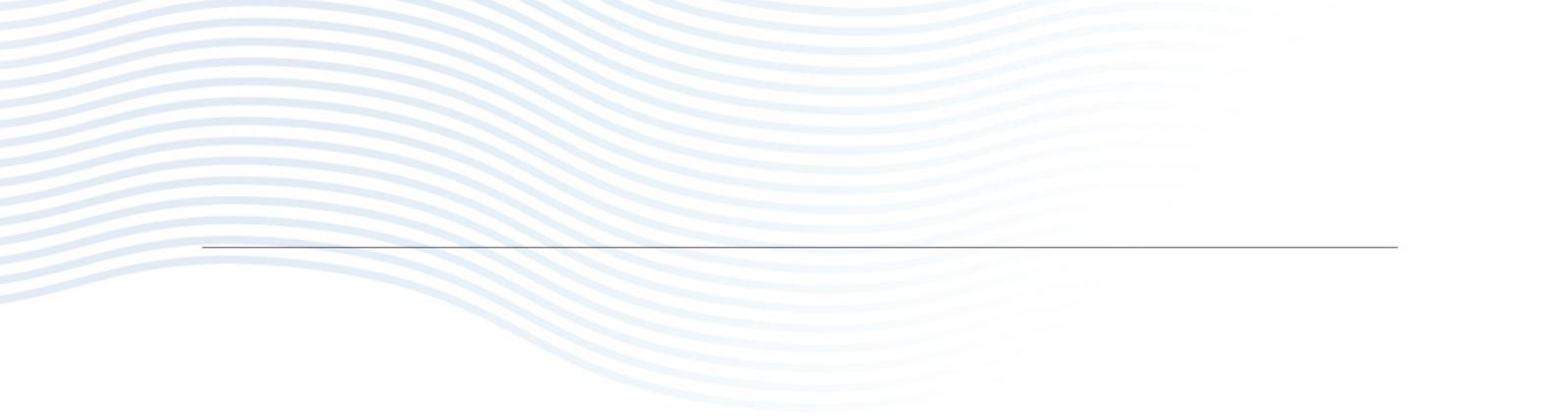


A Proposal for Unemployment Insurance Research report commissioned for Jobs Australia

Professor Andrew Scott
Deakin University

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FOREWORD

The problems of entrenched high unemployment in Australia, and the need to improve the support given to people who are affected by unemployment, require new thinking and new ideas in order to bring about policy change.

Therefore, Jobs Australia commissioned this research paper to ask Professor Andrew Scott to elaborate on his analysis of the possible relevance to Australia of the Danish approach to employment security which he expounded in his 2014 book, *Northern Lights*.

In particular, we asked Professor Scott to outline practical steps which Australia might consider taking which are feasible and realistic: cutting 'with the grain' of Australia's own distinctive institutional and policy approaches in order to shape new, better-designed policies which might reduce the poverty and uncertainty now faced by so many people in this country.

It is very important that Australia now learn from overseas, and not only look at English-speaking countries in which, after all, in many cases, the problems are worse than ours in terms of higher inequalities and larger numbers of long-term unemployed.

It is appropriate, in a true spirit of embracing globalisation, to look at the best performing nations in terms of tackling unemployment, and what may possibly be learned from them to apply in the challenges we face here in Australia.

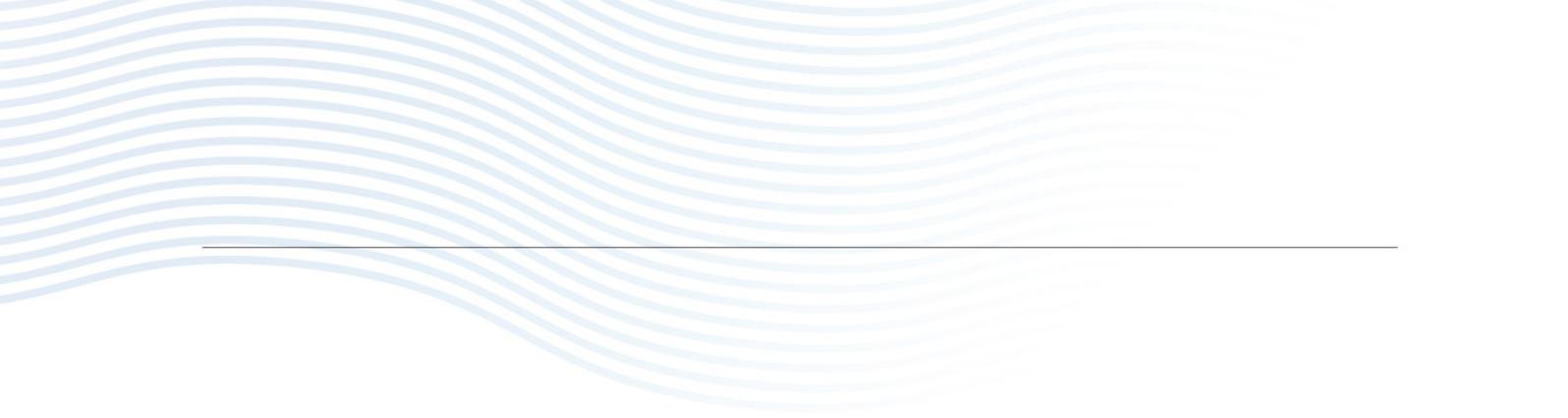
Jobs Australia is the national peak body representing not-for-profit organisations that help disadvantaged people find work.

