INCREASING PARTICIPATION IN PAID WORK

ACCI SUBMISSION
TO THE
HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON EMPLOYMENT AND WORKPLACE RELATIONS

SEPTEMBER 2003

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Background

The Australian Chamber of Commerce and Industry (ACCI) is the peak council of Australian business associations. ACCI's members are employer organisations in all States and Territories and all major sectors of Australian industry.

Through our membership, ACCI represents over 350,000 businesses nation-wide, including the top 100 companies, over 55,000 enterprises employing between 20-100 people, and over 280,000 enterprises employing less than 20 people. This makes ACCI the largest and most representative business organisation in Australia.

Membership of ACCI comprises State and Territory Chambers of Commerce and national employer and industry associations. Each ACCI member is a representative body for small employers or sole traders, as well as medium and large businesses.

Introduction

For most Australians of working age, active participation in the labour force forms an integral part of their life and is critically the most important source of income that sustains their activities. Work determines a large proportion of an individual's day-to-day activities and drives a range of important social and economic relationships that sustain and strengthen our communities. A great deal of frustration and social alienation is generated when individuals are deprived of the opportunity to contribute toward their own independence and prosperity. Australia continues to tolerate an unacceptably high rate of unemployment and a level of under-employment that is more than twice as great. The adverse implications for society and the economy are well documented.

The aging of the population and the decline in the proportion of the population of working age are major long-term macroeconomic issues. Our first policy response should be to ensure that those currently without work, or seeking further employment, are able to obtain it and are given ample incentive to remain in the workforce.

This paper outlines some of the options available for increasing work incentives for people receiving income support, including the introduction of an earned-income tax credit.

Of equal importance is the demand for labour. Removing regulatory impediments to workplace efficiency and the raft of on-costs associated with award requirements will generate increased labour demand and greater labour productivity, leading in turn to better employment outcomes.

Reserve Bank policies will also need to be re-oriented towards greater recognition of the possibilities of reducing unemployment significantly below six per cent without generating significantly higher rates of inflation.

Background

The past four decades have witnessed the onset, growth and entrenchment of the welfare state in Australia. Between 1965 and 1998 the proportion of the population receiving income support rose dramatically, from 5 to 22 per cent.[1] Accompanying expenditure on income support for working-age adults has likewise risen five and a half fold between 1970 and 1998.[2] In their own right these facts should be cause for concern because of their exposure of an increasing incidence of welfare dependency. However, the picture becomes increasingly unsettling when we look at the state of the labour market and the welfare system that drives these outcomes.

One in six households in Australia are jobless and the proportion of jobless households with children is amongst the highest in the OECD.[3] The phenomenon of joblessness amongst Australian households, reflects a myriad of factors, both social and economic, but of prime importance is the insufficient rate at which jobs are being created in the economy and a system of welfare benefits that distorts the incentives to enter paid employment. Any solution to the current disengagement of a large section of the population from paid employment will therefore have two components. First, fostering the economic conditions necessary to allow business to offer more job opportunities and second, reform of the welfare system to increase incentives and obligations to move from welfare to work.

Increasing Work Incentives for those Receiving Income Support

The introduction of *The New Tax System* went some way toward achieving both of these objectives. The wholesale reform of the indirect tax system that took place eliminated a range of narrowly based distorting taxes and replaced them with a far more efficient

[1] Reference Group on Welfare Reform, *Participation Support for a more Equitable Society*, July 2001.
[2] Ibid.
[3] Dawkins, Peter, *Getting Jobs Into Jobless Households*, August 2002.

broad-based consumption tax. Low levels of taxation within a well functioning tax system are an essential foundation for strong economic growth. However, what appears to have gone largely unheralded at the time are the important reforms made to the income support system.

These changes simplified the delivery of family assistance by consolidating a range of payments and reduced not only the threshold at which they begin to be withdrawn, but more importantly, the rate at which the benefit was reduced. The taper of the family allowance, the rate at which the benefit is withdrawn as earned income rises above the threshold, was lowered from 50 per cent to 30 per cent. The result of this change on effective marginal tax rates (EMTRs) for those in receipt of the payment was relatively large and provided a significantly improved work incentive.

