- Up to 20%

Freud Report (UK):

- a sustained 5% improvement in exits to jobs every 3 months would halve the number of Jobseekers Allowance recipients in the UK in 3 years.

Additional slides:

Cost of an EITC for Australia

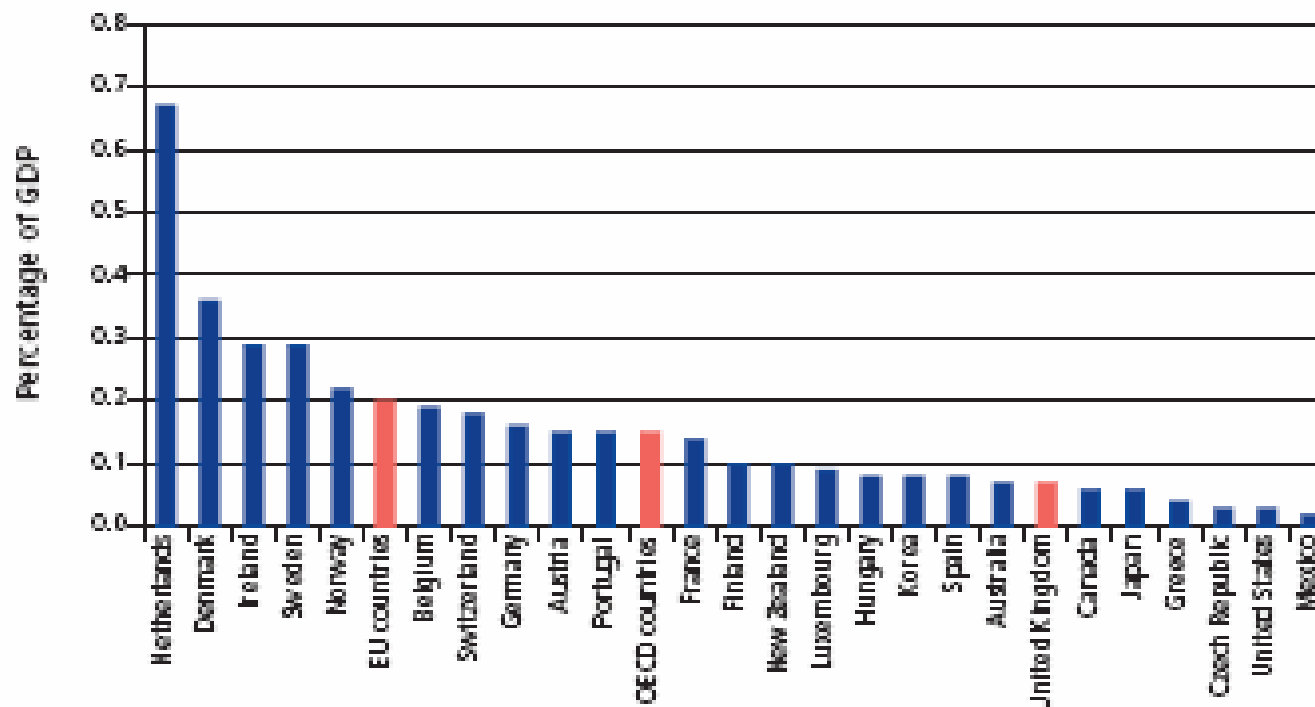
Melbourne Institute research:

- Earned income tax credit of up to \$47pw for low wage-earning families:
 - boosts participation of 62,000 jobless families, but costs >\$5,000 million p.a. (\$80,000 each)

