Family joblessness is one of the most significant problems facing Australian society today. Following its establishment in May 2008 the Australian Social Inclusion Board was asked by the Government to work as a priority on jobless families and children at greatest risk of disadvantage. This article is based on a report prepared for the Australian Social Inclusion Board (Whiteford, 2009).

Children are among the most vulnerable people in the community, and family joblessness raises the risk that children may grow up to be jobless. Intergenerational transmission of joblessness undermines both equality of outcomes and opportunity.

Australia has a high total level of employment but it also has one of the highest levels of joblessness among families with children of all rich countries. Indeed, after accounting for Australia's good overall employment performance, the level of family joblessness is the second worst of all rich countries, after the United Kingdom.

Identifying the factors behind this poor performance can help improve policies to promote social inclusion.

Between the late 1970s and the late 1990s, family joblessness nearly doubled – from 11 per cent to 19 per cent of families with children. This resulted from the increasing share of lone parent families with much lower employment rates than couple families, plus the impacts of the 1980s and 1990s recessions. When recovery came, family joblessness fell at a slower rate than overall unemployment.

Family joblessness has fallen since 1998 and by the middle of 2008 was nearly back to its level in 1980. This was mainly due to stronger employment growth, but the rate of reduction in joblessness accelerated after 2005, perhaps reflecting policy changes introduced in 2006 requiring parents receiving parenting payments to look for work once their youngest child turns seven. Despite this significant improvement, Australia still has a very long way to go to achieve the level of best-performing Organisation for Economic Co-operation and Development (OECD) countries.

Unfortunately, labour market trends are now negative and prospects for the near future look gloomy. Given that the employment situation for the most disadvantaged families deteriorated for nearly two decades, and it then took ten years of exceptional employment growth to
get back to the 1980 starting point, it is of crucial importance that policies support as many families as possible in entering and staying attached to the paid labour market. Policies need to be forward looking so that Australia can ensure that new generations of children are not disadvantaged by family joblessness.

**Why is joblessness a problem?**

Parents caring for children have important responsibilities, and it is obviously incorrect to imply that they are not working; it is simply that their caring work is not paid. This caring work is essential, unavoidable and valuable, so one response might be “why should we be concerned if some parents choose to give priority to caring for children over undertaking paid work?” The answer is that for many families not being in paid work is unlikely to be a matter of choice. Family joblessness is associated with major disadvantages, and these disadvantages are also a major cause of joblessness. Lack of paid employment is the most important cause of child poverty in Australia, and is associated with problems like poor health, higher risks of disability, lower educational attainment and skills, elevated financial stress and increased risks of violence for lone parents. Interruptions to paid employment for mothers are a major contributor to poverty in old age.

**What is joblessness and how is it measured?**

Joblessness refers to situations where parents are either unemployed and looking for work or not in the labour force and not actively looking for work. Joblessness can be measured at the individual, family or household level. Joblessness has an important time dimension – for example, statements are often made along the lines that “x per cent of Australian children are being raised in jobless families” – but these statements are misleading since families can move between employment and joblessness during a year or over a number of years.

Much discussion of joblessness relies on “snapshot” ABS data at a point in time – for example, in 2007 around 45 per cent of lone parents were jobless at the time of the monthly survey, but a lower proportion – 37 per cent – were jobless for the entire year. Longitu-dinal data show that the experience of joblessness is more common than suggested by snapshot data. For example, between 2001 and 2005 the proportion of children living in jobless households fell from around 18 per cent to 14 per cent, but nearly 26 per cent of children experienced a spell of joblessness in at least one of those five years (Headey and Warren, 2008).

Long-term joblessness is concentrated on a smaller group of families at risk of severe disadvantage – 5.5 per cent of Australian children lived in households which were jobless for all five years between 2001 and 2005, 20 per cent of lone mother families were jobless for five years, and close to 30 per cent of children in lone mother households experienced family joblessness during all five years. Thus, within a picture of improvements in the circumstances of the majority of the population including of some of the disadvantaged, a smaller (but still significant) group remained in extreme disadvantage.

