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R. G. Gregory
Australian National University
Victoria University, Melbourne

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The Henderson Question? The Melbourne Institute and fifty years of welfare policy

R. G. Gregory

Research School of Economics
Australian National University;
Centre for Strategic Studies
Victoria University, Melbourne

Abstract

We discuss selected research contributions of the Melbourne Institute of Applied Economics and Social Research, to fifty years of welfare policy for those of work force age and focus particularly on the policy focus of R. F. Henderson, the inaugural director. Following the spirit of his 1960s poverty research, government, in the mid-1970s, doubled unemployment allowances in real terms and increased pensions by approximately forty per cent. Both income support payments were to be indexed by average wage increases. At the time, unemployment was typically around one per cent and the pension take-up was also limited. Today, income support take-up rates have probably increased five-fold. In response, government has adopted a “make work pay” policy over the last two decades and indexed allowances for CPI increases and allowances have fallen 25-35 per cent, relative to community living standards. We address a range of questions arising from this experience including, Why has government abandoned the Henderson recommendations? Is there any evidence that a “make work pay” policy is working?

JEL Classification: I31, I38

Keywords; make work pay, welfare policy, indexation of welfare payments

I. Introduction

The Melbourne Institute continues to make substantial and wide ranging contributions to our understanding of the income support (IS) system for those of workforce age. This is an important role. If IS incidence was the same today, as when the Institute was founded, there would be about one and a half million less individuals of work force age receiving IS payments.¹

My comments will not be a review of the Institutes many contributions. I adopt a narrower focus on aspects of “make work pay”, a central pillar of IS policy designed to move a significant fraction of the one and a half million into employment. The other two pillars that matter, widening the scope of “make work pay” by moving an increasing proportion of IS recipients from pensions to substantially lower “make work pay” allowance payments, and extending “job activation” will receive less attention.

The essence of “make work pay” is to improve employment incentives by increasing income when employed *relative* to income when not employed and, in this way, induce more IS recipients to spend more time in employment. Australian “make work pay” policy does not increase income when employed. Employment incentives are improved by reducing income, relative to community standards, when not employed. Australian policy deliberately increases poverty, relative to community living standards, while on IS.²

The Australian “make work pay” policy, which began two decades ago, is applied to the unemployed who receive a Newstart allowance. It was introduced by changing the allowance indexation factor from average wage changes to consumer price changes. The new indexation practice fixes unemployment real income at the level when the change was made. It ensures that relative income of the unemployed will fall through time as they do not share in community living standard increases delivered by real wage increases.

The “make work pay” policy does not apply to individuals not expected to be in the labor force - predominantly those with disabilities (Disability Pensions (DSP)) and single mothers with young dependent children (Parenting Payment Single (PPS)). Their pensions are indexed by average wage increases and they share in community income increases.³ Their relative poverty, while on IS, has not been deliberately increased. Different indexation rules create an income gap between pensioners and allowees which widens as real wages grow. The income gap is now substantial, of the order of 25 to 35 per cent.

Another pillar of IS policy is to incrementally change pension eligibility criterion to move more pensioners onto allowances and widen the coverage of “make work pay” policy. Current income reductions, for those no longer eligible for pensions and moved onto allowances, are very large; for example, \$130 per fortnight for a lone parent, with no other income and one child, and \$266 a fortnight if the lone parent earns \$800 per fortnight,

¹“Make work pay” is not the usual description of the central IS pillar. “Make work pay” is usually described as a policy to reduce welfare benefit dependency and unemployment and to increase labour force participation, which it is claimed will enrich the lives of the poor and lead to a greater degree of self-fulfillment.

² Community living standards are measured by the average male full-time wage.

³ Those on IS may also access other payments - such as rent assistance, child support and medical benefits - and a fuller development of our theme would pay attention to the changing real value of these other payments, but this is put aside for now (but see some of the discussion in Joint Department Submission 2012).

Evaluation of Australian “make work pay” policy should be particularly interesting and policy relevant. For those interested in poverty, an important question is does a government policy to deliberately and substantially increase relative poverty for the unskilled and disadvantaged, while on IS, lead IS recipients to increase their employment time sufficiently to offset the poverty creating element of the policy? For those interested in economy wide labour demand and supply an important question is will increasing relative poverty of IS recipients, without changing employment incentives facing employers, increase total employment in an environment where there is excess supply of workers with IS recipient characteristics?

Australian empirical and independent policy research has not directly addressed these straightforward questions. This neglect arises partly because government has not made the necessary administrative and other data available and partly, in response, good researchers have directed their attention elsewhere, perhaps to other countries data and other countries problems. As a result, not a great deal is known about effectiveness of our “make work pay” policy.

The “make work pay” policy, and its widening application, are diametrically opposed to the IS policy which evolved in the 1970s, in part as a response to the advocacy of Professor Ronald Henderson, the first Director of the Institute. He argued vigorously that IS payments for allowances and pensions should be the same, that both should be increased from their very low 1960s levels and both indexed through time by average wages so that all IS recipients shared in community living standard increases. Between 1974 and 1976, the government effectively adopted Henderson’s views and real living standards of allowee couples were increased by one hundred per cent, those of pension recipients increased by almost 40 per cent, and both were subsequently indexed by average wage changes.

The purpose of current policy is to gradually undo the Henderson recommendations and, as community living standards increase, increase relative poverty of allowees back towards levels prevailing in the 1960s. This remarkable turn-around might be broadly described as the “Henderson question”; Why do current governments now believe the 1970’s government made a mistake in accepting his views? Will increasing relative poverty on IS substantially increase employment among the disadvantaged?

To provide background against which to address these questions Figure 1 presents ABS employment and Centrelink IS data from 1966; full-time employment (FTEPR), part-time employment (PTEPR) and income support recipients (ISPR), each divided by the working age population 15-64 years. The change in each series is plotted relative to the 1966 base. Thus, 0.17, which is the 1996 ISPR peak, indicates that between 1966 and 1996 the IS proportion of the 15-64 population increased by seventeen percentage points, an increase of seventeen people on IS for every one hundred Australians. The two vertical lines in Figure 1 divide the half century into three epochs.

Part II describes the 1966-1975 environment in which Henderson reached his recommendations, a period of stability of full-time employment and IS incidence, but a period during which Henderson’s views were largely adopted.

Part III describes the second epoch, 1976-1993, during which employment and IS incidence change radically as the FTEPR falls 10 per cent and is more-or-less matched by increases in ISPR. I call this matching the long run inverse mirror image phenomenon (LRIMI) that is the dominant characteristic of the Australian labor market today.

