WELFARE REFORM IN AUSTRALIA:
AN EVIDENCE-BASED APPROACH

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Abstract

Australia, in line with other developed countries, has increasingly adopted a ‘participation’ framework for Welfare Reform. This approach to welfare reform is based on the idea that moving people from ‘welfare to work’ is best facilitated by policies that balance three main policy levers – assistance, incentives and requirements. Using research and evaluation findings from Europe, the USA, the United Kingdom, Canada, New Zealand and Australia this paper analyses evidence regarding the effectiveness or otherwise of this approach. The paper also seeks to identify the relative contributions of each policy lever to improved outcomes, both in an overall sense, and for particular categories of income support recipients.
1. PURPOSE OF THE PAPER

Welfare Reform initiatives in Australia are premised on the belief that increasing economic participation and self reliance, and reducing long-term receipt of social security benefits requires a balance of three main levers of policy: assistance, incentives and requirements. This approach owes much to research that suggests that no one lever on its own will be sufficient to achieve welfare reform goals and that effective policy generates synergies between all three (Grogger et al 2002, Martin 2000b, Meyer 1995). Exactly what is the optimum balance between the three, or the contribution made by each lever, is not well understood however and remains a point of contention in the welfare reform debates.

This paper analyses evidence from a range of Australian and international literature regarding the impact of financial and non-financial incentives, forms of assistance, and the imposition of activity requirements on labour market participation. In doing so it shows that welfare reform has delivered mixed results across a range of countries and that the story is complex, nuanced and quite country-specific. The paper begins with some observations about the concept of evidence-based policy, outlining some caveats for the interpretation of evidence in the welfare reform arena. It then proceeds by describing each policy lever in turn and examining the existing evidence regarding its contribution to welfare reform objectives. It is worth noting, however, that research and evaluation results from the US and the UK dominates the literature while evaluation material from continental Europe or elsewhere tends to be far limited both in quantity and quality (Trickey and Lodemel 2000). Because of this, the aim of the paper is modest, setting out what is known to date rather than arguing any firm position on what the optimum balance is in Australia.

1.1 Evidence based policy

‘Evidence based policy’ is an approach imported to public policy from the health sciences. At its simplest, it is about ensuring that judgements of the feasibility of policy goals should be informed by a rigorous assessment of the evidence base and that policy makers make a serious effort to get that evidence base. But this apparently simple and relatively straightforward idea is actually rather more complicated. For example,

- While ideally, all the available evidence should be reviewed before a decision is made, sometimes clear evidence on ‘what works’ is unavailable – indeed on some issues it is unlikely to ever be available. If current policy is clearly not serving current goals, waiting for hard evidence on alternatives is a luxury not always available.

- Evidence comes in many forms – small scale surveys, qualitative studies, rigorous experiments and non-experimental econometrics. Not all evidence is of equal reliability, and therefore not all is of equal weight.

1 The *Australians Working Together* package of reforms aims to offer a ‘balanced package of incentives, obligations and assistance to help Australians take charge of their own future, while still supporting those in greatest need’ (FaCS 2003).
Evidence can only reflect the research questions that have been addressed and the methodologies employed, and these will often in turn reflect value judgements.

Evidence is almost never undisputed. Even apparently clear findings will be interpreted variously depending on the policy goals and the values underpinning those goals.

What this means is that the concept of ‘evidence-based policy’ should not (as it often is) be taken to mean that policy decisions can sidestep deeper philosophical debates about values and goals. Evidence cannot substitute for explicit examination of, and debate about, the goals of social policy. As Hume (1739) pointed out empiric evidence can only ever resolve the “is” – it cannot resolve the “ought”. Good social policy analysis steers between a naïve-positivist Scylla of thinking itself value-free and the post-modern Charybdis of seeing evidence as only in the eye of the beholder.

Because welfare reform is an area of strongly held views, not only is it vulnerable to the tendency to confuse evidence and desirability, but it will be replete with debates about what findings mean for policy and whether the available evidence sufficiently answers the questions considered to be important by different groups.

Having noted both the promise and limits of using an evidence-based approach, let us now turn to some of this evidence and assess as far as we can what it means for Australian policy. For the purposes of this paper the ultimate goals – the ‘oughts’ – of that policy are taken as given, but this does not mean that they should be considered beyond vigorous dispute in other contexts.

2. INCENTIVES, ASSISTANCE AND REQUIREMENTS

2.1 Incentives

Incentives here refer to the rewards received for work. Most analysis is on financial rewards, partly because of the relative ease of measuring these, and partly because it is a policy lever we have good control over. But it is very important to bear in mind that many of the costs and benefits of paid work are not well captured by point-in-time cash rewards. The standard framework of labour supply measurement tries to deal with this by grouping these non-financial costs and benefits under the general rubric of the value of leisure and/or household production (ie unpaid work). This approach, though, has its limits.

Financial rewards are affected by the design of the income support system, the level and structure of wages and the interaction of these with the tax system. When the income gap between work and income support payments is small, disincentives to leave income support for employment can arise (Chapman and Gregory 2002), as paid

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3 The aggregation of non-financial costs of working into a single homogenous good, along with the economist’s assumption of an exogenously given preference function, limits the usefulness of this framework for examining non-financial motivations for work. For that we must look to the psychologists and sociologists.
work is assumed to carry some net disutility for which money must compensate. The recognition of this led to the emergence of ‘Making Work Pay’ as a key policy area from the OECD’s major initiative, the Jobs Strategy of the late 1990s (OECD, 1999, 2000b).

There are many policy instruments that can change financial incentives. These range from changes in social security means test and payment rate parameters, providing employment conditional benefits (such as an Earned Income Tax Credit), employment subsidies and time limiting benefits.

Importantly, instruments to change financial incentives must be considered in the light of existing social and institutional contexts. Countries use a range of different approaches reflecting differences in values and approaches to income support. For example, the EITC is effective in the US context where there are no income transfers for working families, and where unskilled wages are very low, but arguably its outcomes can be more simply achieved in the Australian context through changes in existing means test and taxation parameters and program structures (Ingles and Oliver 1999).

### 2.1.1 Evidence on different approaches

#### Changing means tests

Changes in means test parameters can influence decisions to economically participate. Research examining US unemployment insurance recipients between 1986 and 1992 found that increasing the earnings disregard increases the probability of recipients engaging in part-time work and shortens the period of joblessness (McCall 1996). On the other hand, changes to AFDC taper rates during the 1970s and 1980s appeared to have little influence on employment amongst sole parents in the US (Burtless 2001 p.19).

A study by FaCS (Warburton and Vuong 1999) found that the 1995 changes to income testing arrangements have encouraged more unemployed customers to take up more part-time work and has increased the share of jobs obtained by unemployed customers.

The study, which was designed to net out the mechanical effects of indexation and taper changes that increased the income test cutouts, found that although the overall proportion of payment recipients who had earnings dropped slightly (0.4 percentage points) after the income test changes, the decline was mainly due to a drop in the number of customers with small amounts of earnings, whose payment was unaffected by the changes:

- The number of customers with earnings between $320 and $400 a fortnight rose by ten per cent at a time when there was at least a seven per cent decline among the general part-time workforce with similar earnings.
- The number of customers with earnings between $400 and $480 a fortnight rose by 20 per cent, compared with a three per cent drop in the general part-time workforce with similar earnings.
The labour supply literature consistently finds that mothers with dependent children, including small children, are the most responsive to financial incentives of any group (Blundell 2001). Further, the literature also consistently finds that financial incentives generally have a stronger influence on the decision to participate at all in the labour market rather than on the decision about preferred hours of work (Atkinson and Micklewright 1991, Blundell 2001). This is consistent with the view that for most people the fixed costs and benefits (psychic and financial) of participation are fairly large relative to the marginal costs and benefits of working longer or shorter hours. Again, this seems particularly true for mothers with children. This suggests that if we seek to reduce joblessness we should have a system design that heavily rewards low-paid work, even at the inevitable expense of reducing rewards for increases in earnings above this. We must be aware, though, that if we go too far down this path we risk replacing a poverty trap with a low-pay trap (Ingles 1995).

Many States in the US have recently given strong emphasis to high levels of ‘earnings disregards’ in their welfare-to-work programs. This was a response to evidence that showed that while mandatory work requirements increased employment and reduced caseloads, it did little to reduce poverty levels, often replacing welfare-poverty with waged-poverty (Blank 2002). There appears to be strong evidence that these are very successful in increasing earnings and the incentive to find employment. Evaluation of the longest running of these programs, the Minnesota Family Investment Program (MFIP), produced considerable increases in employment and earnings concluding that the incentives ‘were critical for increasing income and reducing poverty, and produced many of the [positive] effects on family and child well-being’ (Knox et al 2000, p. 2).