The severity of poverty traps in Australia has been ameliorated to some extent by changes made during the implementation of *The New Tax System*. However, for so long as means testing continues (which it should) the issue of poverty traps remains.

It has long been recognised that the interaction of income tests for welfare payments and the personal income tax system can give rise to high EMTRs for low-income earners receiving income support. As welfare beneficiaries take up paid employment their income supplements are withdrawn and they begin to pay tax on earned income. The combined effect, particularly where more than one benefit is tapered over a range of income, can give rise to impaired incentives to participate in the workforce. Recent research has revealed this is especially the case for sole parents and families with children, 'those who face high EMTRs are predominantly those who have dependent children. Almost a quarter of sole parents and 15 per cent of individuals in the couple with children family type face EMTRs in excess of 60 per cent'.[4]

As the previous statistic reveals, the topic of work incentive for those in receipt of income support should remain a live public policy issue. Where more than six out of every ten extra dollars earned are lost in reduced benefits and taxes paid there will be a corresponding decline in the willingness of welfare recipients to take up paid employment. The work disincentive is even greater when one takes into account expenses associated with employment, the loss of free time and the loss of productive domestic activities. In order to motivate the movement from welfare to work by the unemployed there will need to be further adjustments made to increase the relative financial reward from making the transition.

[4] Beer, Gillian, *Work Incentives under A New Tax System*, October 2002.

EMTRs in excess of 60 per cent are generally the result of the simultaneous withdrawal of multiple benefits over a range of income, know as income test stacking.[5] However, they may also arise as a result of the high taper rates that apply to some payments. For example, *Newstart Allowance* and *Partner Allowance* are reduced by 70 per cent of each dollar earned in excess of $142 a fortnight.[6] In some sense tapers of this magnitude are unavoidable, as income increases high rates of withdrawal are necessary in order to ensure that benefits are only paid to those in need of support. Indeed, 'the first objective of a needs-based social support system such as Australia's is to support people who, for whatever reason, are not able to support themselves'.[7] The specific targeting of benefits also adds significantly to the overall affordability of the payments system.

Nevertheless, there appear to be a number of reforms that can be made to the present system to address low-income traps for working families. Restructuring income test thresholds to eliminate income test stacking is apparently a feasible and relatively inexpensive means of removing high effective tax rates arising from those causes.[8] A movement toward sequential tapering of benefits would remove some of the largest work disincentives facing families and in terms of disposable income would allow a smoother work to welfare transition. ACCI supports these changes but only where it can be demonstrated that their adoption will not lead to substantial increases in total welfare expenditure and where it can be shown to result in significant increases in workforce participation.

A reduction in the rate of the higher allowance tapers, those in the order of 50 and 70 per cent, would likely involve considerable expense and result in the extension of welfare benefits to those with income levels who are not greatly in need of assistance. There may exist some room for marginal reductions, but a well targeted welfare system will require a significant loss of benefit over some range of income in order to remain focused on those most in need, who in this case are those without paid work. While there is a degree of inevitability about tapers of this magnitude, efforts should be made to ensure that there are no other simultaneous reductions in benefits which would leave a worker worse off after entering paid

[5] Ibid.
[6] Department of Family and Community Services, *Information Sheet: Payment rates and income tests*, September 2002.
[7] Department of Family and Community Services, *Building a Simpler System to Help Jobless Families and Individuals*, 2002.
[8] Ingles, David, *Rationalising the Interaction of Tax and Social Security: Part I*, November 2000.

employment. It is incumbent upon policy makers to engineer positive financial incentives to enter paid employment, but to do so in a manner that is not unduly expensive.