Part IV discusses the final epoch, 1994 onwards, a period dominated by LRIMI persistence and the gradual introduction and extension of the “make work pay” policy. The FTEPR has stabilized near the historically low level of the 1993 recession and *this is despite* the rapid growth of the female

workforce. But it is noticeable that the ISPR has begun to fall, not matched by FTEPR increases, and, at the margin, the LRIMI phenomenon is slowly beginning to change.⁴

Finally, the change in PTE, as a proportion of the 15-64 years population, has grown at a steady pace throughout the whole period and does not divide into epochs. The PTEPR has steadily increased by 15 percentage points over the half century but this substantial increase seems to have had little to do with either the increase in IS or the fall in FTE across the decades and appears not to significantly impact on the LRIMI. The growth of PTE raises many important issues, especially around effective marginal tax rates, but they are put aside in this paper (Kalb, 2007). Concluding comments are offered in Part V.

II. The Henderson Years

1966-1975

Henderson arrived at the Institute in Dec 1962, before the end of a post WWII golden age during which there was little change in the three key series presented in Figure 1. This smoothly growing full employment economy had a significant impact on Henderson's policy judgments.

First, the source and extent of poverty was very different from today (Gregory and Sheehan, 1998). Poverty was primarily an outcome of inadequate family support, old age, poor social conditions, poor psychological and physical health and not labour market outcomes. The unemployment rate was often less than one per cent and allowance incidence was even lower. Henderson, Harcourt and Harper (1970) comment,

“Low skilled and unemployment, two factors that have been associated with poverty in other countries, do not appear to be important implications of poverty in Melbourne” p.

Second, since unemployment was not an important poverty source Henderson was not particularly interested in labour market policies to put people into jobs. Poverty alleviation was seen in terms of increasing the real level of IS payments which would overwhelmingly be paid to individuals not normally in the labour force.

Third, Henderson's believed that all IS payments were too low but unemployment allowances was a particular problem. He believed that these payments should be lifted to pension levels and once a suitable level set for both payments, all IS payments should be indexed by changes in average weekly earnings to maintain their relativity to community living standards.

Fourth, since there had been full employment for two decades, Henderson was not concerned with adverse incentive effects of higher IS payments. It seemed unlikely that the low paid would move to unemployment benefits, instead of taking a job, or that the unemployed would prolong their time on IS in response to higher IS relativities.

Figure 2 illustrates the importance of Henderson recommendations by presenting a half century history of couple allowances and pensions in real terms (2012 prices). Before 1971 the average couple allowance payment was very low, just under \$200 per fortnight. Then, between 1972 and 1974, and following Henderson's recommendations, the government lifted unemployment allowances to pension equality, a 60 per cent increase in real terms. Pensions were also increased, by

⁴ Of course, it is not surprising that there are short term inverse mirror image outcomes – falling FTEPR during a recession being associated with an increasing ISPR. But a long run inverse mirror image outcome, lasting over half a century is a different thing entirely.

30 percent between 1971 and 1977, taking allowances with them, and, as a result, the real value of allowances doubled to approximately \$400 per fortnight within five years.

Government also decided to index all IS payments by changes in real wages. This decision has more-or-less remained in place for pensions but was changed for all allowances in the late 1990s when the CPI became the indexation factor.⁵ The effects have been substantial. In real terms, couple pensions increased 45 per cent since 1976. Couple allowances increased 5 per cent.

Figure 2 also makes clear how extra-ordinary IS changes were in the mid-1970s just before the emergence of the LRIMI phenomenon. For pensioners, one third of the real value increase of pensions over the last four decades occurred within four years during the early 1970s. For allowees, 90 per cent of their real payment increase, over the last four decades, occurred in the same four years. Henderson's views were widely accepted and despite these very large increases not many researchers suggested that there would be a substantial increase in IS incidence.⁶ It seems inconceivable that government today would double the value of unemployment allowances.

III. The Long Run Inverse Mirror Image Phenomenon (LRIMI)

1976-1993

The long run inverse mirror image phenomenon - low FTEPR and high ISPR rates – created during the 1976-1993 period, has become the dominant characteristic of the labour market-IS policy intersection. The FTEPR fall over the eight years following 1975 was unprecedented since the 1930's. By 1983 FTE had fallen by about one million, and one and a half million people had been added to IS, standardizing at the current population level.

The first systematic exposition of the interaction of the labour market and the extended and more generous IS system was developed at the Melbourne Institute in *Hidden Unemployment* (1981), in a remarkably prescient, but not widely cited book written by Peter Stricker and Peter Sheehan. It drew attention to and discussed most of the new relationships among FTE, unemployment and IS that were to prevail over the next three decades in Australia, the UK and USA and were to become a focus of international and local academic research on labour market-IS interactions.⁷

The Stricker and Sheehan analysis was built around the proposition that in response to large scale full-time job loss many individuals withdraw from ABS unemployment, access more generous IS and not be counted as ABS unemployed; many older unemployed would divert into disability pensions, younger unemployed would divert into education and many women would divert into PPS pensions. Hidden unemployment – the unemployed not counted in the official ABS data – would become a major issue over the next three decades, reflected in a rapidly increasing number of pension recipients and labour market withdrawal. The increase in pension recipients has been extraordinary. In 1978, male allowees and pensioners were about 200,000 each. Three decades later male allowees increased by about 150,000 and pension recipients increased 500,000. For women, over the same period, allowees increased by about 143,000 but pensioners increased by 500,000. This large scale shifting relationship from allowees to pensions led to recent policies to tighten pension eligibility.

⁶ Borland and McDonald (2000) discuss three studies that suggest that the allowance increases might have substantially added to unemployment.

⁷ Some examples include Disney and Webb, (1991) who recognized the rapid growth of disability in the UK. Autor and Duggan, 2006, recognized similar relationships in the US two decades later.

Stricker and Sheehan also recognized that when economic growth increased workers will be drawn primarily from outside the labour force, in the first instance, rather than from ABS unemployed and those relying on IS. Hence, to reduce measured unemployment will require faster economic growth and greater job creation than might be suggested by the unemployment numbers. Furthermore, among allowees those of short unemployment duration would be employed first. Long term unemployed should have special policies to bring them back into main stream labour demand, a policy adopted by later governments (Keating, 1994). Each of these features are associated with important policy questions today and despite many policy initiatives the inability to change the new labour market-IS environment has been disappointing.

IV. Turning the corner but where is the light?

1994-2013

After the early 1990's recession, government became increasingly concerned about LRIMI persistence, the associated increasing proportion of pension recipients, with no obligation to seek employment, and large increases in IS duration (Keating, 1994). It became clear, as foreseen by Stricker and Sheehan that new IS policies would be needed in addition to strong economic growth. Government began building IS reform pillars; indexing allowances by CPI changes to increase relative poverty while on IS, adopting "make work pay", changing IS eligibility rules to move more IS recipients onto lower real incomes and increasing the level of activity testing of allowees.