A recent study of the effects of different levels of earnings disregards on children’s family income confirms the importance of financial incentives in reducing poverty in the US context. Comparing states with low, medium and high earnings disregards, the study found that when strong work incentives were incorporated into mandatory welfare programs, they were found to be more influential than the work requirements in determining increases in the income of children living in sole parent families (Blank and Schoeni 2003). Of course, this is not surprising, as the inevitable consequence of high earnings disregards is that families will have more income.

There are, however, some important trade-offs for this result. In particular, states with high earnings disregards will not have corresponding declines in welfare receipt or spending on welfare. This is partly because the programs cost more to deliver, but also because such programs inherently allow people to remain on welfare longer, as families continue to receive some benefits while they are working. As the final report of the MFIP evaluation points out,

for those whose primary goal is to reduce welfare caseloads and costs, the results presented here may not look positive. For those who are willing to trade some of those caseload reductions and cost savings for increases in work, reductions in poverty, improvements in child outcomes, or increases in marriage and marital stability … the results … will be of great interest (Knox et al 2000, p. iv).

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4 Inevitable because any remotely affordable scheme must be ‘clawed back’ from lower-middle income earners, which reduces the financial attractiveness of moving from a low-paid to a less low paid job.
**Earned Income Tax Credits (EITCs)**

The most highly developed tax credit systems operate in the US (EITC) and the UK (Working Family Tax Credit). Evaluations and analysis of the US EITC have shown it to be generally effective. The EITC appears to reach a large percentage of its intended beneficiaries and more than half of EITC payments go to families with incomes below the poverty line (Hotz, Mullin and Sholz 2000). The Council of Economic Advisers found that in 1997 and 1998, the EITC lifted 4.3 million people from poverty (Council of Economic Advisors, 1998, 2000). The policy also appears to be successful in encouraging employment among low-skilled workers. A number of studies have examined the labor market effects of the EITC and have generally found that the program is responsible for increasing employment, especially among recipients of ADFC/TANF payments (Hotz, Mullin and Sholz 2000, p. 36).

The WFTC in the UK differs significantly to the EITC. Introduced in 1999, the WFTC replaced the Family Credit – a means-tested social security benefit, administered by the Benefits Agency, for people in families where at least one person works full-time. The differed in that it is a tax credit, administered by Inland Revenue. WFTC offers a higher earnings threshold, gentler taper rates and includes higher payments towards childcare costs – worth 70 per cent of eligible child care costs (Strickland 1998).

Evaluations have shown that the WFTC appears to be effective with 63 per cent of those moving into paid work in 2000 and 2001 receiving the tax credit. The program appeared to particularly successful for lone parents – 76 per cent of lone parents who had moved into work in this period received WFTC compared to 48 per cent of couples. WFTC receipt was more common among those working shorter hours – many of whom were lone parents (McKay 2003, p. 2). National surveys of lone parents showed that the WFTC substantially raised the income of working lone parents and that this subsequently increased the attractiveness of paid employment (Vegeris and McKay 2002, McKay 2003). The introduction of a National Minimum Wage in 1999 in the UK combined with the guarantee of the WFTC that no family earning less than a designated income per week (currently £255 per week) will pay income tax means in principle that poverty trap problems are less of a problem in the UK than they are in the US. Despite this, evaluations of the WFTC have found that many recipients earn considerably more than the minimum wage and that it would ‘need to be considerably higher before it began to affect many WFTC recipients’ (McKay 2003, p. 63). Even so, McKay argues that ‘having the minimum in place does confront one of the other criticisms of in-work support, that it provides employers with good reason to set low wages, and allow in-work support to make up any shortfall in income’ – an issue that has always been controversial (McKay 2003, p. 63).

The case for introducing a similar in-work tax credit system in Australia has occasionally been made – most prominently by what has come to be known as the ‘Five Economists’ who advocated a US-style approach to reducing unemployment by

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freezing award wages and introducing an EITC to compensate low paid families (Dawkins 2002). However, some argue that the case for introducing such a scheme in Australia is far from clear. Hotz and Scholz (2000) argue that, while effective in the US, EITCs might not be useful in countries that have existing transfer systems that help working families and have more compressed earnings distributions (which means more people would be affected by clawback arrangements). Thus, it is possible that in the Australian context similar results are better achieved by changes to income tax or social security tapers (Ingles and Oliver 1999, Watson 1999, Apps 2002).

**Wage subsidies and employment supplements**

‘Wage subsidies’ in this context refers to ongoing payments made to those in work that are linked to the level of wages paid. ‘Employment supplements’ are temporary payments that are generally flat rate (that is, not linked to the level of wages).

Wage subsidies are seen by some as more effective than an EITC as they make profitable the hiring of low productivity workers who would be unable to find employment (Phelps 2000). This is especially so where, as in Australia, there is a high minimum wage that affects demand for lower skilled workers. Most evaluations show that subsidies to private sector employment have both large deadweight and substitution effects (Phelps 2000, Kaye and Nightingale 2000). The OECD points out that evaluations of wage subsidy programs in Australia, Belgium, Ireland and the Netherlands suggest that combined dead-weight and substitution effects are as high as 90 per cent, implying that for every 100 jobs subsidised by the schemes only 10 were net gains in employment (Martin 2000b).6

As a result, most schemes yield small net employment gains, at least in the short term. Net employment gains are sometimes higher (in the order of 20-30 per cent) in programs that target measures to particular groups and closely monitor employer behaviour. However, targeting programs in this way can be counter-productive as they stigmatise participants – employers can see a subsidy voucher as a certificate of unemployability (Martin 2000b).

Employment supplements are cash benefits provided on the take-up of employment or on the move from part-time to full-time employment. A number of countries have introduced versions of employment supplements (cash benefits on take-up of employment and transition payments) to increase economic participation. The most well-known and largest experiment with employment supplements is the Canadian Self-Sufficiency Project (SSP). This program replaced income assistance payments with the SSP supplement for lone parents who left welfare for full-time work within a year of entering income support. Initial results showed very impressive outcomes, with program group members being twice as likely as control group members to be working full-time after the first year. Although somewhat reduced over time, this effect continued throughout the life of the program, with earnings of the program group 20 per cent higher than the control group overall. However, these results need to be tempered by the fact that there was a low take-up rate of the program with only

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6 The OECD categorises self-employment schemes as work subsidy programs.
one-third of eligible clients participating (Lin et al. 1998, Michalopoulos et al 2002). In addition, the effects of SSP on earnings, welfare receipt and employment disappeared after recipients were no longer eligible for the supplement and most of the people who did find jobs as a result of the program subsequently lost them. However, when the program was redesigned to provide additional pre- and post-employment services in addition to the supplement, the program had a modest effect (Michalopoulos et al 2002).

To encourage clients to move from part-time to full-time work, the UK introduced a Back to Work bonus scheme, with clients accumulating a credit while working part-time which is paid when they move into full-time work. An evaluation of the program found that it had little success, as many people were unaware of the program. Those who were saw it as ineffective (DSS 1999). Few clients saw it as an incentive to take-up either full-time or part-time work.

The structure of income support in Australia, where benefits are gradually withdrawn as earnings rise, means that low earnings are already subsidised here, arguably in a more effective way. It does not rely on people having to claim a specific subsidy or meet particular hours or earnings criteria. While take-up is not 100 per cent (people with little entitlement may not bother and some already in work may not be aware of their entitlement,) it is certainly much higher than many of the overseas examples cited here.

**Time limiting benefits**

In most developed countries only unemployment insurance payments are time limited. What happens when unemployment insurance ends varies from country to country, but in almost all the unemployed person is transferred to social assistance benefits, which generally have rates of payments and conditions roughly comparable with Australian income support payments (the United States and Japan are the principal exceptions). Many earlier studies of the labour supply effects of benefits used this 'notch' when higher social insurance benefits are replaced by social assistance to estimate the effects of time limiting benefits. However, as Atkinson and Micklewright (1991) note, they overstated the effects of the change in benefit levels because they fail to capture important differences in the non-financial incentives faced by social insurance and social assistance recipients. Time-limited insurance benefits generally carry little stigma, have no means testing and often little work testing. Social assistance benefits carry stigma, often require disbursement of assets, and are generally tightly work-tested at least in respect of the unemployed. This is a good illustration of the limitations of some overseas work for an Australian context.