We are the largest network of employment and related service providers in Australia and we are funded and owned by our members.

I am pleased to endorse the thrust of the arguments put forward in this paper and for Jobs Australia to publish it in this format in order to open up debate and to seek more engagement from key policy-makers with the ideas presented here.



David Thompson AM
CEO



Synopsis of argument

Unemployment insurance now needs to be introduced in Australia to help people not in paid work to be able to afford more individualised case management and higher quality skills retraining than they receive under the current deficient privatised employment services arrangements.

Despite huge inequalities between those with too much paid employment and those with too little, and a return of pessimism about future widespread job losses as a result of new technology, unemployment insurance has not yet evolved in Australia to top up the particularly low, inadequate level of Australia's state-provided unemployment payment.

The income replacement rate provided by unemployment benefits and insurance in selected OECD nations (based on particular definitions and assumptions) is only 45 per cent in Australia whereas unemployment insurance helps to boost payments to above 60 per cent of previous earnings in the first year of unemployment in Canada, to 70 per cent in central and northern European countries and above 70 per cent in Nordic European nations.

Concerns continue including in business about the need to increase the inadequate level of Australia's unemployment payment to make it possible for people affected by job loss to cope with change, to take the steps needed to position positively for future employment opportunities.

The current political situation is that Prime Minister Turnbull is seeking re-election; he needs to take some inclusive steps to respond to the plight of working people vulnerable to job losses, and he has been using language about the importance of enabling workers' widespread greater agility and adaptation.

This provides a rare policy window of opportunity through which ideas for unemployment insurance in Australia can now advance.

A specific proposal for unemployment insurance fits precisely with the Prime Minister's general statements about the need for agile adaptation to the realities of increased employment disruption.

The long-term unemployed now should receive a direct increase in Newstart, while the national government in Australia, after the 2 July 2016 election – whichever political party or parties form it – should consider provision of unemployment insurance.

We have insured against old age, illness, workplace injury, and disability.

It is logical that we now similarly insure against the periods of unemployment or intervals between particular paid jobs, and for the periods of reskilling, which will increasingly be part of our future economic disruption.

With Denmark's approach, a basis of economic security underpins workers' flexibility between particular jobs.

That Nordic European nation takes a three-pronged approach to employment policy which does involve flexible rules for hiring and firing, just as Australia already has: but also, and crucially, it involves the provision of generous unemployment payments for those who have lost jobs; and

further, and just as crucially, it involves the provision of substantial quality training, to help unemployed people gain new skills for new jobs.

The Danish approach has generated higher workforce participation – and lower unemployment – rates there than in Australia and most other OECD nations over the last two decades.

Australia can achieve similar outcomes by bringing in unemployment insurance.

This will mean that instead of being tipped into a pit of poverty and despair when one job is lost, and being left desperately scurrying for any alternative form of short-term employment and income which will help them to climb out of this quickly, workers can retrain for quality work to which they are suited, as part of their ongoing career, in a way which sustains their long-term workforce participation.

The long-established industry superannuation funds in Australia can play a role in the provision of unemployment insurance to help provide income security during people's working lives, extending their current role helping to underwrite income security in people's retirement.

This will also start a contribution by some employers to insuring against unemployment, so that workers do not bear all the costs.

Industry superannuation funds enjoy a strongly popular reputation vis-à-vis banks and other financial providers because their bi-partite not-for-profit model has consistently delivered superior returns to fund members.

They can help to make unemployment insurance work in the distinctive Australian circumstances, in a way nevertheless informed by successful overseas precedents.

This proposal is the circuit-breaker now needed to catalyse further policy changes towards the wider provision of adequate income and skills retraining support for the unemployed in Australia.

The current employer exemption from, or avoidance of, contributing to guarantees of employee entitlements due to government paying the Fair Entitlements Guarantee in instances of business insolvencies – which costs hundreds of millions of dollars a year – is a logical place to make fiscal savings.

Alternatively, that payment could be offset by requiring many employers to now make a serious contribution to the insurance of employees against job loss.