The need to bolster work incentive suggests that the next stage of welfare reform should involve a shift toward in-work or work-conditioned benefits. The government has recently made a step in this direction with the introduction of the *Working Credit* scheme to commence on 20 September 2003. *Working Credit* aims to encourage people of work-force age receiving income support to take up full-time, part-time or casual work by allowing them to keep more of their income support payment while working. Welfare beneficiaries will be able to accumulate credit of up to $48 each fortnight, to a limit of $1,000, to offset against income from paid work when determining eligibility for support. The Government has provided $506 million over four years for *Working Credit* to reward paid work.

Because it delays the withdrawal of income support, the program will entail a significant reduction in the individual's EMTR for that period of time until the credit is exhausted. It may be argued that this is the period where work incentives are most important, on the initial margins of labour force participation, especially where the position being sought is full-time employment. Once an individual commences paid employment, the choice then is to continue working. If this is the case, an argument can be mounted for a substantial, short-term type of support in the form of a financial incentive of the kind being introduced by the Government.

A number of inadequacies exist in the program as it is currently structured. In large part they relate to the size of the benefit. Firstly, there are no explicit criteria to target the benefit at those most in need, although the cumulative nature of the credits indicate that it is the long-term unemployed who will obtain the greatest benefit. More importantly, the size of the benefit provided is relatively small. The maximum credit of $1,000 would be completely exhausted within a fortnight of a person commencing full-time employment, while it would take roughly ten months on unemployment benefits earning less than $48 dollars a fortnight to accrue this maximum credit. Nevertheless it would be prudent to gauge the success of *Working Credit* in terms of evidence of its effect on work effort before concluding it warrants expansion. As it stands *Working Credit* will provide a positive, if short in duration, inducement to enter paid employment.

An Earned-Income Tax Credit

One possible means of addressing the problem of work incentive for low-income earners is an earned-income tax credit targeted at low-income families. The idea of an earned-income tax credit was given national prominence when it was included among a suite of reforms suggested in a 1998 open letter to the Prime Minister from the so-called *Five Economists*. The letter set out policy options aimed at significantly reducing the rate of unemployment over a period of several years. Key amongst these proposals was a wage-tax trade-off designed to stimulate jobs growth by reducing real wages, while providing offsetting compensation in the form of earned-income tax credits for low-income earners in low-income families.

The wage-tax trade-off was to be achieved by freezing award safety net increases for several years. In real terms the safety net wage would fall in line with inflation. An earned-income tax credit was to be introduced for low-income earners in low-income families to offset the impact of a declining minimum wage. It was argued that reducing the real wages of the low paid, in particular, reducing the *relative* wages of the low paid, would lead to the creation of a substantial number of new jobs and reduce the level of unemployment. ACCI has examined the proposals of the so-called '*Five Economists*' that were first presented to the Prime Minister in 1998 and has very strong reservations about this proposal. Although it has a new name, it is simply a variation of the 1980's *Prices and Incomes Accord* as it was known at the time.

It is generally accepted that the centralised wage fixing system that the Accord relied on delivered inferior outcomes. It was not until the previous Government started moving down the road to a more decentralised enterprise-based bargaining system (accelerated by the present government), that has seen the delivery of real wage increases, lower inflation and improved employment outcomes.

The Five Economists proposals rely on the ability to do a "deal" with either the ACTU or the Australian Industrial Relations Commission (AIRC) or both to secure lower wages growth through award decisions in a trade-off for tax credits.

This type of centralised wage "dealing" is an anathema. It would require turning our back on the hard won gains in enterprise bargaining that we have made in the last ten years.

While the ACTU may theoretically be prepared to do a deal , we doubt their practical XXXXX. For its part, the AIRC is an independent tribunal and it is our understanding simply would not do such a deal.

However, in its own right, and separated from a re-constituted *Accord* arrangement, an earned-income tax credit represents a policy option that increases work incentive and raises the disposable incomes of low-income families. As such, its examination as a means of promoting workforce participation warrants consideration.