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7 This was due primarily to eligible clients’ inability to find a job or sufficient hours to qualify for the program.
8 Members of the program group could receive the supplement for up to 3 years.
9 Though note that financial incentives are notoriously one of those areas where what people say they will do and what they actually do when faced with real choices is quite different – to the degree that many economists simply ignore attitudinal surveys on this topic [ref in kens office]
10 And even in the US they will generally be given food stamps, and often social assistance funded by local or state government.
Notwithstanding this, recent research shows that time limiting benefits can increase employment and earnings increase, reduce caseloads (Butler 2000), and improve investment in human capital and build self-sufficiency (Blundell 2001). But it seems that vulnerable groups are most heavily affected by time limits (Berlin 2002). Groups at risk of being worse off include large families, residents in public housing, those with lower-educational achievement and African Americans (Bloom et al. 2002). In times and places where labour demand is deficient (for example, as a result of an inappropriate minimum wage or during a recession) there is a real risk of time limits leading to severe hardship.

2.2 Untangling ‘Requirements’ and ‘Assistance’

It is commonly observed that the stricter benefit regime operating under welfare reform programs is critical in achieving compliance with assistance measures and in reducing the numbers of people dependent on welfare benefits. For example,

- Many US studies\textsuperscript{11} have concluded that the introduction of a stricter benefit regime played an important role in the substantial reductions of welfare caseloads throughout the 1990s.

- UK research also has concluded that the stricter benefit regime contributed to the marked falls in registered unemployment\textsuperscript{12} (Sweeney and McMahon 1998).

- A study of four European countries\textsuperscript{13} that enjoyed labour market success during the late 1980s and 90s found that ‘all resorted to a much stricter enforcement of job search and suitable work provisions’ (Auer 2000, p. 70).

Evaluating these results, the OECD notes that ‘(a)lthough empirical evidence remains rather patchy, it does suggest that these countries get into a “virtuous circle” with sustained falls in unemployment and tighter implementation of eligibility criteria’ (Grubb 2000, p.141).

In order to assess the relative contribution of the stricter requirements and the new forms of assistance to welfare reform outcomes, however, it is necessary to separate out the effect of the program or assistance measure from the effect of the requirement to undertake the measure (Riccio and Hasenfeld 1996; Martini and Wiseman 1997). This is a difficult task because in modern active welfare regimes – where the receipt of benefits is conditional on the participation in assistance programs – the two are intrinsically linked (Grubb 2000). Indeed, much of the philosophy underpinning new approaches to welfare policy (often referred to as the ‘New Paternalism’\textsuperscript{14}) is premised on the belief that requirements to take advantage of opportunities offered by government represent an important form of assistance for people who have been

\textsuperscript{11} Rector and Youssef 1999; GAO 1998; Riccio and Hasenfeld 1996; Council of Economic Advisers, 1997, 1999

\textsuperscript{12} That is, the number of people registered at Job Centres as unemployed – that is, applying for benefits. This does not necessarily correspond to the population of unemployed under the ILO definition.

\textsuperscript{13} Denmark, Ireland, the UK and the Netherlands

\textsuperscript{14} See Mead 1997
demoralised and demotivated by long-term unemployment or benefit recipiency (Mead 1997, Yeatman 2000). It is also important to distinguish between the effect of ‘requirements’ and the effect of ‘sanctions’. Again, this is tricky, as a requirement inevitably implies that there will be a consequence for non-compliance – in effect, some form of sanction. But, depending on the way a particular program or system is designed and the philosophical and administrative approach taken, requirements may either be accompanied by high or low sanction rates, and the sanctions can be mild or severe. In some cases, sanctions may be only rarely applied. With such variation in implementation, it is highly likely that the outcomes will be equally varied.

2.3 Requirements and Sanctions

2.3.1 Requirements

Requirements refer to the rules that are used to regulate job-search behaviour, participation in active labour market programs and to curb benefit abuse. These include tightening of eligibility criteria or activity tests such as job-search requirements, the definition of suitable work, and penalties for voluntarily quitting employment. However, these tests are extended under welfare reform to include intensified job-search verification, participation in a variety of mandated programs and the signing of an agreement that specifies actions to be taken to improve work prospects. When requirements are not fulfilled, sanctions are often imposed. These usually take the form of the withdrawal of all or part of the person’s benefit for a period of time (or in some cases permanently).

In some countries, including Australia, participation requirements have been extended to some groups who have traditionally been exempted, such as lone and partnered parenting payees, people with disabilities and mature aged jobseekers. However, most countries provide exemptions based on a judgement of people’s capacity to be fully active and engaged in labour market activities.

Effects of requirements on individual behaviour

The logic of active welfare policy assumes that activity requirements with accompanying sanctions are an important tool in influencing individual behaviour (Martin 2000b). However, individuals face a range of possible behavioural responses to requirements. They can:

• comply voluntarily with participation requirements because recipients consider that the particular program will be beneficial to them;
• put extra effort to seek work in order to avoid the extra burdens that compulsory requirements imply;
• leave benefits in preference to complying or choose not to receive benefits in the first place;

15 This position, however, does not enjoy unqualified support and has attracted criticism from numerous quarters, see Kinnear (2000, 2001), Moss (2001), Goodin (2001)
16 In the USA criteria often go further for the target population of sole mothers – incorporating requirements to send children to school, immunise them and a range of other non-employment related actions.
• participate in a formalistic sense simply to avoid the imposition of a sanction
• shift to non-activity tested benefits;
• endure a sanction rather than comply.

All of these possible responses are evident in the evaluation literature. The observation of what is variously known as a ‘compliance’ or ‘announcement’ effect has been well noted in evaluations of active labour market programs. This is where recipients alter their behaviour to avoid taking part in a program (i.e., increase job-search, leave the benefit altogether\(^{17}\) or transfer to another benefit\(^{18}\) on learning that new rules are soon to apply (Productivity Commission 2002, p. 5.16-17). Richardson’s study of Australia’s Mutual Obligation initiative found that a significant increase in exit rates from benefits came immediately before individuals became subject to this regime – in other words, there was a strong ‘announcement effect’ (Richardson 2002).

A compliance effect would generally be expected if recipients consider participation in a program to be a negative prospect and a burden that they would rather avoid. Interestingly, there is some evidence from the UK that suggests that the announcement effect is not so strong. This is often explained in evaluations of New Deal programs by the extent of ‘goodwill’ towards the program amongst its stakeholders including clients (Hasluck 2000, p. 63). A number of studies have noted that clients of New Deal programs tend to perceive the requirements as benevolent and beneficial rather than punitive and burdensome and are generally hopeful regarding their participation in the program (Legard et al 1998, Atkinson 1999, Hasluck 2000). Under these conditions, there would not be a large exit from benefits in order to avoid requirements. This is not true across the board, however, as the introduction of mandatory requirements to the redesigned New Deal 25 plus program (for recipients aged 25 and over) did identify an increased number of exits from the program either prior to commencement or in the period prior to the mandatory period (Hasluck 2003).

Another possible response to requirements is what is known as the ‘attachment’ or lock-in effect. This is where compelling participation in programs produces a trade-off in job-search intensity and rates of entry to work while an individual is undertaking the program. Possible explanations for this include the opportunity cost of attendance requirements, the benefits of participating are significant and clients see programs through to their end, or that during program participation other obligations are reduced (Productivity Commission 2002, p. 5.19).

\(^{17}\) There is some indication that compliance effects are picking up cases of fraud where people withdraw from payments to which they are not entitled (Productivity Commission 2002, p. 5.16).

\(^{18}\) There is some evidence of this effect during the early years of its welfare reform initiatives, with many jobseekers transferring to Disability Support Payments if they felt unable to comply with the new level of requirements.
Labour market engagement

A key objective of activity requirements is to maximise ‘engagement’ of recipients with programs and employment opportunities.\(^{19}\) Without requirements, it is thought that programs and assistance measures will reach fewer people – and in particular, will not reach those who might not voluntarily participate. Maximising contact with beneficiaries is considered to be a key strategy in ensuring that unemployed people remain job-ready and can take advantage of employment opportunities as they arise, and in ensuring that others not currently required to look for work will be ready to make the transition when that becomes necessary.

A range of evidence regarding the effectiveness of requirements in maximising engagement of recipients, both in Australia and overseas, is beginning to emerge.