Weak current wage subsidy initiatives need now to be situated within a seriously improved employment services system, in which jobseekers are in a position to afford to take up skills training opportunities, if Australia is to genuinely tackle unemployment.

And the resources to enable such a fundamental improvement to happen in Australia's employment services system can now be considerably expanded by the introduction of unemployment insurance.

BACKGROUND

Earlier this year I completed a report for the Australian Council of Trade Unions (ACTU) on how to strengthen leave entitlements for workers in Australia given high rates of job casualisation and turnover.¹ Publication of that full report is forthcoming as the ACTU will release it, to the media, according to its strategies, in a way which will seek to most effectively influence particular policies being discussed for the future of Australia. After that time it will be published on the ACTU's website. However, the parts of that report which canvass ideas for unemployment insurance in Australia are able to be included in this paper. My report for the ACTU built on my analysis of Danish 'Flexicurity' in my late 2014 book *Northern Lights*.² This new commissioned report for Jobs Australia outlines a specific proposal to introduce unemployment insurance in Australia – which the ACTU project foreshadowed and to which it has logically led.

The Jobs Australia organisation has a direct interest in this matter as the introduction of unemployment insurance in Australia will help people not in paid work to be able to afford to engage the services of Jobs Australia members to a much greater extent, for more individualised case management and for higher quality skills retraining purposes, than occurs under the current deficient arrangements of the privatised Job Network (recently rebranded as 'jobactive' after its short life as 'Job Services Australia').

DEBATES ABOUT INCOME SUPPORT RESPONSES TO UNEMPLOYMENT

This proposal for unemployment insurance for Australia also draws on Danish successes and precedents in employment policy. Denmark was a nation in which discussions of a 'citizen's wage' first prominently arose following the return of high unemployment in the 1970s.³ Ideas for a guaranteed minimum income were canvassed widely across many rich nations in that period. This was due to escalation of entrenched structural unemployment to levels which had not been seen for many decades, and an expectation that many more jobs would disappear as a result of new technology. It was thought that this would lead to an age of comparative leisure in which people's self-sufficiency, and types of work not negotiated through the labour market, would be encouraged and supported more.

Those ideas were largely not pursued, however, and they were also criticised from many different perspectives: including that, if implemented, they would marginalise many of the people who did not receive income from paid employment. A general age of leisure did not eventuate. However, much greater inequalities emerged between those with too much paid employment and those with too little. Now, with similar pessimism about future widespread job losses as a result of new technology, ideas for a basic minimum income are being discussed and considered again. Denmark's neighbouring Nordic nation Finland's recent announcement that it is exploring, through rigorous trial and evaluation, in a particular local area, the idea of a universal basic income support payment to

¹ Andrew Scott, *Strengthening Leave Entitlements for Workers in Australia*, Australian Council of Trade Unions, Melbourne, publication of the full paper is forthcoming, 2016.

² Andrew Scott, *Northern Lights: The Positive Policy Example of Sweden, Finland, Denmark and Norway*, Monash University Publishing, Melbourne, 2014.

³ Niels I. Meyer, K. Helveg Petersen and Villy Sørensen, *Revolt from the Center*, Marion Boyars Publishers, London, 1981 (first published in Danish as *Oprør fra Midten* by Gyldendalske Boghandel, Nordisk Forlag AS Copenhagen 1978), pp 117-118, 130, 136.

replace existing benefits is a recent development of much interest in the discussion of ideas along those lines.⁴

UNEMPLOYMENT INSURANCE

Debates about a basic income support payment in Australia which is not tied to paid employment, however, are more remote than they are in Denmark and Finland. In part, this is because unemployment insurance has not yet evolved in Australia to top up the particularly low and inadequate level of Australia's state-provided unemployment payment. Unemployment insurance and other arrangements boost the net replacement rate of overall payments received by the unemployed in many countries above that received by the unemployed in Australia. Full up-to-date comparative data is limited but clear indications of the differences between groups of nations are provided in the following Table:

INCOME REPLACEMENT RATE PROVIDED BY UNEMPLOYMENT BENEFITS AND INSURANCE IN SELECTED OECD NATIONS (PERCENTAGE OF NET EARNINGS IN WORK)

Asia	54
Japan	62
Korea	47
English-speaking, non-Europe	54
Australia	45
New Zealand	56
Canada	63
United States	54
English-speaking Europe	51
Ireland	49
United Kingdom	54
Nordic Europe	71
Denmark	70
Finland	70
Norway	68

⁴ See: http://www.kela.fi/web/en/press-releases/-/asset_publisher/LgL2IQBbkq98/content/from-idea-to-experiment-preliminary-report-on-a-universal-basic-income-completed?p_p_auth=3UrxbHX3&_101_INSTANCE_9spqkFoMzD6T_redirect=%2Fweb%2Fen%2Fabout-kela