Source: Buddelmeyer et al 2006,

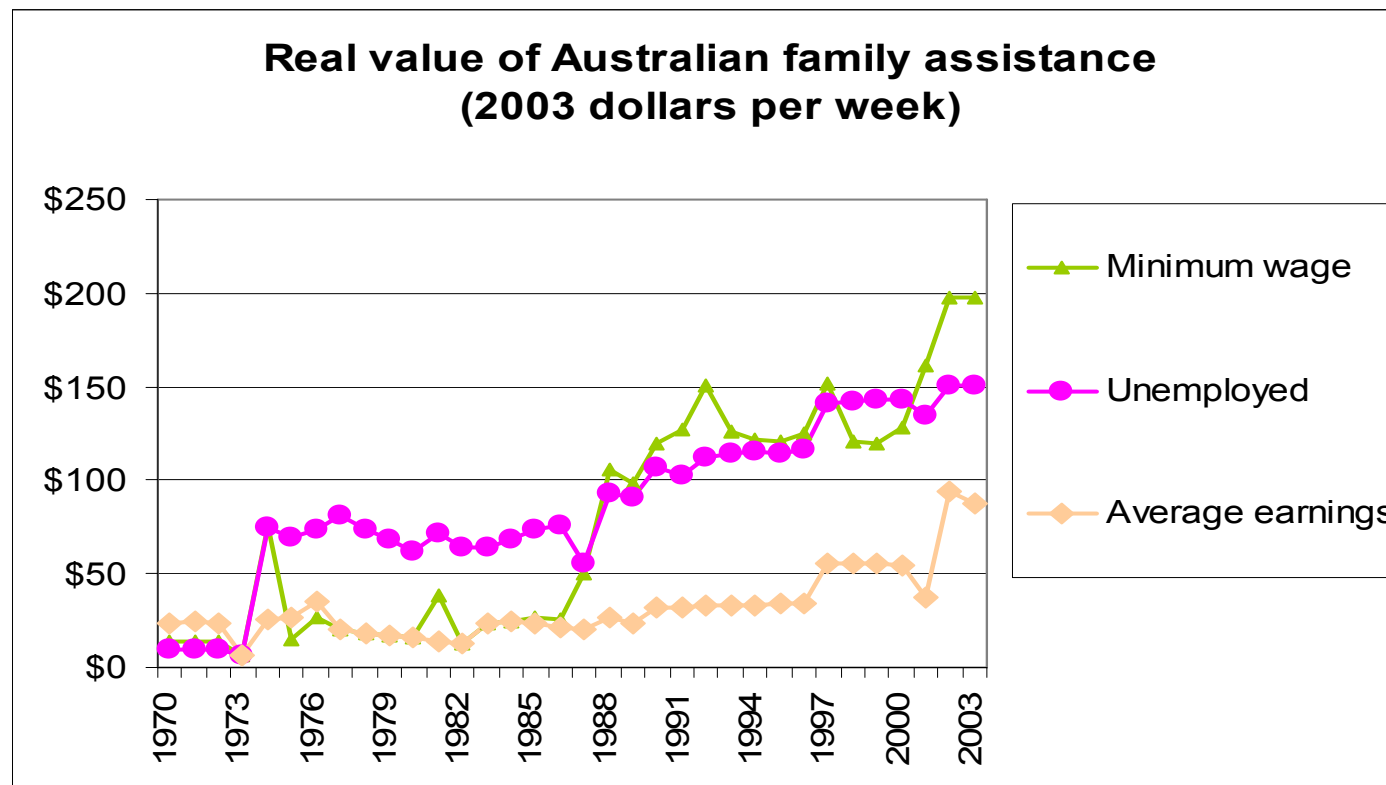
Australian investment in employment assistance is low

Graph 2: Active labour market spending. Percentage of GDP (for each 1 percentage point of unemployment)