The FaCS Parenting Payment Intervention Pilot (PPIP) conducted in 2000 sought to test the effectiveness of compulsory participation in interviews because of concerns that voluntary participation was leading to a low take-up rate of employment-assistance programs – in particular the Jobs, Education and Training (JET) program. The study found that 81 per cent per cent of recipients who were selected for compulsory involvement attended interviews compared to only 17 per cent of those selected for voluntary attendance. Of those who attended the interviews – whether under the compulsory or voluntary approach – most believed them to be helpful and 59 per cent of these were subsequently enrolled in the JET program. This compared to only 35 per cent of enrollees those who did not participate in interviews (Pearse 2000).

Similar results have also been found in a recent review of the UK New Deal for Lone Parents (NDLP) showing that while participation in the NLDP is voluntary, mandatory requirements to attend Personal Adviser interviews have significantly increased participation in NLDP (Evans et al 2003). This evaluation went further, however, to demonstrate that not only did compulsion increase participation, but that this had a flow-on effect to increase overall employment levels and reductions in welfare receipt. Of course, this flow-on points to the effectiveness of the program itself in producing outcomes – a poorly designed program would be unlikely to produce these effects despite increased participation. This point is taken up further in section 2.3.

The Australian Welfare Reform Pilots also demonstrated that compulsory rather than voluntary participation was effective in engaging mature age recipients. Eighty-nine per cent of those selected for compulsory involvement participated compared to only 28 per cent of those selected for involvement on a voluntary basis. Despite producing considerably higher rates of ‘engagement’, however, the results of the Welfare Reform Pilots show only minor differences in the employment-related impact of the intervention between the voluntary and the compulsory attendance groups of mature age participants (FaCS 2003 Forthcoming).

\(^{19}\) Whether compulsion is really necessary to achieve this goal, or whether it is more acceptable to encourage voluntary participation in activities and programs remains the subject of ongoing debate in the welfare reform arena.
A study in the US (Knab et al 2001) set out to isolate the effects of requirements from the effect of program participation by conducting a random assignment research design that separated the effects of requiring attendance at an information session about a program from the effects of actually attending the program. Overall, the study found that requirements to participate can increase employment, earnings and welfare receipt independent of actual participation in the program. Importantly, however, the study found that different settings and approaches to program implementation affected the outcomes. For example, it found that the mandate was effective in increasing the earnings of the more job-ready recipients in the site with the healthier labour market, but had no corresponding increase in rates of employment and welfare receipt. In the site with a weaker labour market, the mandate had no effect on employment, earnings, or welfare receipt, even among the more job-ready.

Unfortunately, the research design was not able to separate the relative influence of labour market conditions and sanction strength, although authors felt that it was ‘unlikely’ that the differences in outcomes would be ‘explained entirely by differences in economic circumstances across … sites’ (p. 21). Commenting on the study, Hamilton (2002) concluded that

These results suggest that employment opportunities play a role in how welfare recipients react to a welfare-to-work mandate: The mandate alone can have its intended effects, but it is more likely to work in situations where jobs are available and people have the recent work experience needed to obtain a job (Hamilton 2002, Ch. 6).

In contrast to these findings, however, a substantial randomised trial in four US states (Ashenfelter et al 1999) conducted a study designed to measure whether stricter enforcement and verification of job search requirements among unemployment insurance recipients alone decreases benefit receipt. The trial found that the extra requirements had no effect on exit from payments. The authors explained their results on the basis that the subjects were all relatively short-term unemployed people with substantial work histories. Thus, they concluded recipients were already trying hard to find work and had no need of the extra incentive that sanctions provided.

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20 This study was a part of the National Evaluation of Welfare-to-Work Strategies (NEWWS) which is a large National study comparing 11 different welfare-to-work programs across seven sites.

21 On presentation at a welfare office for an in-person eligibility interview, 23,000 recipients in two sites were informed about the existence of an employment training program in which they may be eligible to participate. The recipients were randomly assigned into two groups – one that would be required to attend the orientation session to the program, the other who would not be required (in fact, they would not be permitted) to attend. A second round of random assignment then occurred at the point of attendance at orientation, when the control group was informed that they would not be permitted to participate in the program.

22 The authors attribute these results to the fact that some recipients’ avoided or circumvented the mandate to participate by finding a job more quickly, finding a job with longer hours, or working more hours at a job they already had than they would have without a mandate’ (Knab et al 2001 p. 20).

23 This is due to the fact that the subjects were unemployment insurance recipients.

24 It is uncertain whether the results can be extrapolated to the groups to whom Australian programs are targeted – typically those who have experienced, or are at risk of, long term unemployment.
Whatever the case (ie: whether requirements have no effect for those already motivated to find work, or whether they are most effective for job-ready clients in buoyant labour markets), both sets of findings raise the problem that mandates can be associated with substantial ‘deadweight’ costs – that is, where administrative effort and cost is used to bring about outcomes that would have either have occurred anyhow, or would have only needed a smaller investment.

A number of studies have identified serious limitations to programs that rely on rules for the purpose of keeping people ‘engaged’ with labour market opportunities. The OECD has noted that while intensified activity requirements (particularly job search) may be effective to some degree, they also ‘encourage and even unfairly reward purely formal compliance and dissimulation eg., applications for jobs which the person does not expect to get’ (Grubb 2001, p. 209).

This phenomenon has been identified in the UK where research on the Jobseekers’ Allowance (JSA) found that while the requirement for increased job search led to an increase in the number of employer contacts, these contacts did not correspond to an increased movement into employment, especially for those in high unemployment areas. Thus, the research concluded that while the JSA succeeded in increasing the quantity of employer contacts, it did not increase the quality of job-search activities (DSS 2000).

Similarly, a UK qualitative study of JSA recipients and front-line staff identified a number of limitations of compulsory participation, especially identifying problems with both parties simply ‘going through the motions’ of compliance due to resource and time constraints as well as the real limitations of labour market opportunities. The study found that while most recipients and staff agreed in principle with the idea that compulsion was important to guard against abuse, in practice, they generally felt that compulsion was unfair and ineffective in the absence of genuine choice and employment prospects. LTU (long-term unemployed) participants in focus groups claimed that they attended compulsory courses in order to prevent loss of benefit, not because they would gain anything of value’ whilst others appeared to be prepared to endure the sanction rather than attend (Finn and Blackmore 2000, p. 9).

The extent of this phenomenon was considered so great in the first phase of the New Deal for recipients aged 25 and over (ND25plus) that the program was significantly redesigned. The redesigned program introduced mandatory requirements and an intensification of contact between Personal Advisors and clients (Hasluck 2003).

Concerns have also been expressed that this phenomenon is more commonly experienced amongst the most disadvantaged jobseekers. A recently released small scale Australian study showed that while many people comply with the requirements in practice they do not consider them a means to finding work, but rather as a ‘necessity for remaining eligible for benefits’. This is especially true for the most disadvantaged jobseekers (Ziguras, Dufty and Considine 2003, p. vi). Trickey and Lodemel also argue that similar concerns are felt in the European context where less employable people are ‘in danger of experiencing ‘exclusion trajectories’ or ‘sink options’ and of being recycled within programmes that bring them no closer to sustained employment’ (Trickey and Lodemel 2000)
These findings suggest that for active programs to meet their objectives, requirements need to be appropriate in terms of content (what people are required to do) and context (under what circumstances they are required to do it). If requirements are not appropriate, not only do they risk formalistic compliance, but there is also a risk that the program will lose the support of clients, administrative staff and the general public.

2.3.2 Sanctions

In light of the controversy surrounding sanctions as a legitimate policy tool it seems somewhat surprising that research and evaluation on the effect of requirements and sanctions is so scant. As a very recent review of sanction policy research in the US recently argued,

Although there is a general consensus that sanctions have been one of the most important policy changes implemented through state welfare reform efforts, they are among the least studied (Pavetti et al 2003, p.1).

Whilst agreeing that the available evidence suggests that stricter sanction policies lead to greater welfare exits and caseload decline, Pavetti and her colleagues cautioned that ‘research on the role of sanctions in welfare reform is in its infancy’ and that the results are ‘insufficient to make firm conclusions’ (2003, p. 22). In particular, the authors argued, more research regarding the mechanism by which caseload reduction occurs is needed (Pavetti 2003, p. 23).

A number of approaches can be taken by government agencies to sanction design and enforcement. Sanctions can be:

- severe in order to have sufficient power of deterrence and punishment;
- less severe, or have graduated severity, in order to encourage early return to compliance;
- used liberally and early in order to emphasise the credibility of the threat; or
- used sparingly and as a last resort, with a preference for identifying and overcoming causes of non-compliance.

