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Built-in contradictions may hamper Howard's reforms

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The labour market and welfare changes are far from ideal for the purported beneficiaries, and they have proved to be a boon for the unions

THE two landmark reforms now before federal parliament may come to be seen as the culmination of **John Howard's** political career, whether or not he decides to pull up stumps next year.

One deregulates the labour market and attacks **union** power; the other aims to move people off welfare and into work. Both embody themes that have been constants in Howard's long years in public life: encouraging individual freedom and initiative and cutting back the props and protections provided by government and unions.

This makes it all the more surprising that they contain such contradictory components, including in the way they interact with each other. At the same time the welfare-to-work measures act to reduce welfare dependency, the **industrial** relations reforms work to increase the numbers receiving welfare. The welfare reforms include in the same package incentives for people to take up work and new ways of discouraging them from doing so. The Government sells the **industrial** relations reforms as allowing more flexibility for employees with family responsibilities, but they tilt the playing field so far to employers that they have the potential to increase the strains on family life.

To the extent that labour market deregulation creates more jobs, it will be largely as a result of bringing down relative wage levels for the lower paid. The Government has promised not to cut the minimum wage below its present nominal level of \$12.75 an hour, which leaves scope for it to fall gradually in real terms. But the lower wages drop, the greater the numbers qualifying for government payments.

There is already a substantial overlap. People on the minimum wage earn \$485 for a 38-hour week but incomes have to pass \$2000 a week before the main family tax benefit cuts out for a family with two children. Individuals earning almost \$700 a week can still qualify for part-payment of

pensions such as the parenting payment for sole parents or the disability support pension.

The **unemployment** benefit Newstart is much less generous, phasing out completely for individuals when incomes pass \$330 a week.

But this still means many casual and part-time workers qualify for some payments, and it is these kind of jobs that are most likely to be created for the low skilled.

At least they will have jobs, the Government will argue, if the policy of holding down wages works. But the evidence suggests that wage levels will have to come down substantially before employers are enticed to hire unskilled or low-skilled workers. And part of the cost of providing them with an income on which they can live will have shifted from employers to workers, who suffer real wage cuts even though they would have been employed anyway, and to taxpayers who pay for welfare.

Moreover, the closer wage levels come to government benefits, the smaller will be the incentive to take jobs. Although this should not be a serious barrier for people to move into full-time work, because their incomes will rise substantially, it could be a real factor for the many who can only pick up casual or part-time jobs.

Even the welfare-to-work legislation has contradictory incentives. In future, people with disabilities assessed as being able to work as few as 15 hours a week will no longer qualify for disability support pensions. Instead they will go on to Newstart if they do not get a job, and face a cut in income of \$46 a week or more, depending on their circumstances. Single parents whose youngest child turns eight will face a similar situation, with cuts in their income of at least \$29 a week. These are the sticks designed to make people look seriously for jobs.

But the carrot to take these jobs is reduced because Newstart recipients lose more of their benefits once they start earning income than people on pensions such as DSP. Not only that, but a person with disabilities who does get a job and works 15 hours a week on the minimum wage would receive \$96 less than under the DSP.

The Government is offering more carrots in the form of enhanced **employment** assistance and childcare services. However, the Australian Council of Social Service says most of this will go to low-level help such as an interview a month and "self-service" job search. There are 7000 places a year in the wage assist program for those out of work for more than two years, but ACOSS points out there are 200,000 people competing for them. There are 5000 vocational education and training places a year and 1000 literacy places for the 180,000 jobless parents with school-age children.

The Howard reforms also contain some unintended consequences, to use the political euphemism for stuff-ups. Trade unions are reporting significant increases in their memberships as people concerned about losing penalty rates and other work conditions reassess the value of unionism. If the legislation is as good for workers as the Government claims, then this will be no more than a blip in the long-term decline of unionism. But it is at least ironic that the Prime Minister has become a defacto recruiting officer for the unions and that his success will contribute to increased affiliation fees from trade unions flowing to the ALP in time for the next election.

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