



**CATHOLIC WELFARE AUSTRALIA**

*Embarrassment of riches*

**2004-2005 PRE-BUDGET SUBMISSION**

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## **Catholic Welfare Australia**

Catholic Welfare Australia is the peak body representing the social welfare apostolate of the Catholic Church in Australia and is a Commission of the Australian Catholic Bishops' Conference. It is a national federation of Catholic social service organisations that operate in local communities and at a diocesan or regional level, including Centacare agencies. Catholic Welfare Australia is an organisation of the Australian Catholic Bishops' Conference and is responsible to the Catholic Bishops through a Board appointed by Conference.

The mission of Catholic Welfare Australia is to promote and advance the ministry of Catholic social welfare as part of the core mission of the Church to be a sign of God's kingdom in the world. It undertakes this mission by interacting with Catholic welfare organisations, governments, other churches, public institutions, business and all people of good will, and through the development of policies and programs that promote the inherent dignity of each person.

Catholic Welfare Australia's national network of 53 Member Organisations provided direct assistance and support to over 450,000 people last year. That is one in every 50 Australians received services from Catholic social service agencies. Over 5500 staff and volunteers are employed across the nation to offer this support. Collectively, the Member Organisations spend over \$250m annually in the service of those in need and is the largest provider of family support services in the land – refer Attachment A for details of services delivered.

Catholic Welfare Australia is served by a National Secretariat in Canberra. The Social Policy and Research Unit within the National Secretariat prepared this submission in consultation with the Member Organisations.

## Recommendations

### *Recommendation One*

That the Australian Government introduces a further Family Tax Benefit measure targeted to low income families.

### *Recommendation Two*

That the Australian Government progressively increases allowance base payment rates to match pension base payment rates.

### *Recommendation Three*

That the Australian Government significantly increases FRSP program funding to adequately reflect the cost of wage increases.

### *Recommendation Four*

That the Australian Government refrain from applying an efficiency dividend to the JPET scheme.

### *Recommendation Five*

That the Australian Government increase funding to the Commonwealth Financial Counselling Program by 100%.

### *Recommendation Six*

That the Australian Government corrects the disparity between returns to providers of ISCA services and PSP services and increases funding to PSP so that another 10,000 places can be established.

### *Recommendation Seven*

That the Australian Government continue funding for the Stronger Families and Communities Strategy.

### *Recommendation Eight*

That the Australian Government fund pilot job creation schemes by providing employment tax credits in areas of regional disadvantage, a tax credit for the marginal jobseeker, and support of cooperative infrastructure investment in areas of disadvantage to encourage job creation.

## **Executive Summary**

Prudent fiscal policy and a strong performance by corporate Australia has provided the Commonwealth with the opportunity to return a social dividend to those Australian families in most need.

Catholic Welfare Australia believes that the central policy goal for the 2004-05 Federal Budget should be to improve opportunities for all, with a preferential focus on those citizens who most strongly experience economic deprivation.

Nobody should be left behind as Australia continues to grow and develop.

Policy responses need to be multi-dimensional and address:

- structural reform of the income transfer system;
- expansion of funding to family and personal support programs where there is unmet need; and
- the funding of pilot employment programs in areas of economic disadvantage to reduce welfare dependency.

The size of the fiscal surplus is sufficient to consider significant reform of the income transfer system. This should be targeted to those most in need, measured not just by income but also by those caught in very high poverty and disincentive traps. The focus of reduction in taxation should not be on the top marginal tax rate but on lower income working families. One method of providing relief to these persons is through provision of a tax credit arrangement that supplements Family Tax Benefit Part A targeted to lower income families.

The Australian Government should progressively increase allowance rates to the same level as pension base rates. Disparity in base rates and the basis of their indexation is an anomaly requiring urgent correction. The variance between these base rates will increase in a period of real wage growth ensuring that the costs of delaying their alignment will rise. This is a fundamental element of welfare reform.

The increased recognition of the cost of relationship breakdown from the debate over the proposal to introduce rebuttable joint custody provides a strong impetus for increasing funding to the Family Relationship Services Program and the Personal Support Programme as preventative and early intervention measures. Redirection of moneys to increase expenditure for a range of family and personal support programs of proven effectiveness is therefore a high priority.