Sweden	75
Central/northern Europe	70
Austria	63
Belgium	61
France	75
Germany	69
Netherlands	74
Switzerland	77

Source: OECD database on Benefits and Wages: <http://dx.doi.org/10.1787/182506528237>
 See there for the precise bases and assumptions of these calculations

This data shows that unemployment insurance helps to boost payments to above 60 per cent of previous earnings (in the first year of unemployment) in Canada; and in many central and northern European countries including Austria, Belgium, France, Germany, The Netherlands and Switzerland, in addition to the nations of Nordic Europe. Introduction of unemployment insurance could help the financial support for unemployed people in Australia to increase towards the levels of support which are provided in those countries.

REFLECTING ON THE UNSUCCESSFUL CAMPAIGN TO RAISE NEWSTART

The campaign conducted during 2011 to 2013 by the Australian Council of Social Service (ACOSS), together with the ACTU and the Business Council of Australia, to raise the level of the unemployment payment (Newstart), was not successful. This was despite the campaign having the support of the nation's leading welfare organisation and those major peak organisations of workers and employers; and despite also there being a national Labor government in office during a time of international economic recession. One of the reasons which has since been proffered for that campaign's lack of success is Australia's preference for labour market engagement over broad social rights.⁵

Concerns continue nevertheless, including in business organisations, recently articulated by KPMG, about the need to increase the inadequate level of Australia's unemployment payment so as to make it possible for people affected by job loss to cope with change, to take the steps needed to position positively for future employment opportunities, and to move on from the long-standing situation where the level of "Newstart [is] behind community standards". KPMG also noted that for some, "the low level of Newstart has the effect of locking people into jobs for fear that they could not

⁵ Philip Mendes, 'The Changing Nature of the Australian Welfare State: A Critical Analysis of the ACOSS Campaign to Increase the Newstart Allowance', *Australian Journal of Political Science*, Vol. 50, No. 3, 2015, pp. 427-441.

survive on Newstart and cannot risk moving jobs...[including] in the start-up and small business sector” which creates “a disincentive to take risks”.⁶

Introduction of insurance against unemployment, which tops up the Newstart benefit and which is linked to quality skills training for sustainable new job opportunities, could be a positive alternative approach now towards meeting some of the objectives of that unsuccessful campaign to increase the level of the unemployment payment.

A WINDOW OF POLICY OPPORTUNITY IS NOW OPEN

The current political situation – whereby Prime Minister Turnbull is seeking re-election; he needs to take some inclusive steps to respond to the plight of working people vulnerable to job losses, and he has been using language about the importance of enabling workers’ widespread greater agility and adaptation – provides a rare new rhetorical and policy window of opportunity through which ideas for unemployment insurance in Australia can advance.

A specific proposal for unemployment insurance fits precisely with the Prime Minister’s general statements about the need for agile adaptation to the realities of increased employment disruption. Such a proposal is all the more timely given that the effect of the 2016 Budget is in fact to reduce the level of the unemployment payment even further, making adaptation by displaced job seekers even harder. This paper therefore proposes that the national government in Australia, after the 2 July 2016 election – whichever political party or parties form it – should consider the provision of unemployment insurance.

THE DILEMMA OF ENSURING THAT THE FOCUS IS ON THE MOST DISADVANTAGED

An immediate dilemma facing this proposal is how it can keep the focus on the most disadvantaged, those who are already jobless now especially those who have been for a long time, who are most in need and who are thus not in a position to afford to start paying out money in individual premiums to take out new unemployment insurance. For this disadvantaged cohort, it is proposed that top-ups to their Newstart should now be paid by government, in order that they can gain the quality skills training overdue to them. It is proposed that the resources for that quality skills training for this priority cohort should also now be committed by government. The case should continue to be made that, for disadvantaged long-term unemployed, a direct increase in Newstart to assist better skills retraining is justified and affordable.

Differential support on the basis of current need is entirely appropriate in order to build solidarity into the transition towards new arrangements which could, in time, enlarge overall resources for skills retraining and job adaptation for all those who in future become affected by unemployment in Australia. Workers who are now in a position to afford to individually contribute to unemployment insurance as part of planning likely future career transitions and adjustments from a basis of

⁶ KPMG, *Solving the Structural Deficit*, Sydney, April 2016, pp. 6, 14.

employment security should, in turn, be encouraged, and supported by government to do so: but in a way which is appropriate and proportionate to their circumstances.