Today, the economy is operating near "full employment", the new IS policies have been in place for some time, but there is a noticeable reduction in IS duration, the impact of full employment on the LRIMI phenomenon has been modest with the FTEPR remaining marginally above 1993 recession outcomes, but, on a positive note, the ISPR has begun to fall.

How might these mixed outcomes be explained when economic growth has been so strong and the increase in relative poverty while on IS has been so substantial? Surprisingly, there are few evidence based, publicly available, research documented answers to this question. Why is this? The answer lies, in part, in three long standing government institutional failures to make the necessary data available to allow Australians to understand how their IS system interacts with the labour market and how both have responded to the "make work pay" policy. Independent researchers have not been given sufficient access to administrative longitudinal IS data from Centrelink, any access to administrative data on job finding services and implementation of job seeker activation from DEEWR and any access to unit record ABS time series data, equivalent to the US CPS data which extends over a long period.

There were two institutional responses to these institutional features. One was to create HILDA, at the Melbourne Institute, which has now replaced the ABS as the major data source for academic researchers and is the most important data innovation of the last decade. The other, to which we direct most of our attention, is that FaCHSIA released a unit record one percent longitudinal sample file of IS recipient payments to a select group of researchers, including some at the Melbourne Institute, to pursue pre-specified projects.⁸ Although a limited step by FaCHSIA it was possible to believe that administrative data access would improve and eventually spread to the important DEEWR job services data files. But this optimism has largely dissipated. Australia is slipping back into the pre-1995 situation just as the rest of the world is moving in the opposite direction and increasingly utilizing administrative data, see Card, Chetty, Feldstein and Saez (2010), OECD

⁸ At the same time DEEWR also engaged outside researchers to work on IS data but not on the full range of job services data, see Borland and Tseng, 2003 and 2004.

(2012)). Nevertheless, what was learnt during this brief research window created by FaCHSIA has shaped policy and influenced the environment in which future policy is evolving.⁹

To my mind, the longitudinal research finding that impacted most on policy development is that once account is taken of repeat spells, and movement from one IS program to another, time spent on IS is much longer than was previously believed (Gregory and Klug (2002), Teng and Wilkins (2003), Tseng, Vu and Wilkins (2006)). This is illustrated in Figure 3 and Figure 4 which present IS durations for all 1995 inflows into DSP, 15-52 years, and all women PPS inflows. These individuals, classified by the program of initial inflow, are followed through the IS payment system over the next eleven and half years to record time spent on IS.

Line A, is the survival curve which maps inflow proportions remaining on the 1995 spell at different duration points. DSP inflows usually remain continuously on IS for a very long time – 50 per cent remained on the 1995 DSP spell for the whole eleven and half years (Wilkins, Cai and Vu (2007)). PPS inflows stay a shorter time but their initial spell can still be quite long, less than 10 per cent stay for the eleven and half years.

Longitudinal data allows the calculation of Line E3, a new and more important concept for policy. Line E3 accumulates, for each individual, all IS spell durations for the 1995 inflows. Repeat IS spells increase IS duration considerably; 30 per cent of the shortest DSP inflows leave their 1995 spell within three years but when we account for multiple spells the duration cut-off for this thirty per cent increases to ten years. For PPS inflows the 30 per cent shortest spells leave their 1995 spell within six months but when all spells are aggregated over the eleven and a half year period the cut-off point increases to five years.

Even these long durations underestimate life time IS experience. Time spent after the eleven and half year data window is not included and this is likely to be substantial for long stayers. Figures 3 and 4 also include accumulated IS over the data windows, 5.4 and 8.5 and 11.8 years, and it is noticeable, as the period extends, that long stay duration continues to increase substantially and presumably will continue to do so into the future. Time spent on IS before 1995 should also be included, and will add to life time IS experience, but no data has been provided for analysis. My guess is 16 years, on average, for lone parents and 26 years, for DSP, would significantly underestimate life time IS experience.

IS time spent for allowees is shorter, Figure 5. Thus, 30 per cent of the unemployment inflow leave within three months, but once again spell accumulation matters, particularly for long stayers. The 30 per cent with the longest IS durations spend less than 9 months on the 1995 inflow spell but their cut-off increases to 6 years once account is taken of multiple spells.

Long IS durations have important implications for the “make work pay” policy.

First, those who move from pensions to allowances will immediately experience substantial weekly income losses (25-35 per cent), and substantial poverty increases, extending over long periods, if their accumulated IS experiences are typical of other allowance recipients.

Second, increasing relative poverty among the disadvantaged, low skilled and less educated, while on IS, matters a great deal for the well-being of long duration groups. This places a heavy responsibility on government to demonstrate that positive effects of the “make work pay” policy counterbalances negative effects of long periods of large relative income declines. But no data have been provided to external researchers to enable linking IS durations to subsequent job outcomes and, if there are positive incentive effects of the “make work pay” policy on long stayers, they lie concealed in a black box.

Lack of data, and therefore lack of knowledge, can have important effects on implicit judgments as to the efficacy of “make work pay”. Thus, recent press attention has been directed towards whether leading politicians can live off the unemployment allowance for a week, a rather silly question. The proper question is whether politicians can live off an allowance for three or more years in a decade, which is the median duration experience, or, if they are really unlucky and belong to the 25 per cent of long stayers, they need to make ends meet on allowances for more than eight years.

Consider also the judgments of the Senate Education, Employment and Workplace Relations Committee recent report (2012) which largely reflects the joint submission of key government departments, which, in turn, probably reflects government views. The committee stated;

“the Newstart Allowance payment is effectively discharging its primary duty to support people throughout a short term transitional period of unemployment.....The allowance has a strong history of directing resources to the most needy.”

“questions whether Newstart Allowance provides recipients a standard of living that is acceptable in the Australian context for anything but the shortest period of time.... “

“the best form of welfare is a job. Pouring money into policies which leave people floundering on prohibitively low welfare incomes instead of helping them stand on their own two feet would be “a disgrace.” p. 34

Despite a 25-35 per cent decline, relative to community living standards, the committee recommended allowances should continue to fall. No empirical analysis supports this proposition. It is surprising that employment incentives are rarely mentioned, especially as employment incentives are the rationale for the CPI indexation decision and the centre piece of “make work pay”. No evidence is offered as to the extent to which increasing relative poverty increases job finding.