The problem of entrenched disadvantage among the long-term unemployed is a great concern. This problem is most serious in regional and remote Australia. Experimental policy programs need to be given serious consideration. Wage subsidies to the long-term unemployed, the provision of extra incentives for movement from long-term unemployment into education, tax credits to stimulate job creation, and infrastructure development in regional areas of disadvantage are some examples.

## **Catholic Social Teaching and Fiscal Policy**

The development of economic activity and growth in production are meant to provide for the needs of human beings. Economic life is not meant solely to multiply goods produced and increase profit or power; it is ordered first of all to the service of persons, of the whole person, and of the entire human community.

*Catechism of the Catholic Church, n2426*

The central theme of Catholic Social Teaching is the importance of fostering a socio-economic and institutional environment that recognises the essential dignity of every human person. Poverty resulting from disadvantage represents a principle threat to human wellbeing both in material and spiritual aspects. So the Church calls for a preferential love of or option for the poor. This is a key challenge to policy makers - to recognise that the needs of the poor and socially marginalised are so pressing that they should enjoy the first claim to available resources.

This is not just a banal demand for extra funding for social programs in general. The challenge is for all governments to assimilate into the policy formulation process the principle that considerations of social justice must always enjoy a certain pre-eminence. There are many objectives to be achieved through responsible fiscal policy. Still, in the weight of this policy calculus, a truly ethical position would elevate the claims of the poor above those of others in less need. So when governments need to raise revenue it should look as much as possible to placing the burden of this on those who can most afford it. When governments evaluate spending proposals they need to ask whether the priority of expenditure is targeted to those in most need.

In order to genuinely serve the wellbeing of Australians, fiscal policy must reject approaches that favour personal individualistic objectives rather than a genuine sense of social responsibility. This has specific implications for taxation policy and welfare reform. It suggests a prioritisation of reform in favour of those on lower incomes (by reducing high effective marginal tax rates) relative to calls to reduce the top marginal tax rate.

Empowering persons to move from welfare to work has more profound implications for human wellbeing in a community than microeconomic benefits associated with tax reform at the higher end of the income distribution.

## Priorities for Reform

### A social dividend

Catholic Welfare Australia acknowledges the Australian Government's prudent fiscal policy which has generated a budget surplus. At the same time, Catholic Welfare Australia suggests that the Australian Government has an embarrassment of riches with a \$7.5bn surplus.

This embarrassment is due to three factors. First, while the Australian Government enjoys extraordinary increases in the corporate taxation revenue, it is seeking to increase the contribution that low-income families must make for basic health and education services.

Secondly, there is no evidence that the situation of the most disadvantaged in Australia is improving and there are clear cases of unmet need in areas of disability, employment services programs and support for indigenous communities.

And thirdly, low-income families are the new working poor with massive housing costs, difficulties in obtaining child care, significant challenges in achieving a work and family balance, and confronting poverty and disincentive traps through high effective marginal tax rates.

Catholic Welfare Australia and its Member Organisations urge the Australian Government to consider the case for using the Budget surplus to pay a social dividend rather than distribute an individual dividend through small tax cuts.

### Tax cuts?

Should the social dividend be returned in the form of tax cuts? The answer depends upon whether any proposal for taxation relief can be distributed in an equitable and efficient way. Certainly, there is a perception that Australia's top marginal tax rate is high and comes in at a relatively low income rate.

However, there are major economic efficiency problems associated with high effective tax rates. In determining which sections of the community to target tax relief the Australian Government should focus on the eventual distributional outcome in terms of dollars per week **and** the incidence of high effective marginal tax rates (EMTRs) and effective average tax rates (EATRs).<sup>1</sup>

The incentive problems are greatest for lower income families. NATSEM research on effective average tax rates shows that EATRs for families on lower incomes vary between 80% and 120% when the secondary earner works 10-20 hours per week. Sole parents also face very high EATRs.<sup>2</sup> The picture is less bleak for higher income families. The report concludes that:

Low income couples with children often gain very little disposable income when the mother increases her hours of work. Indeed, for some increases in hours the family can

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<sup>1</sup> An EATR is the weighted sum of EMTRs over a specified income range.