In respect of its operation, an earned-income tax credit is introduced at a specified rate over an initial range of earned family income. It is accumulated to some maximum level, plateaus and then is tapered out over a higher range of income. The size of the maximum credit and the rate it accrues or tapers can be set to vary according to the number of dependent children in the family and would be conditioned on family rather than individual income. These characteristics are present in both the United Kingdom and United States earned-income tax credit programs and help to ensure that the tax credit is targeted towards those most in need.

Realisation of the tax credit could take place in the same manner that *Family Tax Benefit* is paid, either fortnightly or at the end of the financial year. Because a tax credit is used to offset tax liability it may not be of benefit to all families, provision might therefore be made to allow a rebate of excess credits where they exceed tax liability.

The rate at which the credit phases in determines its impact on EMTRs. Broadly, a 10 per cent earned-income tax credit would reduce EMTRs by 10 per cent over the range of income that the credit is accrued. For example, a person on *Newstart Allowance* earning in excess of $146 per fortnight faces a taper on that benefit of 70 per cent. Out of an extra $100 earned-income, $70 will be lost as a consequence of reduced benefit. An earned-income tax credit of 10 per cent would add back $10 in after-tax income, resulting in an EMTR of 60 per cent. The potential for improved work incentives is a key attraction of an earned-income tax credit.

However, like all income support payments, the difficulty of high EMTRs re-arise when the benefits are phased out. It has been argued that tax credits would not eliminate 'poverty traps', merely shift them higher up the income scale to the phase out income level. Because eligibility for the tax credit is predicated upon family, rather than individual income, the phasing out of benefits will tend to affect secondary earners in two income families. Specifically, where the primary earner's wage lifts the family's income near, or into, the phase-out range, the loss of tax credits leads to higher EMTRs for secondary income earners in the family. The increase in the EMTR in this case is equal to the rate at which the tax credits are withdrawn.

Research examining the effect of a 10 per cent earned-income tax credit finds that:

> "Overall the program is shown to reduce marginal and average rates [of taxation] for primary earners while increasing them for secondary earners".[9]

While increased work incentives for primary earners would be positive, there would be a countervailing effect on secondary earners in families. The experience of Britain and the United States suggests that the resulting effect on labour supply need not be positive. While employment for jobless lone parents improves significantly there is a reduction in the supply of labour by married women whose spouses are employed. The labour supply of married men is largely unchanged. Indeed, the aforementioned research concludes that the effect of the proposed tax credit would be to reduce aggregate labour supply. Primarily this result is driven by the fact that the elasticity of labour supply for secondary earners, usually women, are larger than those of primary earners, which tends to be inelastic.

An earned-income tax credit that led to a reduction in labour supply would result in decreased aggregate output and slower economic growth. Moreover, the author notes that, 'the estimated cost of the program is around $3B for a full year.'[10] Total social security and welfare expenditure by the Commonwealth government is estimated at near $75B in the 2003-04 financial year.[11] It appears, on the basis of this research, tax credits are an expensive means of increasing work incentive and although it may change the composition of labour supply it does so at the expense of labour force participation. From an efficiency perspective, the fact that most recipients would have been working without the credits argues against its introduction.

The second key element of the earned-income tax credit is that it represents a transfer of wealth from taxpayers generally to low-income families, one that is conditioned upon a member of that family taking up paid employment. If a rationale for tax credits on an efficiency basis is limited, it may derive support from an equity perspective. As mentioned above, tax credits shift average rates of taxation from primary to secondary earners. This tends to move the tax burden from single-income to double-income families. On this

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[9] Apps, P, *Why an Earned Income Tax Credit is a Mistake for Australia,* May 2001.
[10] Ibid.
[11] Department of the Treasury, *Budget 2003-04*, May 2003.

basis it would appear to have progressive re-distributional effects. However, families without employment are those that are most disadvantaged. An earned-income tax credit provides no extra support for these households.

It should be stressed that the results of the research discussed above are for one particular form of earned-income tax credit and it may be possible to structure another that would generate better employment outcomes. While earned-income tax credits remain attractive in theory, ACCI would only support their introduction where it can be demonstrated that significant work incentive would be created without either substantial expense or adverse impacts on other workers. Until that time the most effective means of improving rewards from paid employment for those on welfare will be to eliminate income test stacking.