The essence of “make work pay” is to change the allowance-wage relativity and it is important therefore to know what is the typical wage received when exiting IS. Figure 6 presents two single allowance/wage relativity comparisons, each series indexed at 1970 values before the Henderson allowance increases. Line A is the allowance-average wage relativity, the benchmark we use to indicate allowance changes relative to community living standards. Most allowees, however, are long term unemployed with poor labour market prospects and their alternative wage will be lower than average and more closely aligned with minimum wages. Line B, therefore, plots the allowance-minimum wage index.¹⁰ The time paths are very similar over the first and second epoch but the substantial divergence emerging over the last two decades raises many important questions.

First, the divergence arises because the minimum wage is falling relative to the average wage. Since the introduction of “make work pay”, at the beginning of third epoch, the allowance-minimum wage ratio has fallen 9 per cent, the allowance-average wage ratio has fallen 23 per cent. One relative wage series suggests that the “make work pay” policy may have been ineffective because the relevant allowance-wage relativity changed little. De facto there has been no “make work pay” policy for those whose wage changes closely approximates minimum wage variations.

Second, note the level of each series. The allowance-minimum wage relativity is still 75 per cent above pre-Henderson levels and there has been virtually no move back towards these levels. It is the allowance-average wage relatively that has fallen substantially and is approaching pre Henderson levels.

Third, when wage dispersion widens so much the need for detailed wage data that links employment following IS spells becomes crucial in many ways. It may be, for example, that short duration unemployed face wages that change in a similar way to average wages (they have been subject to a significant “make work pay” treatment). Long term unemployed may face lower wages that vary in a similar way to minimum wages (they have not been subject to a significant “make work

¹⁰ The calculation of wage series is particularly difficult in Australia. Our data are taken from Bray (2013) who discusses this issue in detail.

pay” treatment). Hence, “make work pay” may impact positively on short duration unemployed but have no impact on long duration unemployed. If so, there is a policy vacuum with respect to the long term unemployed - their poverty is increased, relative to community living standards, with no positive effect on incentives.

Fourth, although an allowance increase can be strongly justified on equity grounds – allowances have fallen 23 per cent relative to community living standards – the justification is less strong from a “make work pay” perspective; a perspective that has received little attention. The OECD has called for an increase in allowances, primarily on equity grounds, and the Greens and ACOSS have suggested \$50 per week, the effect on the wage relativities which is indicated by the star and the doughnut at the end of line A and B. This increase would produce the worst employment incentives of the last half century, for those whose alternative wage has moved in a similar fashion to minimum wages, and would be a clear indication that the “make work pay” policy has failed. For those who opportunity wage moves in a similar way to the average, the \$50 increase would more-or less offset any gains in the “make work pay” over the last decade, again an admission that “make work pay” policy has failed.

Finally, there are two important general points, which cannot be discussed in depth here. From a “make work pay” perspective minimum wage and allowances are intimately related and pose many policy dilemmas because an increase in one has important implications for the other. For example, should a minimum wage increase accompany an allowance increase, as might be suggested by a focus on employment incentives alone.¹¹ In the light of this dilemma, it might have been expected that there would be a more in depth discussion of in-work benefits (Dawkins, 2002). From a total income perspective, there is a range of issues surrounding income testing (the marginal effective tax rate) both with respect to the basic allowance and payments for dependent children welfare payments that we have put aside.

The committee also recommends that if more money were to become available it should be directed towards job finding services. But there is no publicly available evidence that these programs are effective, or that this allocation of resources at the margin would be worthwhile.¹²

What is needed to correct widespread ignorance as to what works and what does not in our IS system is relatively straightforward. For each IS individual we need job finding and training expenditure to be recorded and linked to IS duration and other data available such as the Job Classification Survey Instrument. We also need new data which lists wages received when IS recipients accept employment. Then we can answer questions such as the following. Does job finding and training lead to a positive return for short IS stayers. It seems unlikely? Is training and job finding money spent on long stayers ineffective as suggested by the fact that they spend so little time off IS?

I regard the lack of data access to be extremely serious. The OECD (2012) also emphasizes the Australian failure to provide data and commission external evaluations for the Job Network. To explain why Australia is so secretive, relative to other countries, the OECD comments¹³

¹¹ A fuller analysis would also incorporate tax and family allowance changes over the period see Submission to the Senate Enquiry etc (2012).

¹² A decade ago two studies were commissioned to look at work for the dole (WfD). Richardson (2002) found that the program had a small positive effect on young people, it reduced IS duration by two days via a threat effect – there was no positive effect from accepting the program treatment. She did not have access to cost data to calculate cost benefit ratios. Borland and Tseng (2004) also studied the introduction of Work for the Dole for young people, “The main conclusion is that there appears to be quite a large significant adverse effect.” The OECD comments on the department’s reaction to these studies, “since the mid 2002 there have been few if any external statistical impact evaluation of WfD or other ALMPs or of the case management regimes”. See also The Productivity Commission (2002).

“outside access to administrative data in Australia is perhaps limited by confidentiality concerns, difficulties in understanding or documenting the data generation processes, the work involved in tidying data series for public release and the likelihood that officials will be doing this for just one to two users”

and then chooses to quote Dr Strombeck without disagreement,

“This lack of data is reflected in public discourse about the Job Network (which) consists of views and opinions, not the analysis of facts. Consequently this discourse is not very well informed.” p.225

Of course, there are real and imagined problems for public service managers in terms getting data out in a usable form (including whether their political masters are opposed to outside analytical scrutiny of their portfolio’s programs). But, in my view, these problems are primarily short run and small compared to long term gains that can be made in understanding better how our programs impact on people, families and the labour market. The sort of analysis that the Melbourne Institute has done, and answers to many of the questions posed earlier, could be much more policy relevant and valuable if we all had access to a wide range of administrative data on such things as Job Network.

However, despite the lack of evidence the OECD does seem supportive of the Australian system although the support is always highly qualified.¹⁴

Looking forward, new relationships between FTE and IS are emerging and need to be understood in the context of a “make work pay” policy. Between 2003 and 2011 (the latest IS data available), IS recipients of work force age, standardizing at current population levels, fell by approximately 750 thousand, an extraordinary outcome relative to the previous four decade increases. Over the same period FTE increased by 230,000. At the margin, FTE increases do not seem to be necessary to reduce IS. Why is this? It is doubtful that the answer lies in increases in PTE. PTE has also increased by about 270,000, leaving about 250,000 IS recipients unaccounted for and, in any event, PTE alone is unusually insufficient to move a person off IS. How are IS recipients supporting themselves after leaving IS?