<sup>2</sup> Toohy, M. & Beer, G., 2003, *Is it Worth Working Now*. NATSEM: Canberra.

actually be financially worse off. Families with more children tend to gain less disposable income because they receive more FTB-A, which is then withdrawn over a wider range of private income. This also contributes to the generally higher EATRs for families with more children – for every hour that a low income mother with three children works above 8 hours per week, she loses at least 60 per cent of her hourly wage to tax, income tests on Government cash payments and net child care costs.

**Figure 1: EATRs for a family: father earning \$515 per week and the mother earning \$11.70 per hour with 1-3 children – one child in child care at \$4.30 per hour (source: NATSEM 2003)**



Other NATSEM research shows that low income families face very high EMTRs. For example, the highest proportion of families with EMTRs over 60% occurs within the 4<sup>th</sup> and 5<sup>th</sup> income deciles (17% in the 4<sup>th</sup> decile and 24% in the 5<sup>th</sup> decile).<sup>3</sup>

There is no evidence to suggest individuals facing higher marginal tax rates have been disadvantaged by recent tax changes that would warrant further tax relief. Substantial reductions to higher marginal tax rates occurred as part of the introduction of Australia's New Taxation System. There was a large reduction in personal tax rates for those earning over \$38,000 (from 43% to 30% under \$50,000 and from 47% to 42% between \$50,000 and \$60,000).

The increase in the threshold at which the top marginal tax rate applies from \$50,000 to \$62,500 has provided significant taxation relief to higher income earners. Treasury analysis on the effect of the new taxation system<sup>4</sup> indicates substantial gains to the highest quintile of the income spectrum. In dollar terms these are very substantial gains: \$50 per week for a retired pensioner couple and \$34 for a couple without children. So there is no argument on equity grounds for tax relief for individuals on higher incomes.

<sup>3</sup> Beer, G., 2002, *Work Incentives under a New Tax System: The distribution of effective marginal tax rates in 2002*. NATSEM: Canberra.

<sup>4</sup> The Department of Treasury, 2003, *Autumn Roundup*, p.24.

If the Budget surplus is to be directed towards reduction in personal income taxation, options should be considered to focus this relief on those facing higher effective marginal and average tax rates. This would deliver a balance between equity and efficiency objectives by reducing disincentive traps and targeted assistance to those who have gained least from the more recent changes to the taxation system.

### **Tax credits for low income working families**

Tax credits can be used as a measure to address financial hardship in a more direct manner than raising minimum wages. A tax credit is simply a negative tax usually able to be received in cash. It is a very flexible policy instrument and can be used to target specific individuals or classes of taxpayers/beneficiaries. They are currently used as a form of income supplementation for families as part of Family Tax Benefit Part A and B.

Catholic Welfare Australia proposes a new tax credit arrangement specifically targeted to low income families. To the extent that a family's measured wage income (net of benefits) provides an income below a determined benchmark, then a tax credit could be applied. This benchmark could be assessed using a budget standards approach as devised by the Budget Standards Unit of the Social Policy Research Centre at UNSW.

This tax credit will lead to the reduction or elimination of income taxes. If the family's income is still below this benchmark the credit would flow into increased family tax benefit payments. This is essentially the creation of a further class of family tax benefit payments for those on lower incomes who are employed.

#### ***Recommendation One***

**That the Australian Government introduce a further Family Tax Benefit measure targeted to low income families.**

### **Welfare Reform**

The surplus provides the Australian Government with a unique opportunity to substantially relieve the plight of the most disadvantaged. Catholic Welfare Australia has called upon the Australian Government to embark on a genuine approach to welfare reform. A central issue in this debate is dealing with the growing disparity in the provision of income support to those on pensions and those on allowances. Pensions are indexed according to movements in average weekly earnings but allowances are indexed to changes in the CPI. So if real wages grow, as many economists expect, the costs of correcting the disparity will increase.