Workforce Participation Obligations and Vocational Training

A system of income support is most effective when combined with obligations for recipients to actively seek paid employment. The rationale for Australia's welfare system is to support those in need. It is not meant to offer an alternative life-style to those with the capacity to provide for themselves but are unwilling to work. Accordingly, there are requirements to look for work under our current system and to accept suitable offers of employment. Opportunities for vocational training and job search services also add to the effectiveness of the Australian welfare system.

Job search requirements attached to Government allowances ensure that those people in a position to undertake paid employment are actively looking for employment. Evidence of this fact is required every fortnight in order to claim payment. Recent reforms have increased monitoring and enforcement of these obligations and act to ensure that only those involuntarily unemployed are able to access income support. In addition, Centrelink, and by extension the JobNetwork, provide sufficient resources and assistance to the unemployed to aid job search.

These tighter search requirements have also coincided with the introduction of mutual obligation activities for those in receipt of *Newstart* or *Youth Allowance* for more than six months. Mutual obligation recognises that, in return for financial assistance, the unemployed should be expected to give something back to their community, or undertake further training in order to increase their chances of obtaining paid work. ACCI believes that the current requirements for search activity and mutual obligation are acceptable and represent appropriate levels of accountability for job seekers. Any proposal to diminish these requirements would be opposed by the business community.

A key component of any solution to unemployment lies in lifting the quality of the labour supply of the long-term unemployed. Where the skills desired by employers are not available amongst the unemployed, the level of unemployment exerts little downward pressure on wages as the long-term unemployed do not constitute part of the *effective* labour supply. They are not a credible substitute for those already in the labour force, or those merely between jobs. In the case of those out of work for an extended period their skills atrophy, the routine of working life is interrupted and the simple fact they are unemployed may make employers reluctant to provide them employment.

In this way, short-term unemployment attributable to cyclical fluctuations in the economy can lead to long-term unemployment if those who lose their jobs fail to readily attain alternative employment. Labour market programs that enhance the work habits and skills, and therefore marketability of the long-term unemployed, should continue to remain an essential feature of the income support system. ACCI supports the full range of training programs that exist under the current system and opposes any measures proposed to diminish requirements to participate in these vocational programs.

Creating More Employment Opportunities

The gains derived from increasing incentives and obligations to participate in the workforce will be maximised where the numbers of those seeking employment is matched by an increase in employment opportunities.

Yet the very first hurdle policy makers face in attempting to increase employment is the Reserve Bank's policy of restricting the rate of growth generally to reduce the likelihood of an increase in the inflation rate. Anyone concerned to lower unemployment must contend with the RBA which appears to intentionally hold growth rates below levels that would reduce the unemployment rate below six per cent.

An examination of their record suggests that the RBA has done so even as the casualisation of the labour market has progressed so that for any particular unemployment rate there is diminished labour costs pressure resulting from skill shortages. It would appear that the RBA has estimated the NAIRU in Australia at around six per cent.[12] The Bank denies that it targets the NAIRU at six per cent in its conduct of monetary policy. However, the operation of monetary policy certainly appears to coincide with this theory.

Beyond a shift in policy at the Reserve Bank, further industrial relations reform is necessary in order to achieve improvements beyond this level. ACCI's agenda for industrial relations is outlined in *Modern Workplace: Modern Future – A Blueprint for the Australian Workplace Relations System*. Further decentralisation of the industrial relations system will allow businesses to adopt efficient workplace practices and boost worker productivity. But perhaps of greater importance is that restraint is exercised in the determination of increases in the award safety net, lower labour costs will enable business to employ more workers and make substantial in-roads into the current level of unemployment.

The general tenor of labour market reforms over the course of the 1990s has been to allow greater flexibility in pay and conditions at the workplace level while maintaining an award safety net to protect vulnerable workers. The premise behind this policy change is that it is employers and employees, rather than distant regulators, who are best able to determine how an individual business should be operated. Accordingly, increased scope has been provided for agreements to be made at the enterprise and workplace level, with a shift away from centralised determination of wages and conditions of employment.