Finally, can IS numbers continue to fall without a full-time employment increase? There is a strange disjuncture in policy discussions that impinge on this question. Macro advisers from the Treasury and Reserve Bank of Australia maintain there is close to full employment. Advisers from departments responsible for IS policy – DEEWR and FaCHSIA – emphasize that IS reductions will come about by increasing FTE by “making work pay”. But is it possible to find FTE for so many relatively unskilled individuals that are relying on IS?¹⁵ Another five percentage point reduction in the ISPR, which would return IS to levels of just over three decades ago, would require another 750,000 unskilled full-time jobs, at current population levels, all of which would need to go to IS recipients. This must be an impossible task.¹⁶

V. Concluding Remarks

¹⁴ “The increasing effectiveness of quasi market delivery of employment services and a slow decline in the net replacement rate for unemployment benefits *may* have contributed to the strong performance of the Australian labour market.” p. 13 OECD (2012)

“The activation strategy consisting of measures tending to reduce unemployment as well as reciprocity of inactive benefits is *apparently* responsible for a significant share of the longer term 6 percentage point reduction in the income support resiliency rate which is in turn a key factor in the six point increase in the employment rate, and a reduced cost of active and passive labour market programs. Thus, on one important account, increasing the employment rate, Australia’s activation strategy has achieved notable success.” p. 19, OECD (2012).

¹⁶For a discussion of policy options and how they might impact see Buddelmeyer, Freebairn and Kalb (2006). Dawkins (2002), while Director of the Institute, also suggested various ways in which he believed that IS and the labour market for low paid unskilled workers might be changed to address unemployment among this group. He generally favored the “make work pay” policy but also advocated adoption of in-work benefits to increase the effective wage received when leaving IS.

I conclude on a note of both disquiet and excitement about our IS policy. The excitement is being generated by the large falls in IS not matched by FTE growth and the range of unanswered questions prompted by this behavior.

The disquiet relates to the inability of researchers outside the relevant government departments to empirically address these questions. We have insufficient access to administrative data. I realize that within the public service increasing data access may not appear analytically, politically and administratively simple, but increasingly other countries with similar political systems seem to be responding much better (Card, Chetty, Feldstein and Saez 2010).¹⁷ The real problem seems to be lack of desire on the part of government to increase knowledge of the interactions of the labour market and IS system.¹⁸

Finally, over the last few months it has become clear that community support for an increase in unemployment allowances is growing. Is this a good idea or should government continue to increase relative poverty further and continue with the “make work pay” policy? It is a pity that lack of data has presented us from answering this important and obvious question.

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¹⁷ The data utilized in The Welfare to Work Evaluation Report, 2008 provides a beginning list of data needs. This report however was confined to an evaluation of only the first twelve months following the reform agenda of 2006. Perhaps I am too despondent about the future of data access because I had such high hopes. Since this presentation I have become aware of initiatives within some government departments to address these problems. Minister Kim Carr, Department of Human Services, for example, is seeking to open access to Centrelink and administrative health expenditure data.

¹⁸ The data utilized in The Welfare to Work Evaluation Report, 2008 provides a beginning list of data needs. This report however was confined to an evaluation of only the first twelve months following the reform agenda of 2006.

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Figure 1 Persons 15-64, Full time, Part time and Welfare to Population Ratios
1966=0.0, 1966-2011