From the perspective of social justice this disparity is of grave concern. Should a person earning an age pension receive a different level of assistance than an independent student or a job seeker? Should an age pensioner with a dependent child be subject to differential treatment to a sole parent? The issue is not restricted to payment rates but also access to affordable health care. Economic disadvantage should be addressed equally according to need, not according to the legislative category under which a person may fall. If the base payment level represents the minimum deemed acceptable for a single person then this, as a matter of justice, should be equal (prior to special considerations like disability and housing costs) to all people.

It is the clear and deeply held position of the Catholic Church that access to a basic level of income support is a universal right and places an absolute obligation on the Australian Government. Pope John Paul II has articulated this obligation as follows.

The obligation to provide unemployment benefits, that is to say, the duty to make suitable grants indispensable for the subsistence of unemployed workers and their families, is a fundamental duty springing from the fundamental principle of the moral order ... namely the principle of the common use of goods or, to put it another and still simpler way, the right to life and subsistence.<sup>5</sup>

If this right is universal then, after allowing for special circumstances, all persons should have this right equally protected through the same universal base payment level. Catholic Welfare Australia calls on the Australian Government to use the opportunity created by the substantial fiscal surplus to raise the base rate of allowance payments towards the base rate of pension payments.

ACOSS has called for the reduction in the disparity in base payment rates to be reduced by one quarter.<sup>6</sup> Now that the quantum of the fiscal surplus is known, it could be argued that an even greater commitment to reducing these disparities is possible. Catholic Welfare Australia calls on the Australian Government to commit itself to progressively raise all allowance base rates to pension levels.

***Recommendation Two***

**That the Australian Government progressively increase allowance base payment rates to match pension base payment rates.**

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<sup>5</sup> John Paul II, 1981, *Laborem exercens* (On Human Work) 1981, Encyclical Letter, n18.

<sup>6</sup> ACOSS, 2003, *Fairness and flexibility: Reform of workforce age social security payments*. ACOSS: Sydney. p.60.

## Proposals for Reform of Current Program Initiatives

Catholic Welfare Australia calls for increased funding to those social service programs with proven effectiveness where there is a clear case of unmet need.

### Family Relationship Services Program

Twenty-eight Member Organisations provide services under the Family Relationship Services Program (FRSP). This program has led to proven positive outcomes for over 60 years. Since the early days when funding was made available for services funded under the **Family Law Act 1975**, wage costs have increased, professionals have replaced volunteers and numbers of professional staff who are religious (who draw a stipend rather than a wage) have dramatically declined. The Australian Government has provided funding to the non-government sector to deliver services prescribed in the Commonwealth's matrimonial and family law legislation since the early 1960s. From the outset, church based organisations received less funding comparative to secular organisations. This continued when funding was made available for marriage and relationship counselling and marriage preparation/education services funded under the **Family Law Act 1975**. The principal reason for reduced funding was the belief that many church-based organisations required less funds due to the use of religious personnel who were paid a stipend and the belief that churches benefited from tax concessions (rates, land tax etc).

Resources have been stretched to ensure quality in service delivery. Catholic Welfare Australia does not dispute the need for such measures. The 'duty of care' component of the Catholic Welfare Australia's mission dictates that the best possible service be delivered to the Australian public. Moreover, accountability requirements are justified. Still, such measures are time and resource intensive and have been implemented without any additional resourcing. This has had implications for service delivery.

Catholic Welfare Australia is particularly concerned about the provision of services in rural and remote Australia. There are significant difficulties in attracting professional staff. Isolation and distance involve costs to service delivery. There is also less scope to spread fixed overhead costs over a smaller client base in areas with less population.

In many regional and rural locations, religious orders contribute greatly to the coverage of services. As these religious orders have an ageing membership, continuation and reliance on religious personnel is no longer a sustainable strategy to underpin future service delivery in these areas. Funding for the Program needs to reflect this changing dynamic.

The Department of Family and Community Services, which administers the FRSP, has been advised that the Catholic Church and its Member Organisations are **no longer in a position to subsidise the services that are not funded to adequate levels**. The Department has agreed that the funding is not transparent and the services need to be fully costed and fully funded. Assurances have been given that these inequity issues would be addressed as a matter of priority some 12 months ago. Currently, another review of services is underway which it is hoped will lead to proposal to improve the current funding formula.