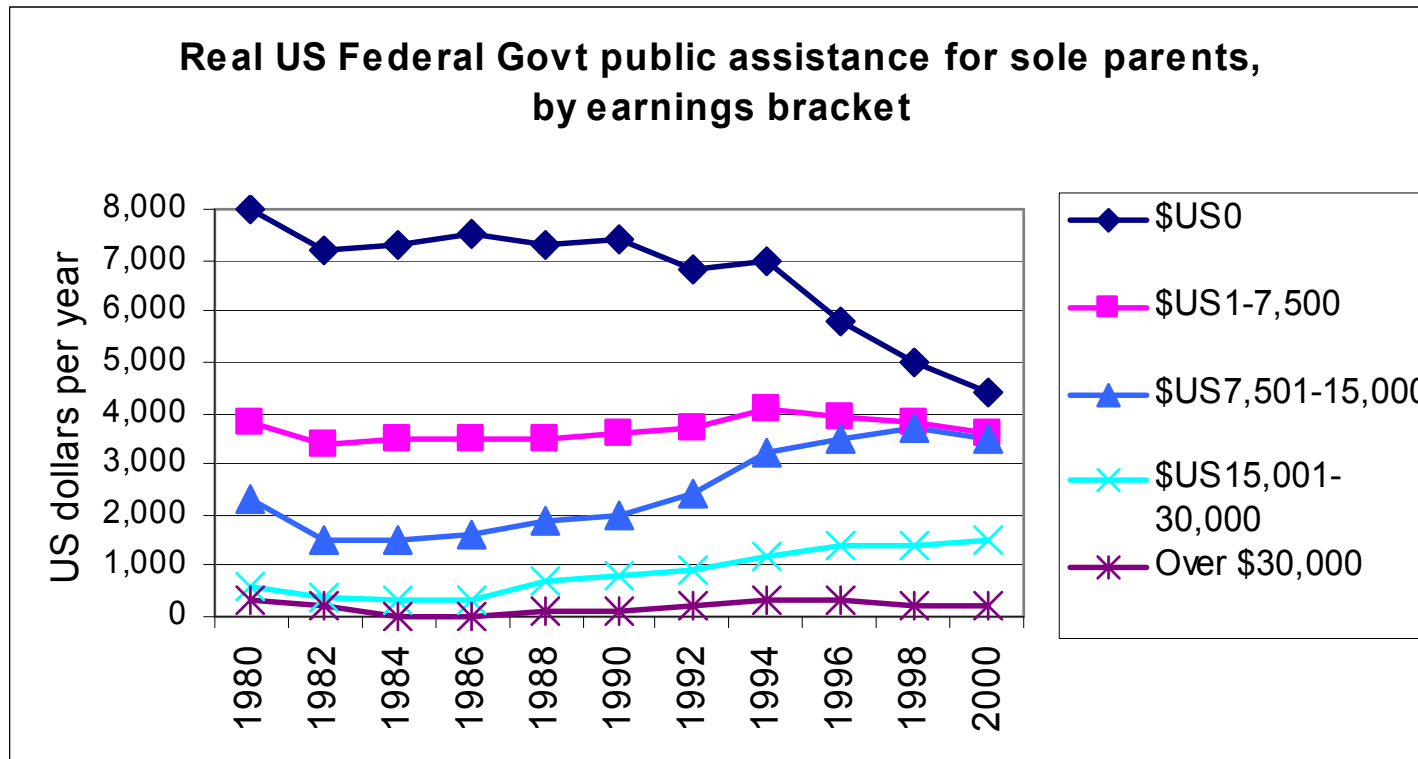


Source: UK Dept of Work & Pensions 2005, Building on the New Deal.

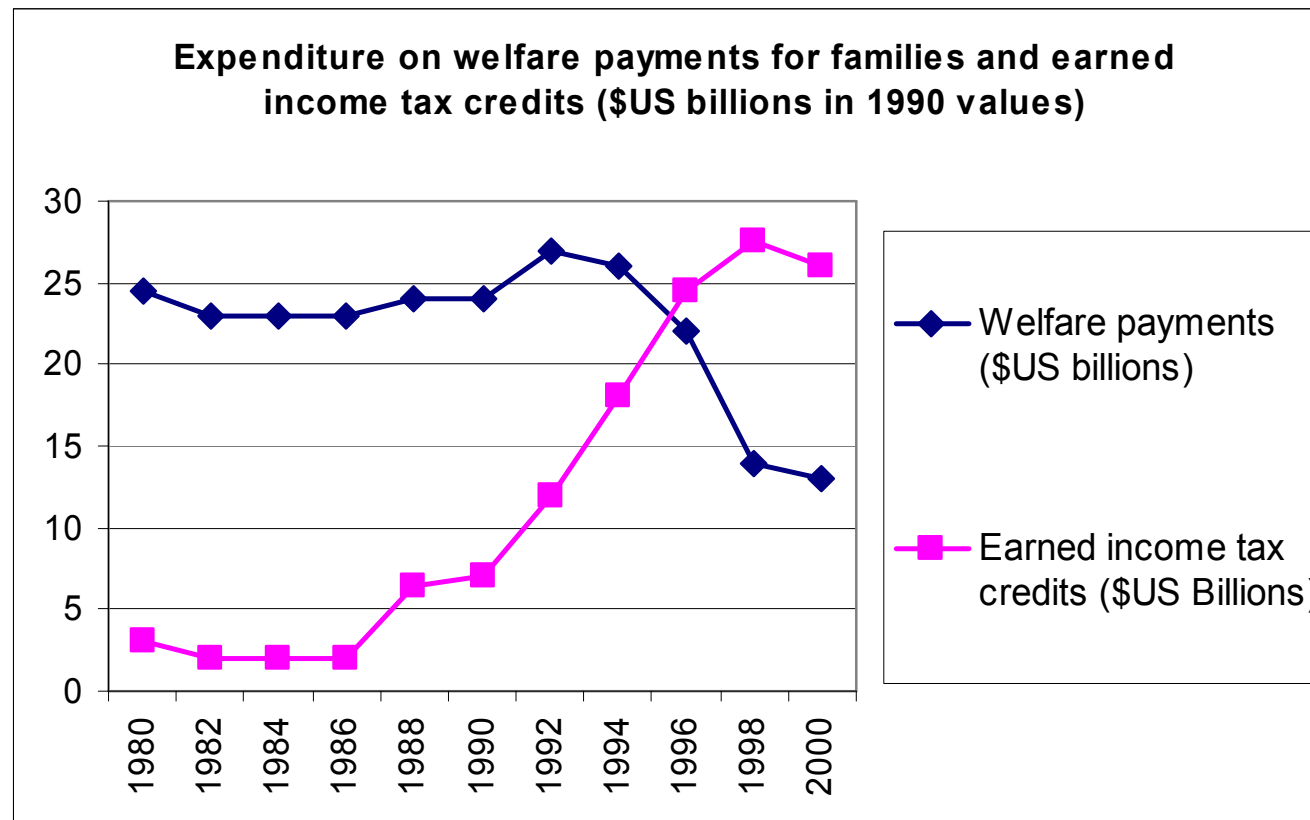
Family assistance in Oz is the same for jobless and low paid working families