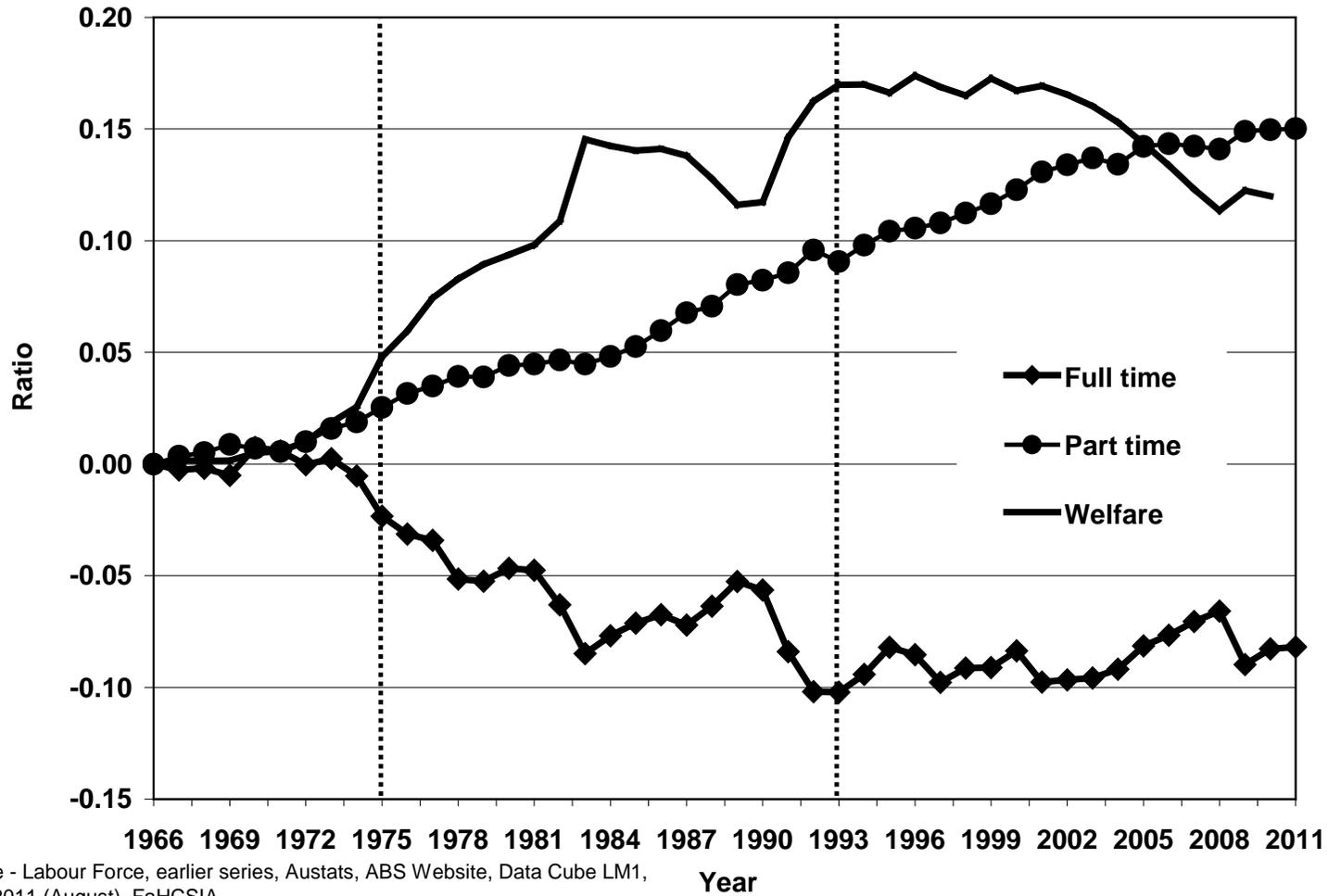
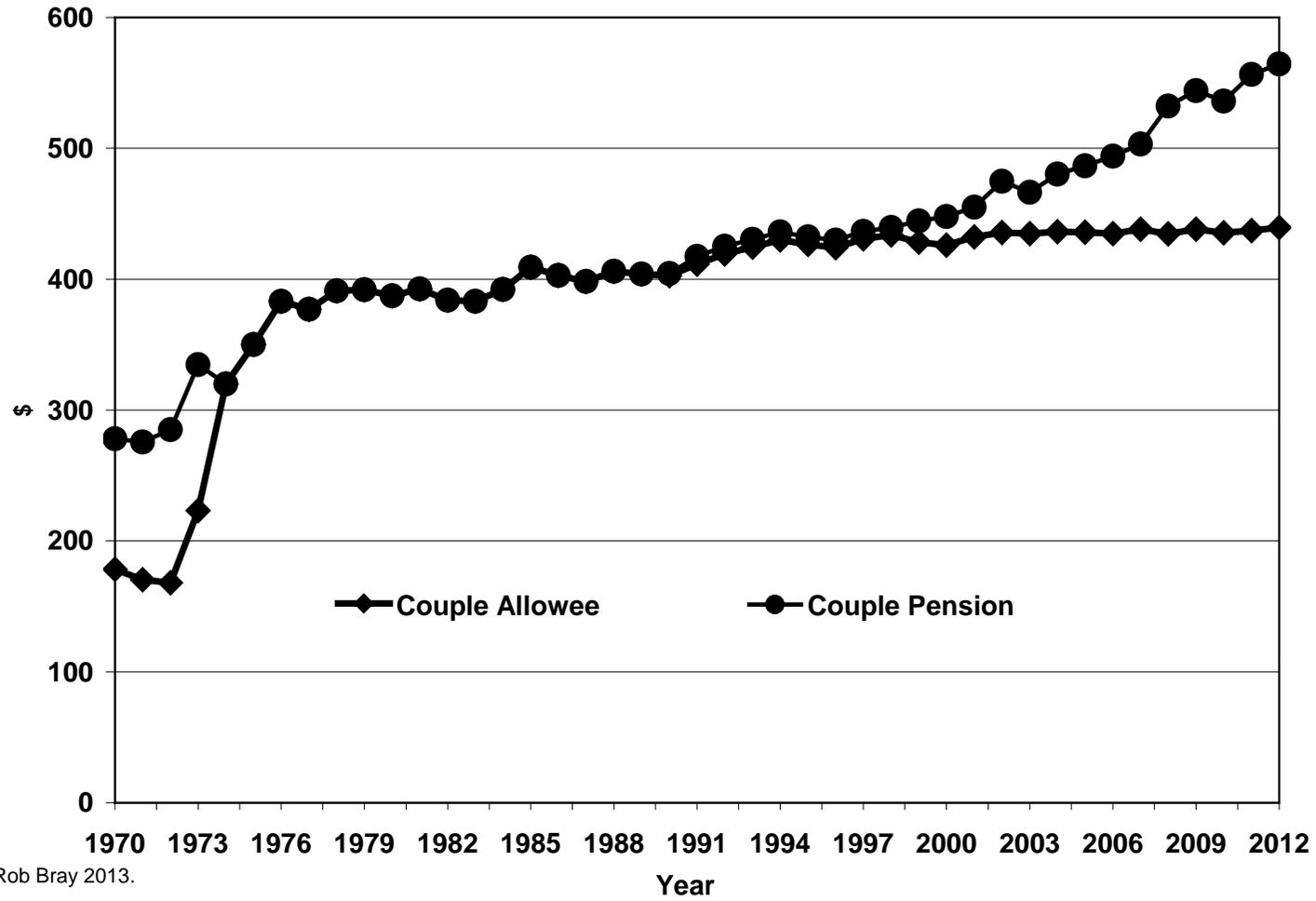


Figure 2 Couple Allowee and Pension Payments deflated by CPI
1970-2012



Source: Rob Bray 2013.