In the past funds provided under FRSP have been 'rolled over' year after year as part of Federal Budget allocation. The continued rollover of this funding has lacked transparency and leaves long standing Catholic Welfare Australia Member Organisations involved in

delivering FRSP services at a distinct financial disadvantage comparative to secular organisations that have historically received a greater share of this funding.

Catholic Welfare Australia argues that the overall funding for FRSP should be increased so that the services provided by all FRSP providers are maintained and that all providers are adequately funded for the full cost of the important work that they do. Catholic Welfare Australia has brought these issues to the attention of DFACS and previously to the Attorney-General's Department (who administered the program prior to DFACS) on several occasions over the past few years.

There is a strong case for increasing overall funding to the scheme. The ongoing Commonwealth Inquiry into Child Custody Arrangements into the Event of Separation has drawn the nation's attention to the tragic cost of relationship breakdown. The sheer helplessness and desperation of lone fathers and sole parents cannot but evoke a strong pastoral concern in an organisation like Catholic Welfare Australia. The answers to the problem are less easily identified but what is clear is that this is not an issue that lends itself to legislative solutions. Rather than a legal paradigm what is called for is the application of a model for dealing with conflict in relationship, cures for advanced relationship breakdown are scarce. What is needed is a more comprehensive preventive strategy. If the problems flow from an incapacity to deal with conflict satisfactorily at any early stage the way forward is to substantially increase funding to preventative services.

The socio-economic costs of relationship breakdown are gargantuan. The 1998 Parliamentary Report entitled *To Have and To Hold* estimated the cost of relationship breakdown to be \$3-6 bn per annum. Given the nature of the costs the total funding for the FRSP must be seen a mere token response to the overall problem. Catholic Welfare Australia calls on the Australian Government to increase the funding from current levels of \$50.6m to \$100m.

Much of these costs end up being met by the government in terms of benefits, housing and lost tax revenue from reduced labour market participation. Participation rates are considered by Treasury to be a very significant long-term driver of GDP per capita growth. Relationship breakdown is a life event that is likely to significantly affect the capacities of either partner to fully participate in the labour market. It is also a factor likely to have a considerable adverse effect on labour productivity. So living standards and well-being from both economic and psycho-social perspectives are severely affected by relationship breakdown.

**Budget Request:** An additional \$49.4m

#### ***Recommendation Four***

**That the Australian Government significantly increases FRSP program funding to adequately reflect the cost of wage increases.**

#### **Job Placement, Education and Training Program**

The Job Placement, Education and Training Program (JPET) and Reconnect Program initiatives are also important parts of Catholic Welfare Australia's network of services. The 2003-2004 budget saw a recommitment from the Australian Government for funding to both Reconnect and JPET. Catholic Welfare Australia welcomes this continuation of funding for programs that are highly important to young people who are at risk or experience

homelessness and are without employment or those who are at risk of being disadvantaged through a disconnection from family and the community.

These people-centred services are very lightly funded and expensive to operate. There is concern that the *efficiency dividend* being applied to these programs is harsh and unfair to organisations that already operate on tight budgets.

***Recommendation Five***

**That the Australian Government refrain from applying an efficiency dividend to the JPET scheme.**

**Commonwealth Financial Counselling Program**

The Commonwealth Financial Counselling Program (CFCP) has considerable potential to reduce poverty and financial hardship but is not well funded. Catholic Welfare Australia has many demonstrated outcomes where small investments of time with a financial counsellor have resulted in avoidance of bankruptcy proceedings and significant savings to low income families. Despite demonstrated benefits this program constantly has to fight for survival.

Funding under this scheme is insufficient to ensure reasonable access to the service in regional Australia. Moreover, even in urban environments recurrent funding has not keep pace with growth in labour costs. In a site run by a capital city based Member Organisation, funding provides for only 3.5 days per week with the agency needing to provide a substantial subsidy to ensure the service is operative.

The interaction between CFCP and other support services is problematic. Ideally FRSP counsellors and PSP case managers should be in a position to refer a client to a financial counsellor. However, given that it so difficult to access these counsellors and case managers will often find themselves performing rudimentary financial counselling. They are not trained for this and it detracts from their capacity to meet the objectives of their own programs. So, at present, low funding of CFCP may in fact reduce the effectiveness of other programs. However, if funding is sufficient to provide a readily available referral service then CFCP has considerable scope to build on and strengthen support provided by relationship counsellors and PSP case managers.