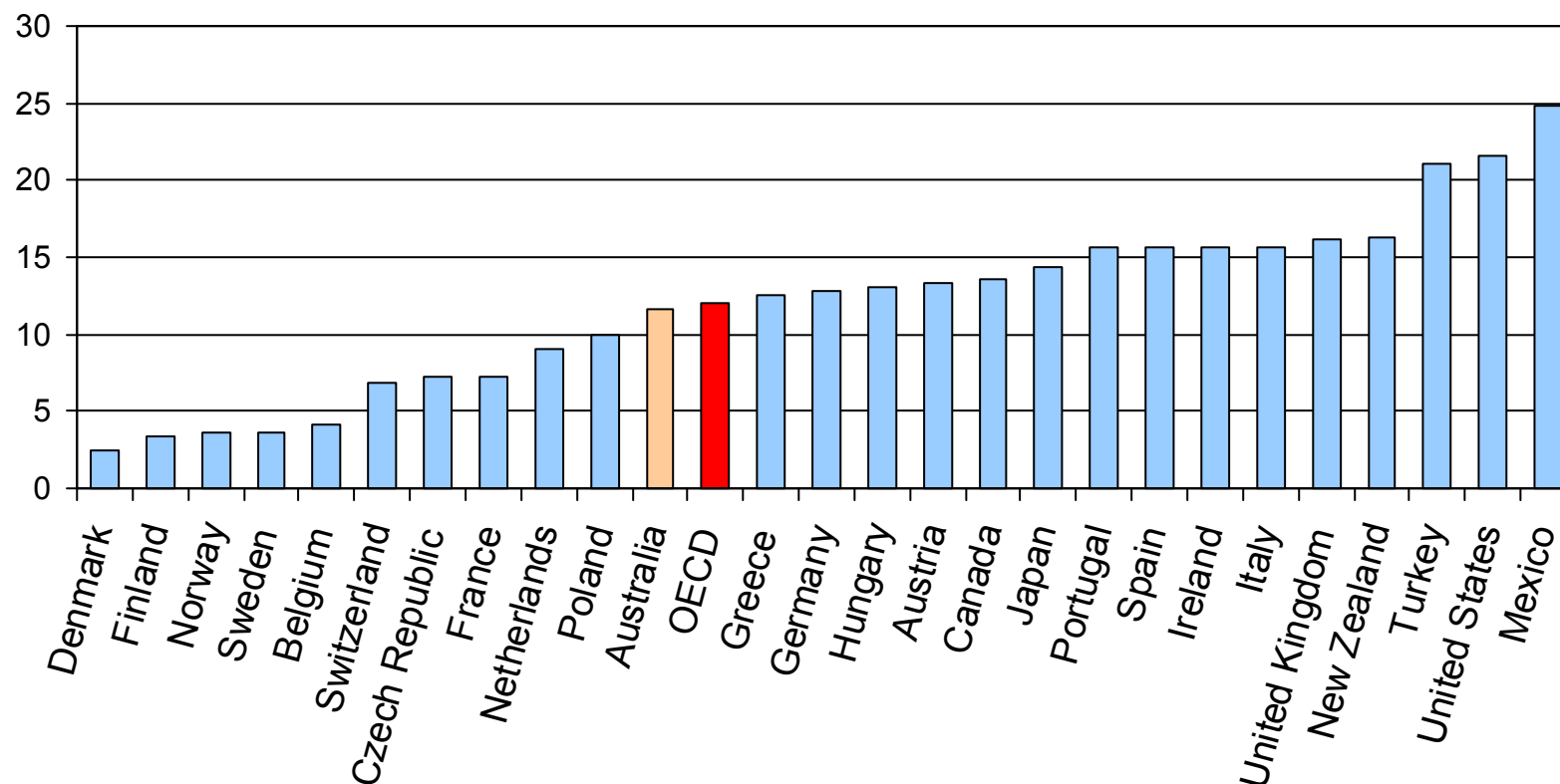
Family assistance in US has risen for working families, but declined for jobless families