These options can be categorised into two philosophical approaches that underpin the administration of sanctions (Kaplan 1999, p. 2) – put simply, they can operate principally to ‘punish’ or to ‘persuade’. In the first case, sanctions are used principally to enforce the rules and ensure that a strong link is made between non-compliance and consequences. This approach has a strong focus on deterrence – a focus manifest either in severe penalties, or in high sanction rates. The ‘persuasion’ approach uses sanctions as a ‘prod’ to encourage or motivate people to comply. This approach emphasises a joint effort on the part of staff and client to prevent the imposition of sanctions in the first place, or to identify and overcome barriers that led to the imposition of a sanction (Kaplan 1999, p. 2).

The Report of the Reference Group on Welfare Reform in Australia (the McClure Report) recommended the latter approach, noting that requirements with accompanying sanctions were both necessary and desirable as a last resort, but that ‘voluntary fulfilment of mutual obligations will lead to the best outcomes’ (RGWR
The report thus recommended that the Government ‘reduce its emphasis on compulsion and do all in its power to “encourage voluntary compliance”’ (p. 58). The Report argued that in a properly designed system, the use of sanctions should not be needed in anything other than rare instances.25

The ‘last resort’ approach also tends to dominate policies in the UK where the emphasis is on the use of Personal Advisors to ensure that plans and activities are appropriate, thus minimising the need for the application of sanctions. While sanctions are considered to be an important part of the welfare-to-work package, they tend to be rarely used (Hasluck 2002).

Researchers in the US have taken advantage of the variation in state sanction regimes to attempt to assess whether stricter sanction policies lead to desired welfare reform objectives.26 States implement either partial sanctions in which a family’s cash assistance grant is reduced (usually only the non-compliant adults’ portion of the grant), but they continue to receive some portion of the benefits. In contrast, full family sanctions eliminates all the cash assistance to the entire family. Full family sanctions can be imposed either immediately on the identification of non-compliance or gradually whereby the grant is reduced for a designated period of time, but is restored on return to compliance.27, 28

There is considerable interest in evaluating the merits of these different approaches, however, research results to date are relatively equivocal. Pavetti et al (2003) concluded that while the ‘few studies’ that have focused on this question have found that full-family sanctions increased the likelihood that a recipient will leave welfare for work and results in greater caseload decline, these results need to be tempered by a number of factors: first, the relationship to caseload decline is predictable and an inevitable consequence of having a full-family vs a partial sanction; second, she cautions that the studies were generally conducted early in the welfare reform process and that results may now be different; thirdly, she argues that it is difficult to isolate the effect of the sanctions from the other program changes operating under welfare reform (Pavetti et al 2003, p. 21).

This latter point is supported by the National Evaluation of Welfare to Work Strategies (NEWWS) conducted by the Manpower Demonstration Research Corporation in the US. This five-year study of 11 programs operating in the mid to...
late 1990s found that programs that had a ‘high enforcement’ approach to customer participation consistently produced better results than ‘low enforcement’ programs over a range of outcomes (eg participation levels, employment, earnings and reductions in welfare spending). ‘High enforcement’ policies referred to the application of requirements to most of the caseload rather than a selection, close monitoring of participation, and a greater willingness to impose penalties (rate reduction, not suspension) for non-compliance. High enforcement programs had a significantly higher sanction rate than low enforcement programs (Hamilton 2002, p. 56).

Despite the positive impacts, in each of these programs there were other factors that played a significant, perhaps greater, role in producing these outcomes. They included job search requirements and strategies, effective assessment of capacities and matching of requirements, and personalised services by case managers. Other findings suggest that high enforcement programs have more impact among the job ready and when they operate in healthy labour markets (Hamilton 2002, p. 54, Knab et al 2001). These findings suggest that at best the threat of sanctions can play a role in an effective program, but ultimate effectiveness will depend largely on other features of the program.

Similar conclusions were reached in a study by two researchers at the Urban Institute. They argued that the usefulness of sanctions depends on the level of administrative ‘activism’ that is already in place in Government programs. Their research found that it is often those programs offering comprehensive employment programs that are more likely to use the threat of sanctions and concluded that it may be the programs themselves or a combination of the program and sanctions that create the greatest impact (Martini and Wiseman 1997, p. 4).

A Swiss evaluation of regional job-placement offices is similarly supportive of these conclusions. Whilst the study found that the offices with the highest placement rate sanctions per jobseeker were 43 times higher than in offices with low placement rates, it stopped short of concluding that there was a direct correlation between sanctions and placement effectiveness, and left open the possibility that those offices that sanctioned most heavily were also those with the most active and effective placement practices. Importantly, the study also showed that sanctions were only effective with clients who were voluntarily prolonging unemployment. They had no effect where clients were punished for violating rules they were not aware of, nor was there any correlation between high sanctioning offices and successful placements of the long-term unemployed and hardest to place individuals. Indeed, in some cases the correlation was negative (OECD 2000a, pp. 83-84).

Sanctions, equity and hardship

Against all this, of course, we must weigh the psychological and financial losses that sanctions may generate. Apart from any undesirable direct hardship caused by the sanctions, both jobseeker morale and compliance may suffer if the system is seen as unfair, arbitrary or punitive.

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29 Again, this raises the problem of ‘deadweight costs’ associated with compliance regimes.
Research on the characteristics of sanctioned families or individuals and the negative effects of sanctions is well developed and presents highly consistent findings in many countries and jurisdictions. Findings consistently confirm that individuals most likely to have a sanction imposed are more disadvantaged across a range of characteristics than non-sanctioned recipients. The OECD reports that

Approximately 30-50 per cent of people sanctioned are estimated to have high levels of barriers to employment (mental illness, physical and learning disability, substance abuse, domestic violence, low education etc) and have difficulty understanding rules and requirements.

Studies in the United States generally show that sanctioned families have many characteristics associated with longer duration on welfare. They are more likely to be long-term recipients, have lower educational qualifications and are less likely to have recent work experience. They have higher levels of personal and family difficulties such as mental health problems, domestic violence, substance addictions and experience barriers such as transportation and lack of child care. After leaving welfare, they are more likely to experience material hardship; have increased levels of stress and other mental health problems and are more likely to return to welfare after leaving (see useful summaries of these studies in Kaplan 1999; Acs, Loprest and Roberts, 2001; Goldberg, 2002; Pavetti, 2003).

While debates are ongoing regarding the extent to which the new US welfare regime has been accompanied by serious hardship, what is clear is that people who leave welfare payments do not necessarily become self-sufficient, nor are they always able to meet their material needs through employment. Indeed, studies have shown that between one-third and one-half of welfare leavers depend on family, friends, neighbours and community agencies for support (Fraker et al 1997; Ferber and Storch 1998; Fein 1997, 1999). Those who are unable to rely on these networks experience an inability to pay bills, loss of utilities, homelessness and an inability to care for their children (including sending children to foster care (GAO 1997; Shook 1998; Kaplan 1999).

It is important to note that due to the very different wage and labour market conditions in the US, these results may not translate directly to the Australian context. In particular, the stronger wage regulation in Australia is more protective than the more laissez-faire mechanisms in the US with the result that Australia has lower levels of in-work poverty. However, Australian evidence does show a differential impact of sanctions on disadvantaged groups – in particular Indigenous Australians are almost twice as likely as non-Indigenous people to be breached (Sanders 2000). Other evidence suggests that some sanctioned individuals experience material and psychological hardship. Advocacy groups have been concerned about the effects that ‘breaching’ has had on vulnerable recipients with studies reporting an intensification of financial hardship among disadvantaged people as a result of a breaches and an increased demand on emergency services as a direct consequence of people being breached (ACOSS 2001; Salvation Army 2001; Pearce et al 2002). For example, a study conducted by the Salvation Army found that one quarter of their clients who were on unemployment benefits were seeking for emergency relief because they had
been breached (Salvation Army 2001). The Australian Government has responded to concerns by requiring improved service delivery approaches to ensure vulnerable clients are not impacted by unfairly imposed penalties and has also recently reduced breach penalties.

What these findings demonstrate is that despite the often stated intention of active welfare regimes to promote inclusion of otherwise marginalised groups and individuals, they can run the risk of exacerbating exclusion. In order to obtain a full picture of a program’s ‘success’, therefore, research and evaluation needs to take account of the circumstances of, and consequences for, those who (at best) are not helped or who (at worst) are harmed by the program or policy (Trickey and Lodemel 2000).

2.3 Assistance

The effectiveness of activity requirements, to some degree, depends on the extent to which participating in the required activities is helpful in finding work. This section examines the evidence regarding the effectiveness of a range of assistance measures in achieving welfare reform objectives.