**What is the link between family joblessness and child poverty?**

In most OECD countries, jobless families have higher risks of poverty than families where one or both parents are in paid work. In Australia poverty rates among jobless lone parents are ten times higher than for lone parents in paid work.

While joblessness is strongly associated with much higher risks of child poverty, in many countries having a job is far from the complete solution to child poverty. Across OECD countries, on average, only 30 per cent of poor families with children are jobless, and most child poverty is found in families where at least one parent is in paid employment (Whiteford and Adema, 2007). In Australia, however, around 70 per cent of poor children live in jobless families – the highest share in the OECD – making joblessness the main cause of childhood poverty.

For lone parents in paid work, Australia has the second lowest poverty rate in the OECD, and for couples with one or both parents in paid employment, poverty rates are also among the lowest in the OECD. So in Australia having paid work provides effective protection against income poverty. This is a result of our relatively high minimum wages and extensive support for low income families through the Family Tax Benefit system.

All countries with low child poverty rates (under 5 per cent) such as Denmark, Finland and Sweden combine effective redistribution and low rates of family joblessness. Australia has one of the most
effective redistribution systems of all OECD countries, but the high level of family joblessness means that Australian rates of child poverty are twice as high as the best performing countries (but less than half the worst performing countries).

**Does work pay?**

For employment to be effective in reducing poverty, work must pay. In income-tested systems like Australia’s, benefits are reduced on account of earnings, and families become liable for income taxes (and social security contributions elsewhere), plus they have to meet work-related costs, and they need to find and be able to afford child care. Guaranteeing that work pays is a fundamental element of any strategy to reduce family joblessness.

A concern expressed in many countries including Australia is with high effective marginal tax rates (EMTRs) facing low-paid workers as they make the transition from joblessness into paid work, or as potential second earners entering the paid labour market. In nearly all OECD countries, including Australia, effective tax rates on the low paid are higher than on the high paid, primarily through the overlap between taxes and benefit withdrawal. In Australia EMTRs can exceed 80 per cent when families are earning between 60 per cent and 70 per cent of average earnings, which is far higher than the top marginal income tax rate.

However, the EMTR for a family making marginal changes in hours or earnings between 60 per cent and 70 per cent of average earnings are irrelevant for someone moving from joblessness to part-time or low-paid full-time work (although it may be a barrier for someone wanting to vary hours of part-time work).

Here the relevant concept is average effective tax rates (AETRs), which are the average of all the EMTRs over a wider range of income – for example, between zero earnings and earning one-third of the average wage. In fact, AETRs for lone parents in Australia on moving into part-time work are around 40 per cent, nearly the lowest in the OECD. Only Italy, Greece and the USA have lower AETRs, because they provide much lower benefits for jobless families, so withdrawal of this assistance has little impact. AETRs over this earnings range exceed 80 per cent in ten OECD countries and approach 100 per cent in five countries. Overall, while Australia operates the most targeted benefit system in the OECD, incentives to take up part-time work are actually among the best in the OECD.

While high EMTRs can be a barrier to work, it therefore appears unlikely that they explain Australia’s high level of family joblessness compared to other countries. Australia and other countries such as the United Kingdom and New Zealand with high family joblessness have relatively low AETRs on the transition into part-time work, while others such as Denmark have very high AETRs but very low joblessness. Relative child care costs also do not appear to offer an explanation for Australia’s high level of family joblessness (Immerovil and Barber, 2005). Why then does Australia have such high family joblessness?

The high level of family joblessness in Australia, New Zealand, the United Kingdom and Ireland appears to be associated with the design of our benefit systems – benefit levels for families outside the labour force are towards the upper end of OECD countries, and until recently benefits were available without a work test until the youngest child was a teenager. These arrangements reinforced expectations that mothers should stay out of the labour force on a very long-term basis. In contrast, in the Nordic countries with low levels of joblessness, policies encourage paid work by mothers when their children are young, and also provide the extensive support required to achieve this objective.

**How can joblessness be reduced?**

What policy directions should Australia consider to avoid a repeat of the 1980s and 1990s when family joblessness nearly doubled? What can we do to further reduce family joblessness in the longer run?