RELATED DISCUSSIONS

A 2012 inquiry into insecure work chaired by former deputy prime minister and social security minister Brian Howe recommended “a 21st century approach to social insurance” involving “ambitious reform of our social security system to ensure [that] it reflects the reality of today’s labour market” and that it helps people manage transitions during their lives. The inquiry called for investigation of models for a comprehensive system of employment insurance. It recognised that reforms of this kind would be comparable in scale to previous reforms of social insurance like compulsory superannuation and the National Disability Insurance Scheme (NDIS).⁷ They would mean bringing the philosophy behind those past policy reforms into our approach now to unemployment.

We have insured against old age, illness, workplace injury, and disability. It now seems entirely logical that we should similarly insure against the periods of unemployment or intervals between particular paid jobs, and for the periods of reskilling, which will increasingly be part of our future economic mobility and disruption. Policy-makers in Australia should not resist these prudent, sensible ideas of planning for future transitions, because of ideological reasons or because they involve changes from current practice.

The 2012 inquiry also pointed out that, given that “we cannot expect lifetime employment in the same organisation, or even the same industry, as the norm”, it is important now to draw on “international examples of effective measures that can be taken” to adapt to this new reality.⁸ The inquiry foreshadowed that to tackle the damage being done by unnecessary insecurity of work “the...task is to seek regulated ‘flexibility’ which provides the reasonable flexibility that employers need in a globalised economy, and the time and income security workers expect”, i.e. flexibility within secure employment.⁹

This brings us to the applicability to Australia of the particular international example of Denmark, with its approach of employment, as distinct from job, security. With the Danish approach of ‘Flexicurity’, a basis of economic security crucially underpins workers’ flexibility between particular jobs. Denmark’s three-pronged approach to employment policy does involve flexible rules for hiring and firing, just as Australia already has: but also, and crucially, it involves the provision of generous unemployment benefits for those who have lost jobs; and further, and just as crucially, it involves the provision of substantial and effective Active Labour Market Programs (ALMPs), and quality training, to help unemployed people gain new skills for new jobs.

⁷ Brian Howe, Paul Munro, Jill Biddington and Sara Charlesworth, *Lives on Hold: Unlocking the Potential of Australia’s Workforce The Report of the Independent Inquiry into Insecure Work in Australia*, ACTU, Melbourne, 2012, pp. 49, 11.

⁸ *ibid.*, pp. 7, 1.

⁹ *ibid.*, pp. 29, 64.

PUTTING EXTRA PRONGS ON THE TOOL THAT AUSTRALIA USES TO TACKLE UNEMPLOYMENT

Given that Australia already has a flexible labour market, but does not have either substantial investment in ALMPs, or adequate unemployment benefits, it will now benefit from the addition of those elements. This is particularly the case given that Denmark has had higher workforce participation – and lower unemployment – rates than Australia and most other Organisation for Economic Co-operation and Development (OECD) nations in the last two decades.¹⁰

The generosity and encompassing effectiveness of Danish employment adjustment arrangements are because they are based on insurance principles. In Denmark approximately three quarters of the workforce are members of one of the more than 27 unemployment insurance benefit funds. The fund members are therefore eligible for the substantial replacement income which underpins their undertaking of comprehensive reskilling between particular jobs.

This means that, instead of being tipped into a pit of poverty and despair when one job is lost, and being left desperately scurrying for any alternative form of short-term employment and income which will help them to climb out of this quickly, workers can retrain for quality work to which they are suited, as part of their ongoing career, in a way which sustains their long-term workforce participation. The qualifying conditions to gain these benefits are to have been in employment for at least one full year in the previous three years, and to have contributed a twelve month membership fee.

It is possible and desirable to apply Danish concepts of ‘Flexicurity’, or employment security, to Australia by enabling moves towards insuring against unemployment which build on the successes of bi-partite industry superannuation funds. Unemployment insurance would enable the bringing of Australia’s unemployment payment levels up closer to the most internationally effective unemployment payments, in terms of the proportion of a person’s previous income which they replace, so as to enable displaced workers to reposition and substantially reskill from a secure base, and to successfully re-enter the paid workforce for the long term.

A ROLE FOR SUPERANNUATION FUNDS

Superannuation funds may be interested in this proposal for unemployment insurance as they see how many applications for early access to entitlements, which were intended to be saved for retirement, are now coming from members who have lost jobs and who fear that they will not gain paid employment again. If increased employment disruption does mean that more people need to transition between particular paid jobs for lengthy periods in order to regain employment before retirement, then superannuation funds may need to play a more flexible role to assist their members in making those transitions.

Not-for-profit superannuation funds may be interested to work with Jobs Australia to further explore and develop ideas for the provision of unemployment insurance in Australia. Industry superannuation funds can assist discussions about how to move from redundancy payouts to provision, through a portable severance scheme, of funds for the quality skills retraining of

¹⁰ See Scott, *Northern Lights*, pp. 135, 145-146.

employees affected by the loss of a particular job, so as to better secure their prospects for ongoing quality employment.