There have been a number of key shifts in approaches to assistance measures under welfare reform in recent years. Generally speaking, both ‘demand side’ (job creation) and traditional education and training programs have fallen from favour since the early to mid 1980s, on the basis of consistent evaluation evidence that they were rarely cost effective (OECD 1999). Contemporary assistance measures favour shorter, intensive programs more closely linked to employer needs and local labour markets. Similarly, work subsidy programs remain important in many countries, but are often combined with some vocational training.

The focus is now on the needs of particular groups such as the long-term unemployed and those with multiple barriers to employment, rather than on the general stock of unemployed at a given time. This focus has tended to shift assistance away from direct employment-related measures to address non-vocational barriers to work like drug or alcohol abuse or mental health problems. To boost targeting of these measures there has been a corresponding increase in the use of early intervention and screening measures to identify the extent of labour market disadvantage.

Welfare reform assistance measures can be classified as follows:

- *Improving job search* by enhancing job search skills and activities and optimising timely and accessible information;
- *Improving skills and employability* through education and training programs, community or voluntary work programs and subsidised work of those currently required to seek work, or those who will be required to make the transition at some future point; and

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30 The study found that 84% were unable to afford food or medication, 63% could not pay for gas, electricity or water, 62% could not afford to pay for accommodation (17% became homeless) and 11% resorted to crime to pay for food, medication or housing.
• **Individualised assistance** including the use of case managers and personal advisers, individual action plans and intensive interviewing programs to address different needs and barriers. In some cases this may include assisting with costs of work (i.e. cover transport or childcare costs) or of training or education.  

2.3.1 Improving job search

Of the range of labour market interventions currently being used around the world, there is a considerable body of evidence that structured and supported (rather than independent) job search, accompanied by the close monitoring of a client’s job search activities, can be effective in increasing the active job search of clients and moving people quickly into work. This approach is sometimes called ‘work-first’ because it focuses on moving unemployed clients into work as quickly as possible. According to this approach, any work is preferable to no work and a person’s long-term employability is better secured by being in work rather than through external education or training (often referred to as a ‘human capital development approach’).

Evaluations from several countries show positive outcomes from ‘work-first’ approaches for a variety of clients (Meyer 1995; Bloom et al. 1997; Anderson 2000, Hamilton 2002). In addition, job search programs are usually one of the least costly and administratively demanding of active labour market programs, all of which makes them an attractive option for policy makers (Martin 2000b, p.10). The US National Evaluation of Welfare to Work Strategies which evaluated 11 welfare-to-work programs found that a work-first approach delivered better employment and earnings outcomes than education-focused programs. It also led to larger reductions in welfare receipt but these were not very significant (Hamilton 2002, p. 29). Despite the intention that human capital programs would help participants find better jobs in the long-term this did not eventuate and by the end of five years participants were not in better jobs than participants in work-first programs.

However, the evaluation found that the gap between the two approaches did close over time – the gains made by work-first programs weaken while gains in programs operating a human capital development approach grew, or at least remained static, over time (Hotz, Imbens and Klerman 2000; Hamilton 2002). By the end of five years the work first approach still had better results but these were no longer significant.

This suggests that work-first strategies have significant limitations. While they may help people find work more quickly the jobs found are generally the same low-paying, relatively insecure jobs as those who find work without the help of the program. Evaluations have found that after several years both program and control groups have similar numbers in employment, similar incomes, and similar numbers on welfare, suggesting that job search programs may not have (measurable) long-term advantages (Meyer 1995; Bloom et al. 1997; Hamilton 2002).

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31 This is not to be confused with ‘financial incentives’, which refers to the interface between the tax and social security systems and labour market

32 This large scale evaluation is conducted by the Manpower Demonstration Research Corporation (MDRC).
The US evaluations of work-first programs cited above did not contain qualitative evidence from participants regarding how they responded to the different approaches. Research from the UK, however, has suggested that rigid work-first requirements may have drawbacks. Evaluations of the New Deal for Young People found that clients reacted negatively to what they perceived as meaningless participation requirements, reporting that options offering genuine assistance were more likely to lead to better long-term outcomes. More positive reactions were reported when clients were assisted to find the work they wanted rather than pushing them into the first job that came along (Atkinson 1999).

This position is also supported by evidence from the US evaluations. Of the 11 programs evaluated the most successful by far was the Portland experiment. It was a work-first approach but with important differences. It contained a more thorough assessment process and offered education and training to those it thought would benefit. It also emphasised to job seekers the importance of finding good jobs rather than just any work. At the end of five years the Portland program had better earnings impacts, time spent in employment, and earning growth than any other program (Hamilton 2002, p. 35).

Job-search programs are not limited to increasing the number of employer contacts. They can include a variety of services, including intensive interviews, in-depth counselling, job-clubs, workshops, and training in ‘soft’ skills such as interview techniques and better communication. Evaluations have shown that a variety of designs have been effective in producing positive outcomes. However, while isolating the precise effects of different strategies is difficult, programs that combine good quality services, increased activity test requirements and some degree of case management, consistently produce the best results (Meyer 1995; Bloom et al 1997; Anderson 2000).

2.3.2 Improving Employability

Education and training programs

Many countries operate education and training programs in one form or another. According to the OECD, in 1997 training accounted for the largest share of spending on active measures in OECD countries. On average, countries devoted 24 per cent of their active labour market spending on training programs, up from 21 per cent in 1985 (Martin 2000b, p.9). However, evaluations of public training programs suggest a very mixed track record. Some programs in Canada, Sweden and the US have yielded low or even negative rates of return for participants when employment or earnings gains have been compared to the cost of achieving the results. Martin (2000) notes that across the OECD the most consistently positive results have been recorded for adult women, whereas some programs worked for adult men while others did not. The most dismal picture has been for out-of-school youths where almost no training programs worked for them.

Evaluations of education and training programs throughout the late 1980s and early 1990s failed to show consistently better results (US Dept. of Labor 1993; Martin 2000a; Martin and Grubb 2001). As a result many governments scaled-down education and training programs in favour of a ‘work-first’ approach.
However, more recently there has been a return to an interest in the human capital approach as evidence has shown that a combination of work-first and education and training programs which aim to move the job-ready into work as soon as possible, while boosting the skills of the more disadvantaged have been successful at moving welfare clients into work and in some cases improving the quality of employment by emphasising the importance of finding ‘good’ jobs, rather than just ‘any’ job (Hamilton 1997; Bloom et al 2002; Scrivener et al 1998; Freedman et al 2000). An important finding from most evaluations was that many people finding jobs during the evaluation period subsequently lost them, so that at the end of 2-3 year follow up periods, only about half of those who found work over the period were still in a job. Even amongst a program that produced the highest rates of job retention (Portland), around 40 per cent of program participants were still receiving welfare after two years, demonstrating the difficulty in moving clients into full-time work. (Bloom et al 1997, pp. 29-34; Hamilton 2002, p.35).

Subsidised work programs

According to the OECD, employment subsidies accounted for 13 per cent of total spending on active measures in 1997. Subsidy programs have other purposes than simply job creation. For example, they may enhance effective labour supply by helping individuals to stay in contact with the labour market, thereby maintaining motivation and skills. They may also achieve equity outcomes by providing the long-term unemployed with jobs, even if this happens at the expense of the short-term unemployed (Martin 2000b, p.12).

Nevertheless, there is some evidence of net employment gains in the order of 20-30 per cent in programs that target measures to particular groups and closely monitor employer behaviour. Programs that aim at particular target groups may also stigmatise participants (Martin 2000b, p. 12). Evidence from subsidy programs for disabled people in Canada suggested this stigmatising effect (see below).

The OECD categorises self-employment schemes as work subsidy programs. It notes that evidence from the US suggests that these schemes may result in employment gains for men, primarily between the ages of 30 and 40, who have relatively high levels of education. There is also evidence from Australia, Ireland, Norway and the UK that longer-term employment occurs, but only for a relatively small share of all enterprises started up (Martin 2000b, p. 12). An evaluation of active programs in Canada also found that short term sustainability of employment was greatest among participants in the self-employment program (Human Resources Development Canada, 1998).

Community work programs

Evidence regarding the success of the primary community work program in Australia, Work for the Dole, is mixed. Whilst generally viewed as popular and successful in terms of its goals to improve work orientation and habits of unemployed people, the results in terms of employment outcomes were equivocal (Stromback et al 1998,
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Sawer 2000). A net impact study conducted by the then Department of Employment, Workplace Relations and Small Business (DEWRSB) found that Work for the Dole had a net impact benefit of around 20 per cent after one month, but that this declined as time went by to 10 per cent after five months. While being critical of the methodology employed in this study, a recent independent review of these results also concludes that Work for the Dole appears to be successful, especially for the group notoriously difficult to help – the under 25s (Nevile forthcoming 2003).