First, resuming employment growth is of key importance. Having said this, the current situation is obviously very challenging. One of the main lessons of social policy experience since the 1970s is that policies to encourage people to withdraw from the labour force to reduce headline unemployment rates are counterproductive. Withdrawal from the labour force may have short term benefits, but in the long-term it reinforces poverty and disadvantage. Therefore, the current approach of encouraging parents to participate in the labour force should be maintained, although in a modified way.

Australia should consider establishing medium to long-term targets to increase employment for lone parents and reduce the prevalence of jobless couples to the levels in the best-performing countries like Denmark and Sweden. Over the last 10 years the employment rates of lone parents increased by 1.7 per centage points a year; if it were possible to regain this rate on average, we could reach the employment rate of lone parents in Denmark in about 12 years or around 2020.

Lone mothers are less likely to be employed than partnered mothers when their youngest child is below school age, with most of the difference due to lower levels of part-time work. This suggests the need to encourage part-time participation amongst mothers with pre-school children if a long-term target is to be
met. While this could be controversial, it is worth re-emphasising that family joblessness and child poverty are low in Nordic countries precisely because parents are expected to be in paid work by the time their youngest child is around three years of age – and because child care and related services are available to support this.

The pre-2006 policy of requiring parents with a youngest child aged 6 to 12 years to attend an annual interview with a Personal Adviser could be extended to those with children under six years. A further alternative for families with pre-school children is to introduce an expanded Jobs, Education, Training (JET) type scheme, using a facilitative approach to encourage parents into the work force either directly or through education and training.

The 2006 changes could be reformed to strengthen the anti-poverty effectiveness of this policy. Earlier arguments that part-time work pays for low income families assumed that lone parents receive Parenting Payment Single (PPS). The 2006 reforms did not simply require that lone parents actively seek work but also transferred them to Newstart Allowance (NSA).

As discussed by Harding et al. (2005) levels of NSA are lower than PPS rates (with the gap increasing over time due to differing indexation arrangements); the NSA income test is less generous than the PPS income test, and the tax treatment of allowees is also less generous than that of pensioners. Taken together, these meant that losses in take-home income could range up to $100 a week for sole parents with one child transferred to NSA, with higher losses for larger families.

The other effect was to create much higher EMTRs for lone parents. Sole parents on NSA face EMTRs of 65 per cent or more over a broad band of income. For public housing tenants, maximum EMTRs can exceed 80 per cent. The overall effect of these changes was to reduce the attractiveness of paid work for lone parents.

The decision to require parents to actively look for work earlier than previously is a policy strongly supported by earlier analysis, but as Harding et al. (2005) point out, while in the longer term many children could be living in families with higher incomes as a result of increases in paid work, in the shorter term many children could be living in families with lower incomes than under previous rules. These concerns could be overcome by allowing sole parents to remain on PPS rather than transferring them to NSA when their youngest child turns six. Thus, the key goal of encouraging jobless parents into paid work could still be achieved, but parents could remain on benefits that ensured that they and their children were financially much better off after undertaking paid work.

It is also crucial to recognise that many families remaining jobless are likely to have low employment-related skills or high personal barriers to taking paid work. If family employment could be increased to Nordic levels, then family joblessness would fall from around 12 per cent to 5 per cent and joblessness among lone parents would be reduced from 40 per cent to 20 per cent. These would be very significant achievements, but some families would still experience serious problems.

Families with complex problems require both adequate income support and services to address their specific problems, including health services, social work support, drug and alcohol counselling and programmes to improve family competencies and functioning, where relevant, so that over time they can narrow their distance from the paid labour market. Jobless families require supportive services such as child care and active labour market policies to equip them for seeking work, as well as effective transport services for example. The challenge is to develop the comprehensive mix of policies that support employment for as many parents as possible, provide adequate income support for those with greater difficulties in finding paid employment, and help to alleviate the problems of those with severe disadvantages.

References


Whiteford, P. (2009), Family Joblessness in Australia, Department of the Prime Minister and Cabinet, Commonwealth of Australia, Canberra.

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