The US spends more on tax credits than on jobless families



Child poverty in OECD countries (2000)



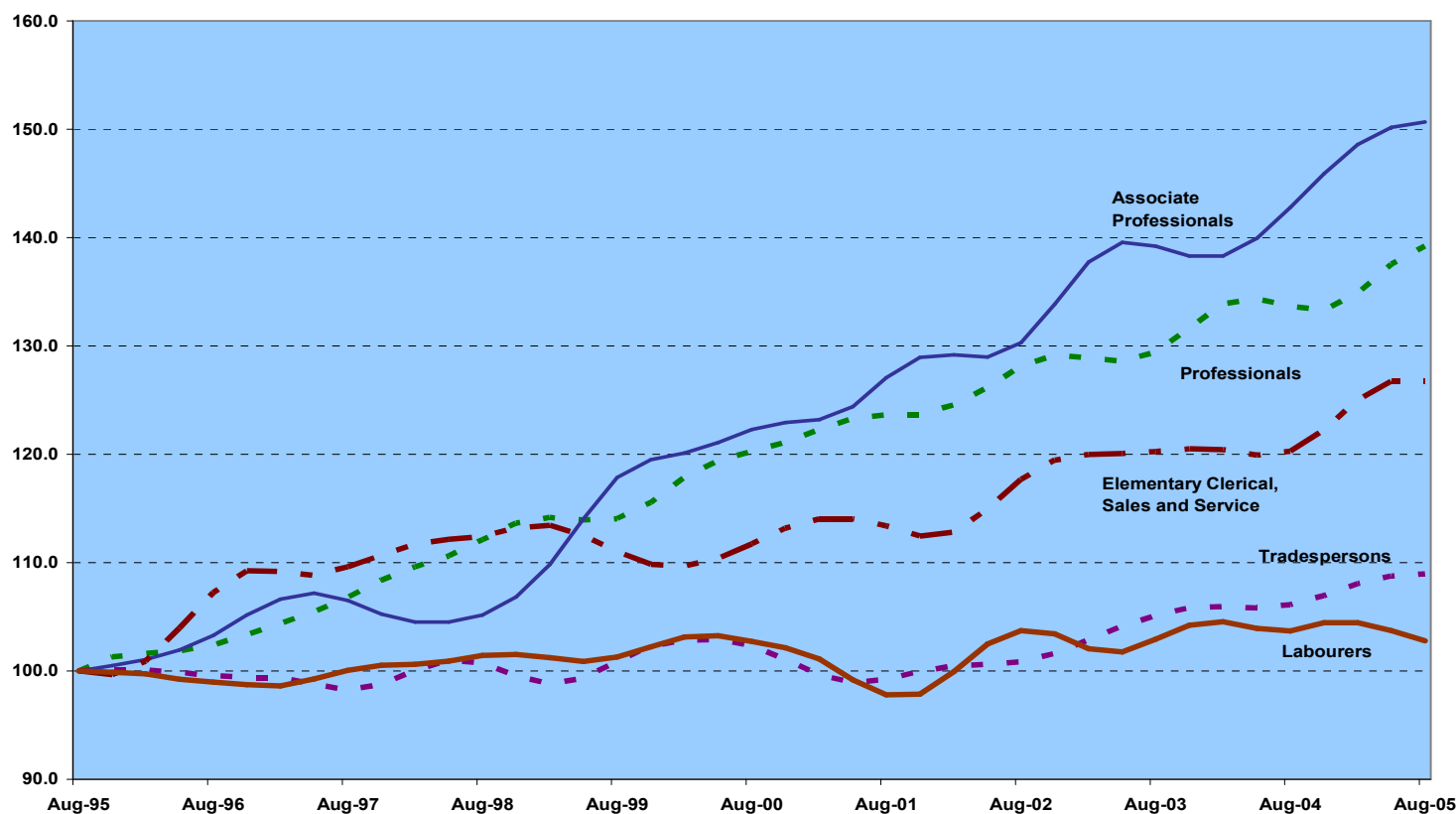
Source: OECD

Few cite work incentives as the main problem

- 2.2% of people who wanted a job but weren't looking said the main reason was risk of loss of income support
- One third of jobless sole parents couldn't estimate a reservation wage and of those who could, one third cited less than the minimum wage

Jobs growth has been biased towards high skilled and service jobs:

Index of job growth (1995 = 100)



Source: Hart (Labour Market Strategies Group, DEWR), *Job Prospects, Skill Shortages and Job Outlook*, CEET Conference 2005