Economist Grant Belchamber has put forward the possibility that one way to establish a comprehensive unemployment insurance scheme could be to have it administered in parallel, or in conjunction, with Australia's system of superannuation. This would deliver a national system of income protection which could underwrite income security during people's working lives, in the same way that superannuation underwrites income security in retirement.

This approach, Belchamber has argued, could be funded by a mix of contributions, and its establishment could coincide with future increases in the Superannuation Guarantee Charge (SGC), with workers being offered the choice between depositing the equivalent of any increases in the SGC into an unemployment insurance account, or into their existing superannuation account. The advantage of this will be that greater income stability will be guaranteed over the course of people's lives, and the risks posed by unemployment will be reduced and managed.¹¹

Under the arrangements proposed above, those who contribute to unemployment insurance and make no claims could have the intact balance of their contributions credited to their superannuation account upon retirement. Other contributors could have their retirement balance tapered down according to the extent to which they have needed to claim unemployment insurance.

SOME DETAILS OF DENMARK'S UNEMPLOYMENT INSURANCE ARRANGEMENTS

Belchamber proposed that "by adopting a social insurance model, Australia can raise significantly the income support available to unemployed workers". In Denmark 'payments to unemployed workers come from two sources. "Social assistance" is similar to Australian unemployment benefits' in that 'payment is a low flat rate, is generally available, is means-tested and assets-tested, and continuation is conditional on recipients meeting activity tests and accepting activating measures'.

However, in Denmark, 'in addition, all workers can opt in to unemployment insurance schemes' in which 'benefit payments rise according to earnings in the previous job'. Through that means, 'the minimum payment delivers a "replacement rate" [i.e. the proportion of the person's wage earnings in her/his previous job] of around 90 per cent for low-paid workers...These benefits are delivered out of dedicated funds". By contrast, at present the level of Australia's unemployment payment is much too low, at little more than 40 per cent of a replacement wage, to enable an unemployed person to undertake quality, career-renewing skills training.

In Denmark, after notification by employers to workers and their unions of intended workplace closures, the main efforts of unions and other parties are directed not at redundancy payouts, but at retraining the affected workers. In Denmark, retrenched workers do not receive redundancy payments but they instead receive immediate quality retraining which is substantially funded by government and employers. The retraining is supported with public funds, often in the form of wage

¹¹ Grant Belchamber, 'Flexicurity: What Is It? Can It Work Down Under?', *Australian Bulletin of Labour*, Vol. 36, No. 3, 2010, pp. 278-303.

subsidies, as well as through intensive publicly funded case management which is given for the workers to find new jobs.

These active measures mean that Denmark also has one of the Western world's highest rates of 'older' people who are still in paid work. Labour force participation rates in Denmark in general – and for 'prime-age' persons, i.e. those aged 25 to 54 – have long been very much higher than the rates in Australia.¹²

Belchamber has argued that: "A new, comprehensive...unemployment insurance scheme in...Australia...has great long-term promise...The many possible variants of a viable national scheme...(include) premium levels, benefit payments, activation requirements, degree of compulsion, eligibility criteria, the role of government and more". Following investigations "into the level of benefit that would be available under an illustrative scheme in which a payment of one per cent of gross wages was made for unemployment income insurance cover in a nationally pooled scheme...based on various modelling specifications...(this) exploratory actuarial costing (indicates) the scheme is economically feasible and sustainable".¹³ That costing was done for AustralianSuper, a leading Australian industry superannuation fund.

SCEPTICISM ABOUT INTRODUCING UNEMPLOYMENT INSURANCE TO AUSTRALIA

There is some scepticism about the introduction of Danish social insurance approaches in Australia, seeing them as working well in Denmark and some other nations but seeing the transition, and the cost to government if the approaches become genuinely 'universal', as posing major challenges for Australia.

Thus Peter Davidson praises how in Denmark

the social insurance funds...remain influential...in the setting of employment assistance policies. Unemployed people need institutional champions...[which] are in a stronger position to influence policy than they are...In the long run the institutions that underpin the benefit system and the labour market determine the shape and effectiveness of national policies to reduce unemployment. These institutions include wages and benefit systems, the involvement of unions and employers in employment services, and the quality and accessibility of education and training.

However, he cautions that, in Australia

¹² See OECD, *OECD Historical Statistics 1970–2000*, OECD, Paris, 2001, Table 2.2; and annual issues of OECD, *OECD Employment Outlook*, OECD, Paris, Statistical Annex, Table C.