New Zealand, the US, Canada, the UK and several European countries operate community work programs. Most have similar objectives as Australia’s ‘Work for the Dole’ program: to improve employability through increased skills, work habits and motivation and to help participants find work. Programs are generally targeted at the long-term unemployed or people at risk of long-term unemployment. In most instances, participants in community schemes have been unsuccessful in job search activities and require improved work-related skills.

There is some evidence from Poland, France and Ireland that programs have improved employment outcomes (Auspos et al 1999, p.68). New Zealand has also evaluated its ‘work for the dole programs’ (the Community Taskforce program (CTF) and the recently terminated Community Work (CW) scheme). Evaluation of CTF found that participation was highest amongst disadvantaged groups but employment outcomes were poor. Movement into work following the program was no higher than for a comparison group. Moreover there was evidence of significant displacement effects as program sponsors came to utilise/rely on CTF labour after the program period. Nevertheless, some positive community and personal outcomes were observed and the program cost less to operate than work subsidy programs (Department of Work and Income 1999a).

The record of community work programs in the US is mixed, with some studies suggesting that participants view mandatory work requirements as fair and that they do real work of value to the community. Other evidence suggests that programs are difficult to operate on a large scale and so most remain relatively small. Evidence about whether the programs help the transition to work was uncertain. Studies have also shown that programs can be quite expensive when all the costs are taken into account. Nevertheless, the programs were a popular way of linking financial support to work participation (Gueron 1997 pp. 87-88).

33 This was not considered to be particularly problematic, as the Work for the Dole program was never officially intended to generate employment. The objective was rather to alter work habits and attitudes.

34 It is important to realise, however, that the main objective of Work for the Dole is attitudinal and behavioural change and is explicitly not designed as a labour market program with direct employment
2.3.2 Individualised Assistance Measures

Case management services

Several countries have increased their case management or personal adviser services to the unemployed to help target assistance to individual needs and provide a greater one-on-one service. Case managers may be involved in counselling and mentoring of clients, assisting job search, conducting in-depth interviews, assessing eligibility, referring clients to other assistance providers and completing individual action plans with clients.

The UK has placed case management services at the heart of its six New Deal (ND) labour market programs. Each client participating in ND gets help from a Personal Adviser (PA) to develop an employment plan, guide job search activities, provide advice, refer clients to more intensive labour market training and help with more personal problems, such as drug dependency. Evaluations of ND have highlighted the central role that PAs play in determining a client’s progress through the program and the options pursued while participating. Most clients have reported a high level of satisfaction with their PA (Hasluck 2000; Hasluck 2002; Evans et al 2003; Knight and White date unknown).

However, the same evaluations demonstrate some of the risks associated with case management services, particularly when a large client base is involved. The role of case manager is a demanding one and requires a high level of knowledge, discretion and sensitivity to fill the variety of roles required. Employing and training such people is expensive, and sometimes it is not possible to find the right people. Recruitment and staff training are important issues and a management structure needs to be put in place to support staff. (Lewis, 1999 pp. 23-28, Finn & Blackmore, 2000, pp. 5-6). Moreover, while discretion is a necessary part of a properly individualised system, this often conflicts with goals of equity and universality in the delivery of government services, and can lead to uneven outcomes.

Individual action plans

In several countries the unemployed and other job seekers are required to have in place an individual action plan. Action plans can provide a structure and impetus to job search efforts as well as providing administrators with a mechanism for monitoring eligibility. While the content of action plans necessarily differs between individuals, they generally set out work availability and any agreed restrictions to work; the type of work the client is looking for or employment needs; what the client intends to do to look for work and improve their chances of finding work; any active labour market program participation; ongoing eligibility requirements; and the assistance to be provided by the employment service or provider.

35 In some cases, (Australia, UK, New Zealand and Wisconsin) an action plan is an eligibility requirement for benefit. Other countries (Austria and Switzerland) establish action plans within a month or so of initial registration while others (Czech Republic, Finland, Netherlands, Norway and Portugal) action plans are established after about 4 to 6 months of unemployment. Denmark, Belgium and Canada establish action plans for those entering labour market programs after a period of unemployment (OECD, 1997).
Despite their increased usage and potential value, there is evidence that action plans can risk becoming ineffective if they are unaccompanied by adequate levels of staff resources and organisational effort and staff resources. In a survey of long-term unemployed clients in the UK it was found that not one of the 80 people participating in focus group sessions thought the Jobseeker’s Agreement was useful or worthwhile. The survey found a high level of ‘formalistic compliance’ to action plans in which people agreed to things they did not want to do or intend to do so they could be paid (Finn and Blackmore 2000, p. 6). NDYP evaluations show that clients tend not to use the Action Plan in their job search activity and rely more heavily on the discussion opportunities and direct support that is offered through the Personal Advisor (Legard et al 1998, Hasluck 2000, p. 26).

After examining OECD evidence regarding job-search requirements and individual action plans, Grubb confirms these findings and concluded that there is considerable uncertainty about the overall effectiveness …of… job search reporting requirements and individual action plans which attempt to oblige the unemployed person to take initiatives to find work’ (Grubb 2001, p. 209).

**Intensive interviews**

Another important intervention in the management of the unemployed is the in-depth interview. Most countries do this to monitor eligibility requirements, to help with job-search, to review action plans and to assess the need for further measures. Some countries use interviews more frequently and systematically than others. While most countries conduct initial ‘verification’ interviews when establishing benefit eligibility, countries vary in the timing and the frequency with which they use ongoing interviews.

For example, in New Zealand clients assessed as at low risk of long-term unemployment are deemed ‘self starters’ and are left to pursue their own job search for 13 weeks. All other job seekers are managed on a regular basis and the timing of interviews is determined by their assessed risk of becoming or remaining long-term unemployed. Several countries have adopted a more structured interview process, similar to that existing in Australia in the mid-1990s under the Working Nation program. The UK, the Netherlands and Finland have a fixed schedule of interviews at specific durations of unemployment, while Denmark, Germany, Norway and Sweden specify a maximum period of time between interviews, such as three months (OECD 1999, p. 10).

In the UK ‘review’ interviews for clients of the Jobseeker Allowance are conducted at the 3, 6, 12 and 24 month periods. Review interviews are used to provide more intensive job search and employment assistance as well as acting as ‘triggers’ for entrance to labour market programs (eg New Deal for Young People becomes mandatory at 6 months and New Deal for Long-Term Unemployed at 2 years) (Dolton and O’Neill, 1997). There is some recent evidence that these intensive interviews, followed by a period of job matching, can have a small positive effect on the employment outcomes of unemployed people, particularly those that are more job ready. These results suggest that the most disadvantaged need more than job search or job matching to improve outcomes (Policy Research Institute, 2002).
Positive results were also found in evaluations of the ‘Restart’ program that operated in the UK in the late 1980s. This program required all people unemployed for 6 months to attend a ‘restart’ interview in which they would receive intensified job search assistance, personal advice and help with job matching. Evaluations found that over the following three years the unemployment rate for the program group was significantly lower than the control group. Also, program participants were more likely than control group members to enter work rather than simply disappear from payment (Dolton and O’Neill, 1997). These impacts were judged to be the result of a combination of a check on eligibility status, the threat of sanctions, and the timing and content of job search assistance. The evaluation also argued that a reason for the long-term impact may have been because program participants had their interview at 6 months rather at 12 months, as did the control group, and that this led to earlier exits to work, training or education (and less time spent on payment). This lesser time on payment may have improved the signal being sent to future employers (Dolton and O’Neill, 1997).

2.3.3 Improving information access

An important function of a public employment service is to provide the unemployed and ‘information poor’ with access to labour market information. Learning about job opportunities can be difficult for many disadvantaged people because they do not have access to the types of information networks employers use when seeking employees (De Koning, 2000, p.19, Harris and Edin, 2000, p.12).

To a large extent, the success of compulsory interviews outlined in Section 2.2.1 indicates that access to good information is important in encouraging people to participate in programs that may be of benefit to them. The fact that large numbers of individuals took up offers of program participation voluntarily on hearing about opportunities in an interview situation demonstrates the importance of information that is of high quality and relevant to individuals needs. On the other hand, information by itself may not be sufficient. For example, the ONE program in the UK required all new income support applicants (including lone parents and people with disabilities) to attend a work-focused interview as a condition of payment. The interview provided information about employment services and emphasised the importance of moving back to work quickly. There was no compulsion to enter a program or activity after the interview. Evidence from evaluations found that the interview had no effect on the employment outcomes of participants during a 15-month follow-up period (Department of Work and Pensions, 2003).