Figure 3 Males 15-52 1995 DSP Inflow
to June 2007

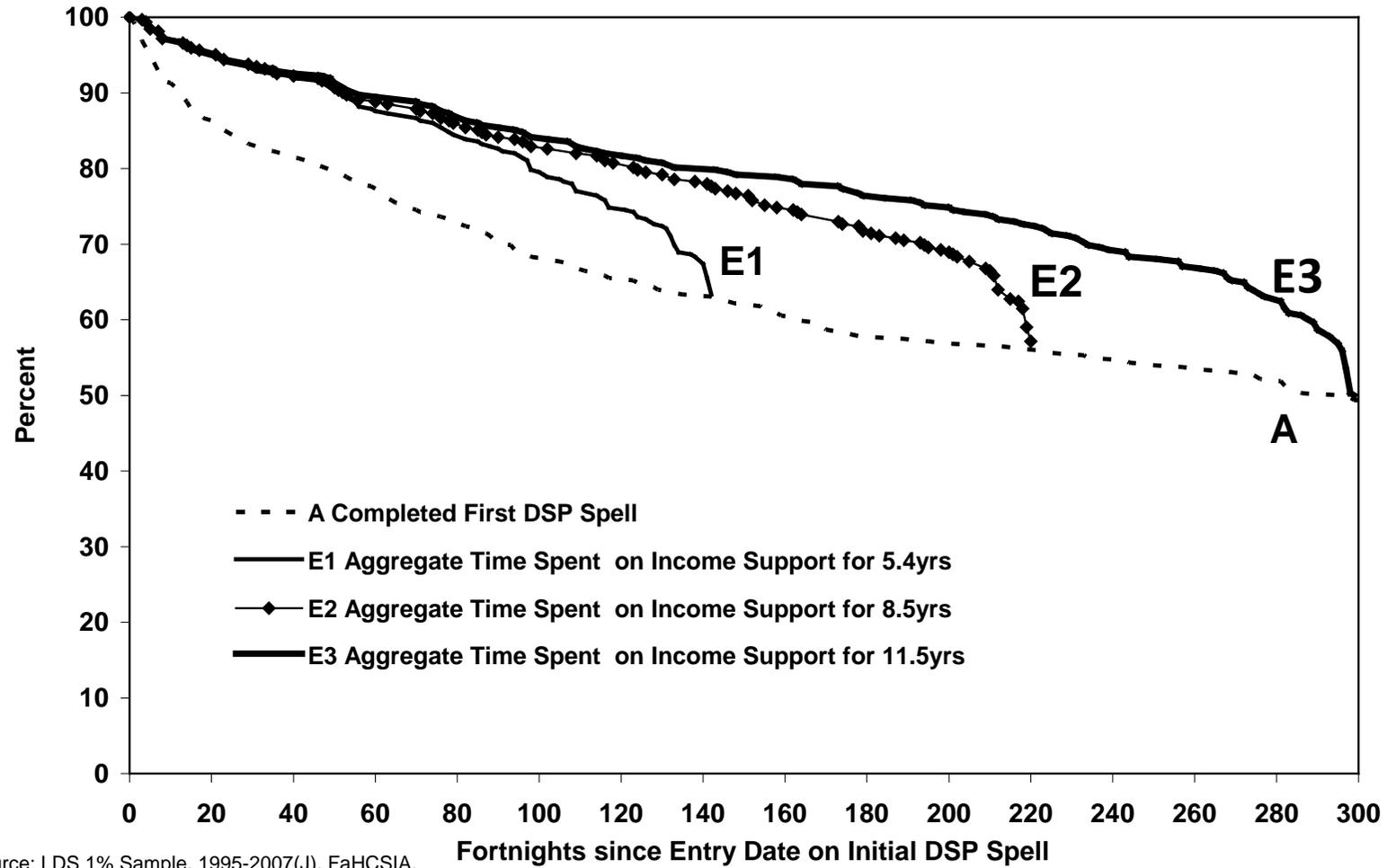
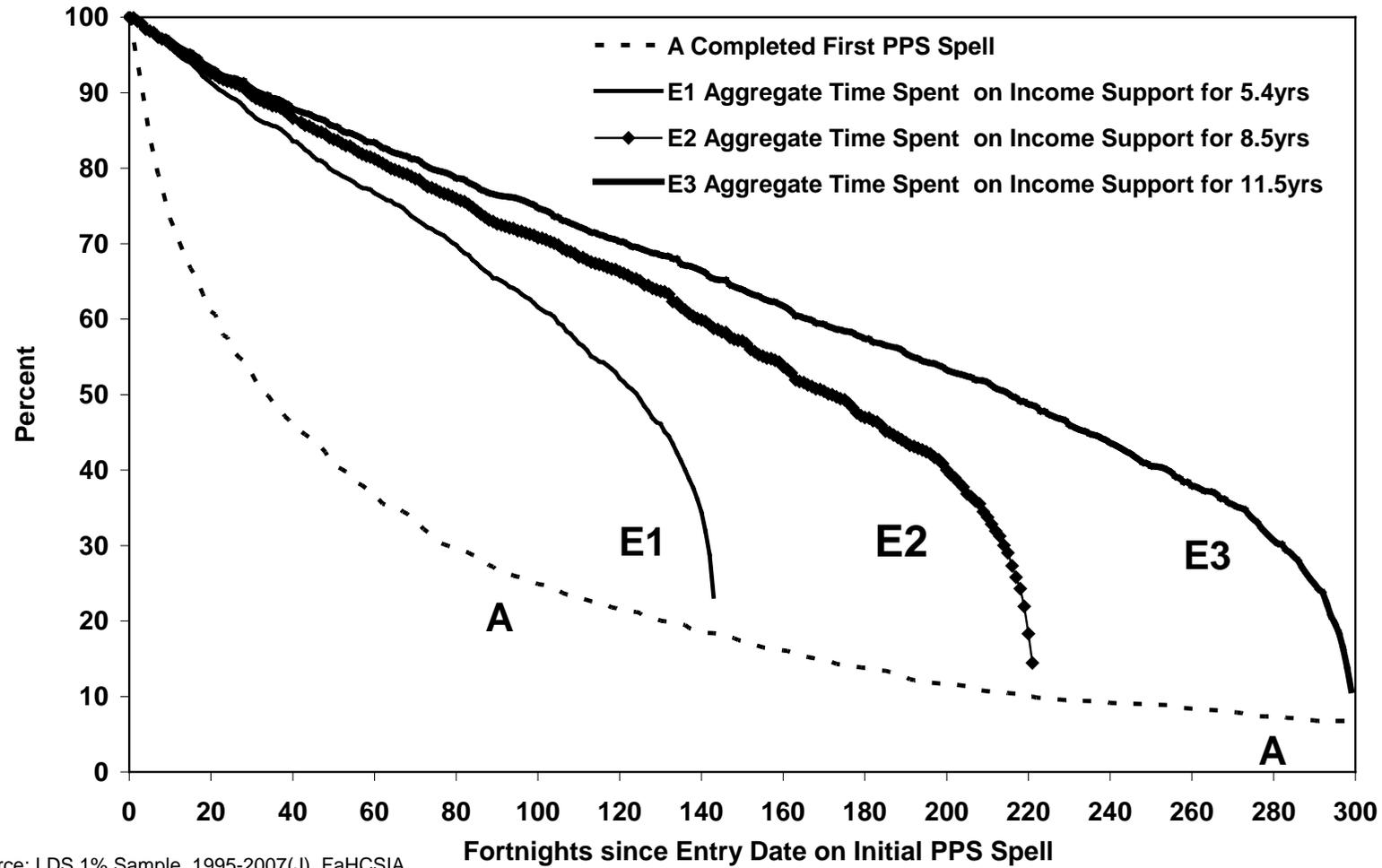
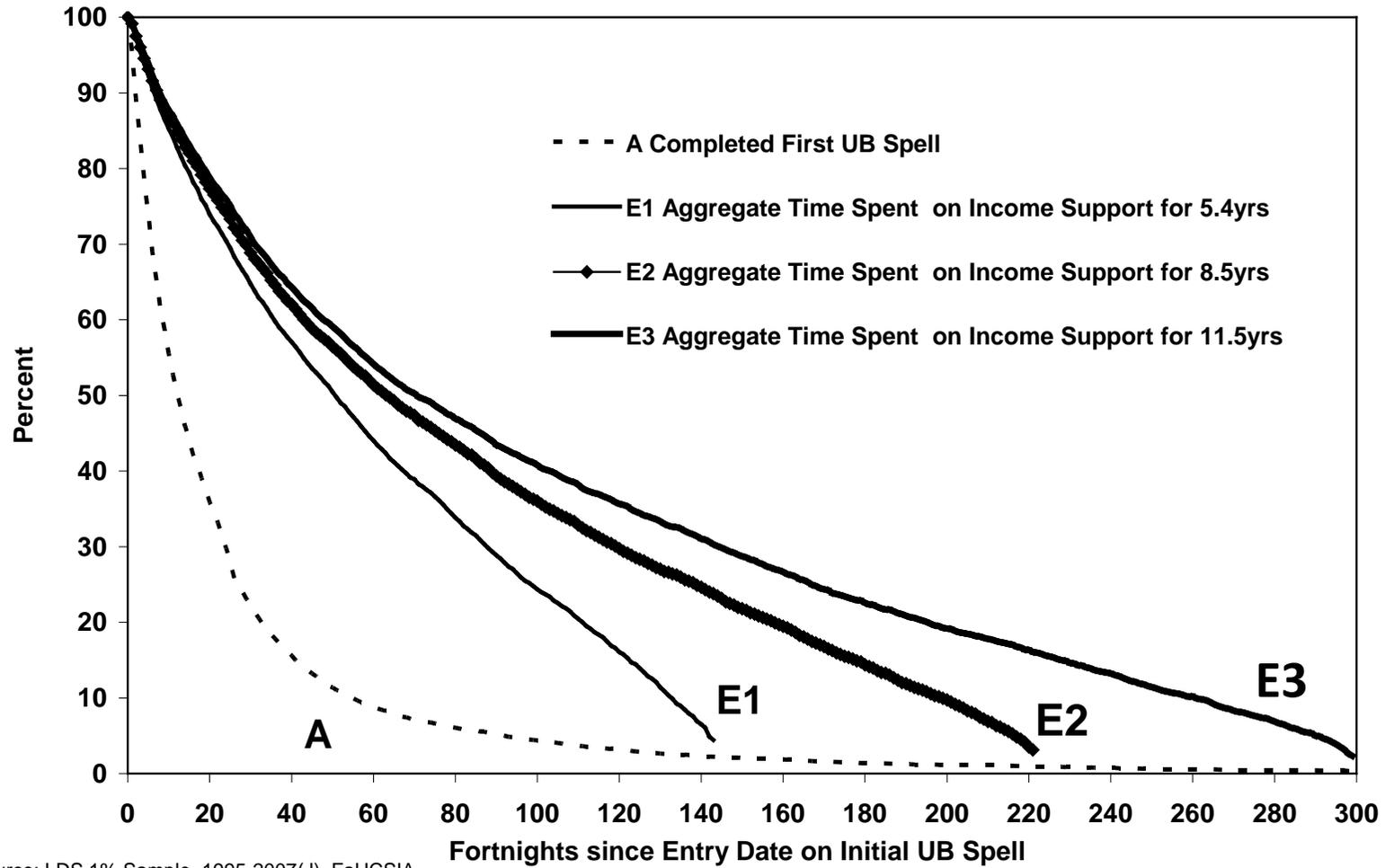