¹³ Grant Belchamber, 'To Fix a Flaw and Fix the Floor: Unemployment Insurance for Australia', in Paul Smyth and John Buchanan (eds), *Inclusive Growth in Australia: Social Policy as Economic Investment*, Allen and Unwin, Sydney, 2013, pp. 196, 199, 200, 202, 203.

*We can't simply import overseas institutions...social insurance is inconsistent with our policy traditions. If we want a fairer labour market and less poverty, we need to build better institutions, brick by brick.*¹⁴

This is a reasonable argument. Peter Davidson has elsewhere written about the positive 'Qualification Program' in Norway and its success in tackling entrenched long-term unemployment in part as a result of its having caseloads of 1 employment services worker for every 18 job seekers, a starkly lower ratio than the 1 employment services worker for every 100 or more job seekers in Australia. This produces the result that the most disadvantaged unemployed in Norway gain the more intensive, personalised assistance which they need.¹⁵

The difficulty lies in taking the first steps from where Australia currently is, and where nations like Denmark and Norway already are. My argument is that the long-established industry superannuation funds in Australia can be among those institutions – indeed they can be one of the absolutely crucial institutions – which can now improve their operations to further support unemployed people, and to make unemployment insurance work in the distinctive Australian circumstances, in a way which is nevertheless appropriately informed by successful Nordic precedents. That is, industry superannuation funds in Australia can be the bricks which begin to build up insurance against unemployment which will make the Australian labour force fairer, more secure and less prone to poverty.

UNIVERSALITY AND TARGETING

As for concerns about how 'universal' unemployment insurance could be in Australia – for example, if provided privately through superannuation funds it may be narrowly targeted – the point which needs to be made in response is that nearly everything is *already* narrowly targeted in the Australian welfare system.

A by-product and positive consequence that would flow from the not-for-profit industry superannuation funds now moving to themselves provide unemployment insurance would be that this would help to reduce the inequitable 'free-rider' problem. The 'free-rider' problem usually refers to actions taken by trade unions, which can only be taken because they are funded by the payment of dues by union members, but the benefits of which are received by all workers including those who do not contribute to those actions. This does not precisely describe what will happen if industry superannuation funds start to provide unemployment insurance in Australia, however, as not all industry superannuation fund members are union members. Similarly in Denmark you can be a union member and not in an unemployment insurance fund; and vice versa.

¹⁴ Peter Davidson, 'Why Some Countries Have Lower Unemployment than Others: The Role of Active Labour Market Policies', *Australian Options* magazine Special Issue, No. 80, Autumn 2015 ('A Southern Light? Learning from Nordic Social Democracy'), pp. 17-19.

¹⁵ Peter Davidson, "The 'Qualification Program': Norway's Answer to Entrenched Long-Term Unemployment?", <https://pagdavidson.wordpress.com/2016/01/20/the-qualification-program-norways-answer-to-entrenched-long-term-unemployment/>

THE NEED FOR A CIRCUIT-BREAKER IN THE DEBATE ON PAYMENTS TO THE UNEMPLOYED

The entry by Australian industry superannuation funds into the wider provision of income protection for their members than some of those funds already offer, and of unemployment insurance, could also be the circuit-breaker that is needed to catalyse further policy changes towards the wider provision of unemployment insurance in Australia. Scepticism about such proposals should not be allowed to prevent the development of tangible new policies which are likely to actually turn the current unsatisfactory arrangements for Australia's unemployed in a significantly different direction. The fact that a new round of 'jobactive' contracts has been signed, and will not be able to be revisited for several more years, is causing policy-makers now to lack ambition in proposing new actions to improve assistance for the unemployed in Australia, even though the current arrangements are drastically unsatisfactory.

Similarly, while there is scepticism about the compatibility between Australia's generally means-tested social security system funded from general revenue, and particular benefits provided through insurance provision, it is of course possible to change parts of the current system without changing all of it. Means-testing of some parts of our current social security system already sits alongside other more universal parts such as Medicare and the age pension. It is possible and desirable to create further exceptions to general rules which then establish precedents for additional later changes, if the new initiatives are shown to work well. There is also the fact that the precise actuarial costings which have been done indicate that unemployment insurance will not in fact require huge public outlays.

TAXATION IMPLICATIONS

Australia needs to move to a situation whereby employers and governments contribute to insuring against unemployment, so that workers do not bear all the costs of that insurance. This could occur partly through government providing tax incentives for workers who do take out unemployment insurance. Denmark's unemployment insurance funds receive some government financial support including through tax subsidies.

In Australia, the current employer exemption from, or avoidance of, contributing to guarantees of employee entitlements due to government paying the Fair Entitlements Guarantee in instances of business insolvencies – which costs hundreds of millions of dollars a year – is a logical area for fiscal savings. Alternatively, it could now be offset by a mechanism whereby employers now make a serious contribution to the insurance of employees against unemployment.