These reforms touch the very core of the real economy, the manner in which production occurs within industry. Whereas a regulation or an award condition may be appropriate in one business, its application to other firms in the same industry can very often impede efficient workplace practices. This is even more likely the case where significant diversity exists within industry and methods of production. Applying uniform award requirements to all business can and does adversely affect productivity in the workplace. These problems are greater the more prescriptive the award requirements.

Australia, despite efforts to date, still has a heavily regulated industrial relations system. ACCI advocates a reduction in the scope and depth of prescriptive labour market regulations. ACCI supports a labour relations system that is characterised by decentralism and voluntarism, under which primacy is given to the

[12] The letters NAIRU stand for the Non-Accelerating Inflation Rate of Unemployment which is the unemployment rate at which inflation will neither rise nor fall. The NAIRU is a standard central bank concept. Under this policy, monetary policy is conducted to ensure that the unemployment rate does not fall below whatever rate the NAIRU has been estimated to be.

interests of the direct employer and employee parties to the employment relationship. ACCI believes that only employers and employees can select the approach that best suits their particular circumstances and maximises their prospects of reaching appropriate agreements of highest mutual benefit. Decreased complexity and its associated compliance burden will also result in net benefits to Australian business and their employees.

The current system is in transition from the historically centralised system of compulsory conciliation and arbitration to a true decentralised enterprise bargaining system, of collective and individual agreements, characterised by a safety net of simple minimum standards which underpin, but do not constrain, bargaining. The objective must be to achieve this transition more rapidly and with minimum complexity. The pace and nature of change is influenced by multiple forces. At a policy level, the position of governments and parliaments is crucial. This is because so much of the structure of the current system remains locked into a legislative and regulatory framework. The imperative must be to ensure, at the least, that all change that occurs is in the one policy direction – towards a less centralised system that meets the overall objectives of ACCI policy.

Fundamental goals of industrial regulation should include:

- Simplified regulatory obligations, and reduced prescription

- Proper recognition that all employers are not the same, and that employment law should not be formulated by reference to the activities of a minority of worst performing businesses, employees or organisations

- Promotion and support of mutually beneficial win-win workplace relations

- Entrenching ongoing workplace reform and creating more certainty in the impact that the system has on workplaces

- Less politicised and polarised workplace relations attitudes and cultures

- A reduction in the need to comply with multiple regulatory instruments drawn from both the federal and state jurisdictions.

The operation of the system must clearly provide for primacy of regulation via workplace agreements rather than award regulation, not just in its objects but also in the daily decisions made by parliaments, governments and industrial tribunals. This includes a refusal to make decisions that impose practical disincentives to agreement making, such as decisions which provide access in awards to the same or superior wages or conditions than those that could, and should, be negotiated in the workplace. There are various possible models for the consolidation of awards, including options between the current award proliferation and the single industry award proposal outlined in the 2002 Safety Net decision. These should be examined.

Another remaining problem with award structures is the indefinite period for which awards, once made, apply – irrespective of changed circumstances. Options need to be examined to review or have awards varied or limited based on changes in industry or workplace conditions. There has been little progress in the award system towards the ACCI policy of statutory minimum conditions, and a more limited role for arbitration. Proposals to vary awards must be focused on essential minima only. Proposals to vary awards in a manner that would increase the regulatory burden on employers ought to be subject to a presumption against their adoption, unless and until accompanied by concomitant proposals to reduce the regulatory burden on employers to at least an equivalent extent.

Wages and wage increases are overwhelmingly set by workplace bargaining, either collectively or individually. Wages and wage increases are linked to business conditions, productivity, performance and employee circumstances. Reform of minimum wages in awards has been less successful. Award simplification has seen little reduction in the range of minimum wage obligations upon employers. Employers continue to be subject to multiple federal and state awards containing multiple wages points. The Australian industrial system still provides for many thousands of wage classifications each with their own minimum wage. No other major international trading economy has such a system, and Australian minimum wages policy appears to be at odds with international best practice.