Figure 4 Female 1995 PPS Inflow
to June 2007



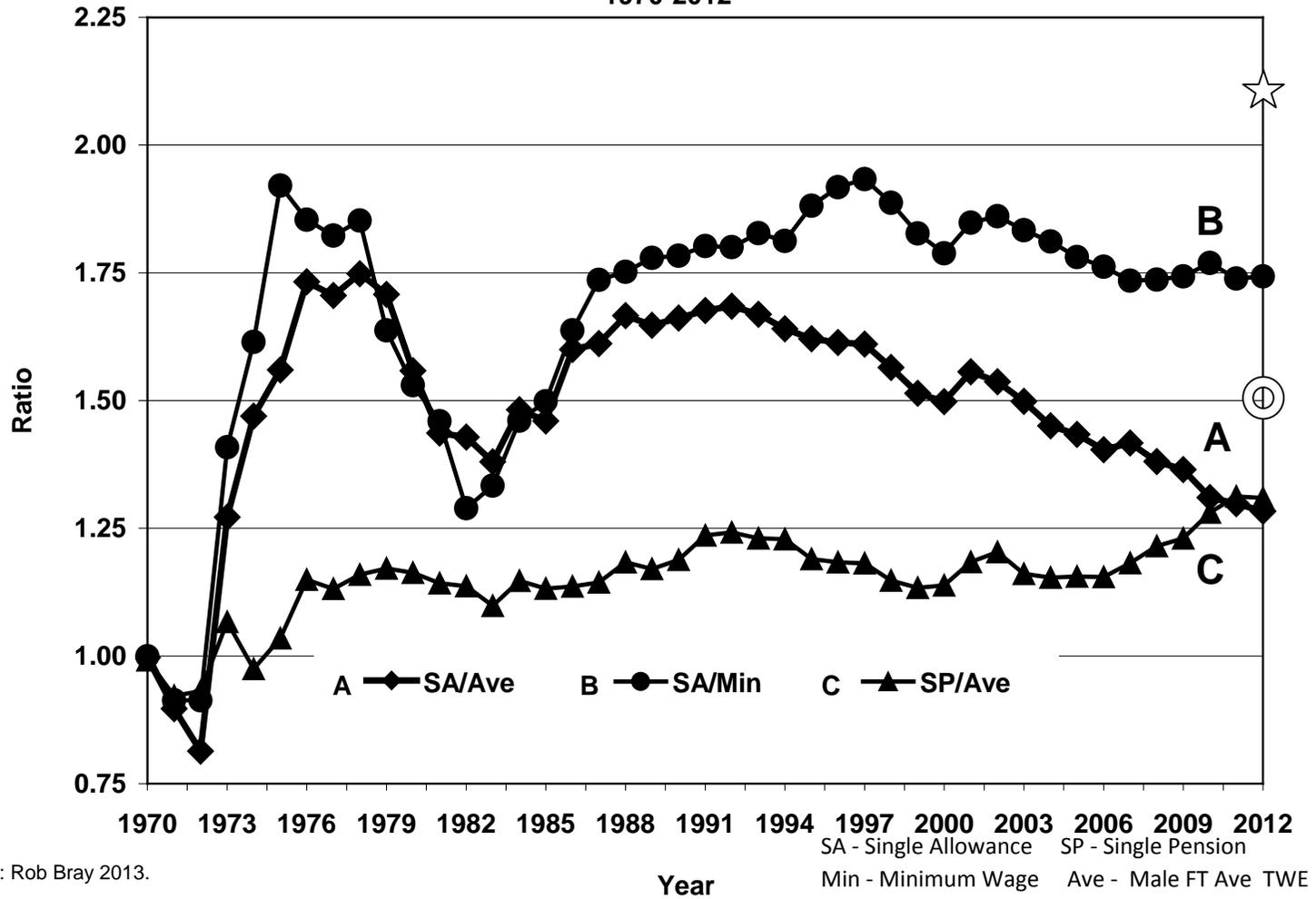
Source: LDS 1% Sample, 1995-2007(J), FaHCSIA.

Figure 5 Males 15-52 1995 UB Inflow
to June 2007



Source: LDS 1% Sample, 1995-2007(J), FaHCSIA.

Figure 6 Single Allowance and Pension Relative to Wages
1970-2012



Source: Rob Bray 2013.