The entry by industry superannuation funds into the provision of unemployment insurance would commence some contribution by some employers to insuring against unemployment in Australia. It would, in addition, extend into an important new policy area the successful bi-partite approach which has been developed in Australia for the accumulation and payment of retirement income, alongside the state-provided age pension, since the 1980s.

The Superannuation Guarantee Charge increased to 9.5 per cent in mid 2014 and under current laws it will not increase further until July 2021, when it will rise to 10 per cent and then eventually to 12

per cent from July 2025.¹⁶ Therefore, unless a decision is made to bring an increase forward, there will not be the opportunity to allocate some of that increase to the purposes of unemployment insurance – through that particular means Belchamber advocated in 2010 – for many years to come.

In the absence of a new government decision to bring the Superannuation Guarantee Charge increase forward and to devote some of that increase towards insuring against unemployment and for skills retraining rather than for retirement, the logical next step is for government to encourage and support superannuation funds to now move into providing new unemployment insurance services for their members. Those services can then be monitored and evaluated to see whether they should lead to wider national provision of unemployment insurance.

THE REPUTATION AND CURRENT SERVICES OF INDUSTRY SUPERANNUATION FUNDS

Industry superannuation funds enjoy a strongly popular reputation vis-à-vis banks and other financial providers because their bi-partite not-for-profit model has consistently delivered superior returns to fund members. Co-operative arrangements between employees through their unions, and employers, in industry superannuation funds have been highly successful to date in building capital. The development by superannuation funds of further member benefit features, such as unemployment insurance, should therefore now be actively considered.

Financial service providers associated with industry superannuation funds already include Industry Fund Services (IFS) insurance solutions. One existing income protection insurance fund for workers is Incolink.¹⁷ Another is Coverforce, which is one of the five largest Australian-owned insurance brokers in terms of revenue and which provides insurance to workers in the manufacturing industry with its associated entity, Wageguard and its associated product, U-Cover.¹⁸ These provide a starting point for expansion into fully-fledged unemployment insurance.

WHY EXPANDED RESOURCES ARE REQUIRED IF CURRENT SKILLS TRAINING PROGRAMS FOR THE UNEMPLOYED ARE TO FINALLY BECOME EFFECTIVE

Recent developments in the uptake of established – and the announcement of new – skills training programs for the unemployed underline why an expansion of resources through a measure such as the introduction of unemployment insurance now needs to occur.

As part of improving employers' contribution to higher quality skills training in Australia, the potentially positive announcement in the 2016 Budget of the new Prepare-Trial-Hire, (PaTH) program, in association with a drastic winding-down of the failed 'Work for the Dole' scheme, needs to be supplemented by co-operative employer and trade union input. This input is needed to make sure that these planned new internships are carefully designed to be of high quality in developing skills as well as in providing work experience; that they are fairly remunerated; that they do not displace existing jobs; that interns are not churned through by employers to benefit from subsidies

¹⁶ See detailed Australian Tax Office information at: <https://atotaxrates.info/superannuation/superannuation-guarantee/>

¹⁷ See www.incolink.org.au/

¹⁸ www.coverforce.com.au/; www.ucover.com.au/; www.ucover.com.au/about-wageguard.html

instead of their experience being driven by the actual development of skills; and so that the internships do really lead to sustainable employment opportunities for young people.

Measures will also be needed to make the latest employment initiatives relevant to, and beneficial for, the most disadvantaged young job seekers. This is clear from the performance of the Restart program which was set up in the 2014 national Budget when the government announced that, for older workers who have been out of the workforce for an extended period, a flexible scheme would be introduced whereby employers who hired a job seeker aged over 50 would be eligible for a \$10 000 wage subsidy over 12 months.

Public advertisements for the two year old Restart wage subsidy program have recently begun to re-appear. Yet the Department of Employment has indicated that less than 3 000 mature age job seekers had commenced in a job with the help of Restart after 17 months of the program¹⁹ compared with the expectation that more than 30 000 would do so every year²⁰. This reinforces the need to now situate wage subsidy initiatives within a seriously improved employment services system, in which jobseekers are in a position to afford to take up skills training opportunities, if Australia is to genuinely tackle unemployment.

The resources to enable such a fundamental improvement to happen in Australia's employment services system will, and can, now be greatly expanded by the introduction of unemployment insurance, informed by the analysis presented in this paper.

¹⁹ Submission by the Department of Employment to the Australian Human Rights Commission's *Willing to Work: Inquiry into Employment Discrimination against Older Australians and Australians with Disability*, Canberra, January 2016, p. 13.

²⁰ Commonwealth of Australia, *Budget 2014-15 Overview*, CanPrint Communications, Canberra, 13 May, 2014, p. 11.