**Budget Request:** an additional \$2.3.

***Recommendation Six***

**That the Australian Government increase funding to the Commonwealth Financial Counselling Program by 100%**

**Personal Support Programme**

The Personal Support Programme (PSP) continues to be a primary mechanism by which Catholic Welfare Australia and other agencies seek to assist eligible participants with special needs and challenges. It is a successful program engaging the specialist resources of welfare

agencies to highly disadvantaged Australians. The fact that waiting lists are continually mounting is itself an indicator of the demand for these services. DFACS has advised that the official electronic waiting lists currently contain 3,200 persons. However the real extent of waiting lists which may be up to 9000, is currently indeterminate due to deficiencies in the Department of Employment and Workplace Relations information technology systems. At this rate the places allocated for the current financial year will be used by December. This suggests that demand for the service outweighs the allocated places by up to 10,000 places.

It needs to be remembered that these persons are in greatest need and delays in service access will exacerbate their experience of poverty and disadvantage. Additional funding to support delivering agencies to increase client contract capacity will reduce excessive waiting periods.

There is also a significant supply side problem in the longer term. There are some capacity constraints in gaining adequate staff in rural areas but the real issue relates to the poor return that PSP providers receive relative to the closest substitute service Intensive Support Customised Assistance (ISCA) under the Job Network. PSP services providers receive an average of \$3,300 payment to provide client support over 24-36 months. This needs to be compared with the \$6,600 payment made to Job Network and ISCA providers for only 6 months support and employment outcomes of only 13 week duration. Additionally, Job Network providers also have access to a further \$900-\$1,350 Job Seeker Account to help individual jobseekers achieve these outcomes.

There is no equivalent funding for PSP participants to access the specialist services they urgently require. If the Australian Government wants PSP providers to meet the current need and reduce waiting lists for these persons in often quite desperate circumstances then it needs to ensure that the return of this service is comparable to that provided by the ISCA. In the case of Catholic Welfare Australia, as a Job Network provider, there is a clear opportunity cost of devoting resources to PSP clients rather than ISCA clients – creating an impression that PSP is a secondary policy priority. Whether or not this is intended it is clearly against the Catholic social perspective that favours the most disadvantaged preferentially, suggesting that PSP clients should be funded at least equally to those in other programs.

Catholic Welfare Australia calls on the Australian Government to increase the net expected return to PSP providers to that level offered to Job Network agencies delivering ISCA services.

**Budget Request:** \$15m per year - based on an additional 10,000 places at \$3,000 per place, over two years (payment per place adjusted for GST).

#### ***Recommendation Seven***

**That the Australian Government correct the disparity between returns to providers of ISCA services and PSP services and increase funding to PSP so that another 10,000 places can be established.**

#### **Stronger Families and Communities Strategy**

The initial funding period of the Australian Government's Stronger Families and Communities Strategy is due to end in 2004. There are a number of organisations within the Catholic Welfare Australia network currently running services that seek to encourage capacity

building within families and communities under the Stronger Families and Communities Strategy.

The Strategy is generally perceived as a positive step in forming communities of resilience and strength, and a manner of increasing positive relationships amongst the community's members which in turn is an essential ingredient in the firm establishment of social capital.

Catholic Welfare Australia has a strong commitment to seeing capacity-building within communities increase, particularly in those communities that are most disadvantaged and socially isolated. Catholic Welfare Australia supports the continuation of Federal Budget funds to this initiative for the next three years.

**Budget Request:** Recurrent funding at existing levels.

***Recommendation Eight***

**That the Australian Government continue funding for the Stronger Families and Communities Strategy.**

## Trialling New Employment Initiatives

Design of effective labour market programs to reduce long-term unemployment is a one of the principle policy challenges facing all governments. The problem is as multifaceted as the reasons for which a person cannot penetrate the labour market. So there is a constant need to trial new approaches and tailor these to the Australian situation. No approach is without its associated economic costs. Still, it needs to be remembered that the rationale for government intervention in the first place is a social rather than economic imperative. In logical and ethical terms social objectives themselves represent no less of an a priori rationale for government intervention than any market failure.