Uncertainty and lack of information regarding people’s understanding of their financial position once they begin work, and their re-eligibility for benefits if they need to leave work is a major factor in deterring people from taking up some forms of work (Dustmann and Micklewright 1992). A number of countries have experimented with interventions to smooth this transition and provide incentives to take up work. One simple but effective measure is providing information on a client’s financial

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36 The reliance on formal job-matching is only a part of the story. Studies have shown that ‘informal networks’, such as between employees, families and friends, are important sources of labour market information, accounting for between 25 per cent and 60 per cent of all hires amongst low-skilled people in the US (Kaye and Nightingale 2000, p.11).
position if they take up work. For many clients assessing whether they would be better off in work or not is too complex. The UK now regularly conducts what it calls ‘Better Off Calculations’ and provides other benefit advice as part of its service to unemployed clients (Lewis, 1999, pp.10, 27).

To address this risk in Australia, the Working Credit initiative, to be implemented in September this year is accompanied by easy-to-access real-time information about the effect of earnings on income support levels and abbreviated reclaim procedures when temporary work that takes a person off payment is not ongoing.

3. REMAINING QUESTIONS

3.1 The long run elasticity of labour supply

The decision to supply labour has been extensively studied by economists. Much of this work, though, adheres to a static framework that fails to capture the mutual interaction of social norms and financial incentives. As noted in Section 2.1, how people respond to a given financial incentive is taken as exogenously given – but these responses are themselves partly an indirect function of other economic relations; the Marxist view that economic arrangements are internalised in social attitudes has force. For example, failure to provide a financial incentive to work will in time tend to make non-employment more socially acceptable. There is reason to suspect, therefore, that financial incentives and disincentives have more effect in the long run than in the short run on which most studies have focussed – that is, the long run elasticity of labour supply is higher than is generally supposed.

There is, then, a considerable gap in our knowledge about the interactions of social norms, attitudes to participation and financial incentives. This gap is not accidental; it is a difficult area to study with any rigour, needing a cross-disciplinary approach (social psychology, sociology and economics) and, because of the long lags and interactions between agents, a substantial data investment and some difficult modelling.

3.2 Variations in labour market demand

Income support rates payment conditions and, to a large extent, assistance to jobseekers are common across Australia. We might expect, therefore, little difference among regions as to the minimum wages for which people would be willing to take a job. But the state of labour demand and going wage rates are certainly not constant across the country or across the business cycle. We might therefore also expect the practical importance of any changed behaviour caused by the income support system to vary across regions and across time – in other words, the effect of incentives, assistance and requirements on labour market participation and on employment must vary.

In the US there is considerable variation across states and regions in all these factors, and there are studies that attempt to exploit this variation to assess the effectiveness of programs under different conditions (Ashenfelter 1999 is one of many examples). Unfortunately these are often plagued by endogeneity problems – the local assistance regime is responsive to local labour market conditions, so it is difficult to generalise.
results across the country. It is even more difficult to generalise these results to the very different income support system, recipient population and economic and industrial environment of Australia.

Very little is known about this therefore in Australia, and any study is complicated by the relatively high rate of internal migration of the non-employed; some to higher employment areas in search of opportunities, and others to lower employment areas in search of lower living costs.

4. CONCLUSION

This paper has shown that despite some useful insights into the impact of welfare reform measures, there is still a lot of uncertainty about the overall impact or the contributions made to outcomes by each policy lever. While at one level it is easy to agree on the importance of promoting an appropriate balance in rights, responsibilities and opportunities between government at its various levels, and individuals, families, social partners and communities, the evidence to date does not give us precise instructions on what an appropriate balance between the three policy instruments might be. Indeed, the definition of what is an 'appropriate balance' will vary the depending on prevailing institutions, policy settings and social values in each labour market jurisdiction.

This makes it extremely hazardous to conclude that what works in one place for some people will work in other contexts for the same or for other groups. It is vital that countries, even localities, debate and discuss what mix of policies is appropriate for them. At best, results from other programs and policies can give us clues or hints about what may work. These ideas must still be tested on the ground to see whether their results are consistent with the goals and values of the community and the people involved. The hazards are particularly apparent when the bulk of evaluation and research evidence comes from a handful of countries. As more evidence becomes available from countries and locations outside the US and the UK, we will be in a better position to identify which lessons are more generalisable across different institutional and cultural settings.

What, then, are some of the clues or lessons to learn from the evidence presented in this paper? Some of the more apparent include the following:

- Effectiveness requires a mix of policies and approaches. No one policy lever on its own – not participation requirements, not incentives, not services – is as effective as in combination. For example, requirements without incentives can lead to people moving quickly into employment but less effectively than a strategy that also contains positive financial incentives. Work requirements on their own can also be less effective in achieving financial security for low-skilled and disadvantaged income support recipients. Similarly, incentives to take work can be more effective when combined with participation requirements and assistance measures because of the help given to people to find work and overcome barriers to employment.
There are tradeoffs between ‘work-first’ and ‘human capital’ approaches, but a combination probably works the best. The evidence from these two approaches suggests that a mixed strategy which attempts to match policies with customer needs is better than either one on their own. In other words, for some people intensive job search is appropriate, whereas for others some skill-building is needed. However, lessons learnt from human capital programs suggests that there is scope for improving the types of training programs offered. A lesson from work-first programs is that many people return to income support over time, suggesting that better job matching is required along with in-work services and support.

Most of the programs evaluated have found it difficult to help the most disadvantaged jobseekers find well-paying, secure employment. This highlights the crucial role of skills (both vocational and life skills) in securing good jobs. We need to explore policies and combinations that can either provide these skills or overcome the barriers. However, it demonstrates that labour market programs will often find it difficult to make up for an incomplete education. This is where early intervention programs may have long-term benefits if they can help people remain in and succeed at school.

Active labour policies are not a panacea for unemployment. They can be only one element in a comprehensive strategy to reduce unemployment and themselves are dependent on the state of the economy and the demand for labour. Without a steady supply of job vacancies they will not be as effective. Evidence has shown that active welfare programs are most successful in buoyant labour markets and for those who are most job-ready. This, however, raises questions about the extent to which active measures are accompanied by deadweight costs.

Labour market policies have an important role to play in maintaining the prospects of those who find themselves on income support. However, policies that are principally focused on ‘engagement’ and program participation run the risk of creating a ‘treadmill’ of formalistic compliance and an erosion of support on the part of both staff and clients. This is especially true in an environment where labour demand is low, or if the programs are not suited to the needs of clients.

There are a number of specific policies/services that can be effective. One of the most obvious from the evaluations was the Personal Adviser or case management service. For many people this service was an important bridge to both the job market and employment services. Advisers helped to build confidence, provide advice, and give guidance and encouragement. For many people their Adviser was the difference between work and remaining on income support. However, it is important for Personal Advisers to be appropriate skilled and to have sufficient time to offer an adequate service.

Sanctions are necessary but some approaches work better than others. While clients need to know that there are clear consequences for deliberate non-compliance, breaches are not in themselves an effective way of achieving welfare reform goals. Nor is a high sanction rate evidence of an effective welfare to work approach. If effective programs are in place and services attempt to meet individual needs, customers are more likely to willingly engage with the help available and achieve a positive outcome. In an effective policy approach
sanctions should play a less prominent role. This is especially so, in light of the evidence that sanctions are most often applied to the most vulnerable clients and can have negative consequences for a significant minority of these individuals. It would be a sad irony if a policy designed to promote social inclusion for those at the margins of society should itself be the means to exacerbate their exclusion.

This list is not exhaustive. A number of other conclusions can be drawn from the evidence that is currently available, and the ones listed here will undoubtedly be contested and modified as more evidence becomes available over time. This is why a vigorous and ongoing public debate is necessary. There are clear failings in Australia’s welfare and employment policies that the current reform process is attempting to overcome. But the way ahead is not always clear. Empirical evidence is needed to illuminate the way ahead, but judgements about which way to travel will also reflect our values and our understanding of what the good society is. Thus, evidence must go hand in hand with informed, intelligently led and widely facilitated public debates about values and the type of society we wish Australia to be. Given the nature of our parliamentary system and the government’s awareness that durable change in this area needs broad based community support, the debate is likely to continue.
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