Awards have not been successfully refocused to become a safety net for the low paid. Minimum wages have increased such that they constitute too high a proportion of median and average earnings. Minimum wages are too close to the rates actually paid in most Australian workplaces to meet their allocated role under the bargaining system. Too many Australian employees are employed on minimum award wages. This is an inevitable function of high wage increases. High minimum wage increases will discourage bargaining and productivity improvement. All minimum award rates continue to be increased under safety net decisions. This has done nothing to focus the system on a safety net to properly support bargaining.

The development of the minimum wage in 1997 was a positive development. However, far from being a stand-alone rate to support bargaining and protect employees it is merely an additional minimum wage entitlement grafted onto an award system already containing many thousands of pay rates. Economic and employment effects of wage increases have been insufficiently taken into account during the safety net era. High increases compel such a conclusion. Increases in minimum wages for those on awards should not exceed wage outcomes under agreements, nor be at such high levels that economic and labour market outcomes are endangered. An undesirable annual cycle of wage claim and wage increase has emerged which has proved hard to break. There is an inappropriate momentum to minimum wage increases which is inherently contrary to sound labour market and economic outcomes.

The Federal Government and Parliament has invested considerable resources into reviewing and seeking to improve the functioning of the unfair dismissal system. Federal government initiatives include the introduction of legislative reform to improve the functioning of the unfair dismissal system. Useful improvements to the unfair dismissal system were introduced with the successful passage in August 2001 of the *Workplace Relations (Termination of Employment) Bill 2001*, including a requirement for the AIRC to take into account the absence of dedicated human resource specialists, restrictions on extensions of time to file dismissal claims and other measures aimed at producing a more balanced unfair dismissals system.

The unfair dismissal system remains an unreasonable burden on employers and does not reflect an appropriate balance of interests. Its subjective, costly and litigious character creates uncertainty in the mind of employers when facing the necessary decisions to discipline or terminate staff. The unfair dismissal system needs to be periodically reviewed to ensure that it does not act in a counterproductive manner against the interests of employers and employees. The cost to employers and number of unfair dismissal applications must be monitored, and steps taken to reduce the process and procedural burdens. The behaviour of agents acting on behalf of applicants must be monitored to ensure that it is both ethical and supportive of a good workplace relations system.

Conclusion

There are a number of important policy reforms that can and should be implemented to encourage greater labour force participation in the Australian population.

The major disincentive problems facing families on income support, very high EMTRs, can be reduced by eliminating income test stacking of welfare benefits.

Beyond this point there appears to be little that can be done to improve financial incentives for paid employment that would not involve a substantial increase in Government expenditure.

An earned-income tax credit is attractive in theory but its operation would merely shift high EMTRs up the income scale where they would have a detrimental effect on aggregate labour supply.

From the supply side, a solution to unemployment will have to be found in labour market programs that re-skill the unemployed combined with job search and mutual obligation requirements.

The demand side is where we are likely to find the most effective solutions to unemployment. The Reserve Bank must allow the economy to expand more rapidly by approaching interest rate adjustments with greater consideration of their employment effects. There is no reason to believe that the Australian economy is unable to attain a rate of unemployment below 6 per cent without generating inflationary pressures. To enhance accountability and public understanding of macroeconomic policy settings, the Reserve Bank should clearly articulate its position on the role of the rate of unemployment in the formation of monetary policy.

The improvement in Australia's labour market performance over the 1990s has proven that industrial relations reform can be effective in lifting productivity and providing new employment opportunities. We have also demonstrated that there is vast scope for continued improvement of the industrial relations system and that this will lead in turn to benefits for both employees and employers.

The first place to start if we are to increase participation in paid work is to make sure that the unemployed are able to find jobs and the underemployed can secure the number of hours of work they seek. Australian businesses are willing to expand their operations and create new opportunities, but the impediments to doing so must be removed.