### Tax credits in disadvantaged regional areas

Scope exists to trial pilot job creation program in rural and remote Australia along the lines of practises undertaken by some US states. These related to the provision of tax credits for employers in affected areas who take on additional employees. They receive a credit for state and local taxes that represents a significant portion of the employee's wage, creating an effective wage subsidy scheme.

#### Regional Development Tax Credit Schemes

In various states in America over 1,000 *Enterprise Zones* have been created in areas of economic need and development as in rural and remote areas. Companies investing and providing job creation are provided with benefits in the form of tax credits and tax refunds.<sup>7</sup>

South Carolina operates a scheme called the Job Development Credit. Under this scheme, eligible business that enter into a "Revitalization Agreement" to maintain a specified level of employment and investment may apply to withhold a percentage of State employee taxes. The quantum of this tax credit is based on the hourly wage rate paid to a new employee and the level of development of a county (less developed counties receive greater credits).

Washington State operates the Distressed Area Tax Credit/Job Creation program. This is a tax credit for businesses located in specific areas (high unemployment counties, community empowerment zones or low income counties). Companies receive a \$4,000 credit per job where wages and fringe benefits exceed \$40,000 and \$2,000 for other jobs.

Schemes of this nature could be considered in Australia. In regions of economic disadvantage a tax credit could be offered to an employer who takes on new staff up to a fixed level (say 50%) of the new employee's wage. This subsidy could last for a fixed period (say 12 months) so that the employee's attachment to the labour market is stabilised.

### Marginal jobseeker tax credit

There may be scope to expand the wage subsidy element of Job Network arrangements. In theory, the subsidy should be set at precisely that level which will offset the devaluation in a person's labour from being unemployed. This will vary with each jobseeker so that it appropriate that the Job Network provider determines the subsidy level.

<sup>7</sup> Aron, L., 2002, *Enterprise zones: The attraction is stronger than ever*. Viewed 24 March, 2003, <http://www.bizsites.com/stateads/ez02/index.asp>

However, the current wage subsidy opportunities that exist through Job Network services are poorly targeted. Research has shown that as many as 30% of jobseekers receiving this assistance would have found employment anyway. In order to restrict the subsidy to a marginal jobseeker,<sup>8</sup> Catholic Welfare Australia suggests that a co-payment/tax credit proposal be considered. This would involve:

1. a Job Network provider agreeing to making a co-payment on any wage subsidy (for example 25% of the level of subsidy providers from the Job Seeker account); and
2. offering a tax credit to an employer who hires these jobseekers equal to the present value of unemployment benefits saved over 13 or 26 weeks of employment.

The co-payment acts as a filter to restrict the subsidy to the genuinely marginal jobseeker thereby reducing costs so that the scheme could be funded from hypothecation of monies saved from breaching jobseekers.

### **Infrastructure projects**

There have been recent calls to direct some of the surplus towards development of infrastructure in rural Australia. Catholic Welfare Australia supports these proposals as a means of creating employment in disadvantaged regional areas.

#### ***Recommendation Nine***

**That the Australian Government fund pilot job creation schemes by providing employment tax credits in areas of regional disadvantage, a tax credit for the marginal jobseeker, and support of infrastructure investment in areas of disadvantage to encourage job creation.**

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<sup>8</sup> The marginal jobseeker is defined as a person who is qualified for a position but is not successful in entering the labour market due to the devaluation in his/her labour resulting from unemployment.

## **Conclusions**

With the 2004-05 Federal Budget the Australian Government has found itself in a situation where it has the fiscal means to contemplate major reform initiatives. Catholic Welfare Australia calls on the Australian Government to ensure that in the consideration of the allocation of fiscal resources those in greatest need are given the primary consideration. Reductions to the top marginal tax rate are not the area in which the Australian Government should seek to target the surplus.

Were the Australian Government to fund such increases it should, as a matter of justice and in keeping with economic reasoning, seek to produce a balanced reform package by increasing funding to disadvantaged families and individuals.

## ATTACHMENT A

Social welfare services delivered by CWA Member Organisations expressed as a percentage of total expenditure

