

Noel Pearson – Stuck on the welfare pedestal – The Australian, 10 February 2007

AS part of the process of developing our ideas for reforming the way in which the welfare system works in indigenous communities, I have been having discussions with members from some communities in Cape York Peninsula about what motivates the life choices our people make.

A central conviction in our thinking about welfare reform is that economic incentives are very important to consider, because they motivate many of the choices that individuals make about their lives and those of their families.

Incentives matter. Incentives matter more than has been acknowledged in the history of indigenous policy-making.

But what about culture?

It is true that culture matters: indigenous people's cultural traditions and values and their social relationships and obligations strongly influence the choices they make. For example, what the anthropologists call "demand sharing" - where sharing with certain people is not a choice on the part of individuals, but an obligation - is a compelling institution in indigenous societies that I know.

Individual choice is a powerful engine for social progress, because it is when individuals choose to improve their lives that change happens. Collectives cannot motivate action to improve life in the way that individual choice can: this is the great contribution of liberal thought to the understanding of human behaviour.

However in addition to liberal choice, the economist Amartya Sen has pointed out that development requires people to have the "capabilities to choose". By capabilities he means public goods such as health and education, and political freedom. People who are unhealthy and uneducated do not have true freedom because they lack the capabilities to make real choices about their lives.

For example, young people living in remote communities in Cape York Peninsula who are victims of a criminally disastrous education are not truly in a position to choose. The apparent decision to live a more traditionally oriented life in their remote community without benefiting from participating in the real economy is not the product of true choice. It is the product of no choice.

There is a longstanding policy assumption in this country that Aboriginal people are primarily motivated by culture; that our people are somehow different from other Australians in that we are immune to economic incentives and are instead creatures of culture.

Of course culture and economic incentives both matter. However, because of the predominance of the "cultural man" assumption, I approach discussions with community members about economic incentives with some trepidation. It seems crass to talk about how individuals are motivated by material gain or, to put it more bluntly, money.

In my search for a means to explain the role that economic incentives play in motivating choices our people make, and how passive welfare involves perverse incentives, my most effective metaphor is an ascending

staircase of ever-increasing material gain. Yes, the dollar signs I put on each higher step on the staircase of opportunity do look crass.

But I am struck by how immediately understandable this concept is to community members. They say "of course" when I ask whether individuals in their lives are making calculations about prices. They have never heard of, but they get what I mean by, "price signals". They know individuals are making calculations and making choices, and where the money goes, there goes the man.

I explain that the prices as you ascend that staircase are not set by government, but by the marketplace. I explain that the only prices that are not set by the market, are the lowest steps on the staircase. The prices at the bottom end are welfare prices, set by government policy.

It is the prices at the bottom of the staircase that we are concerned about when we talk about welfare reform. These prices are determined artificially by government. The first step is where community members dependent on welfare are located. The price on welfare is higher than the starting price of real work in the real economy.

Immediately upon my illustration of this metaphor on the whiteboard at a public meeting in my home town, a grandmother at the meeting referred to "that pedestal that our young people are sitting on". She dubbed what we have come to call "the welfare pedestal".

The pedestal acts as a disincentive for people to progress upwards as they must first overcome the challenge of taking a step down before the process of climbing the staircase can begin.

There is a bundle of payments that act together to form the welfare pedestal. One of these income support programs is Community Development Employment Projects scheme. CDEP was intended to be a stepping stone to a real job. In reality it has become a permanent destination.

At the Cape York Institute we are analysing the relative attractiveness of the welfare and work options open to people in remote areas. We are paying close attention to the incentives of youth and young parents at key junctures in their lives. We have found the incentives for remote students to commit themselves to study, training and work are weak or negative. The first problem is that remote school students have limited knowledge about the choices available in the modern economy. When asked what they want to do in the future, too often a child in Cape York Peninsula will answer: "I want to work on CDEP."

In remote communities everyone is guaranteed easy, relatively well-paid part-time work in CDEP. Young people on CDEP face several disincentives against taking up an entry-level real job or traineeship. Their hourly pay rate would initially fall. They would have to conform to the discipline and discomforts of mainstream work and training: they would need to triple their work hours, and perhaps relocate.

Most people who have spent many years on CDEP are no more ready for real work than when they started.

The federal Government has recently begun to reform the CDEP system. The most important change is the introduction of a 12-month limit on CDEP for new participants, who are also required to register with a Job Network member. However, the time limit does not apply to most Cape York Peninsula communities. The

Government states that labour markets are too limited in remote communities to warrant ending CDEP as an employment scheme.

The Government has also introduced a lower CDEP youth rate to improve incentives for young people to complete their education.

The reforms move in the right direction, but further reforms are needed. First, community councils have no rate base and therefore must be properly funded by the state Government, and the reliance on CDEP for the delivery of essential services in remote communities must be ended. Many government agencies avoid funding proper jobs by relying on CDEP, for example, (untrained) community police are frequently CDEP employees.

But such CDEP positions are not real jobs and do not lead to careers in the real economy. All three levels of government must create real full-time jobs for delivery of essential services.

Second, the federal Government needs to invest in extending the mainstream unemployment programs and services to remote communities. Third, CDEP itself should in the future primarily be a work readiness scheme and a complement to the regular commonwealth-funded work readiness and job search programs.

There is a role for community-oriented activities as occur at present, but with a strengthened work expectation. Work activities are likely to be important in helping to engage the very-long-term unemployed, of whom there will be a significant proportion if CDEP no longer operates as an employment scheme. Some people in remote communities are probably permanently disengaged from the regular labour market, and it is probably not realistic to limit participation in CDEP to 12 months in all communities.

These above reforms would open up an opportunity to move a significant number of people into real service-delivery jobs, and to transfer another large group of people to work-readiness training that is more likely to lead to employment than the present CDEP.

But the welfare pedestal is not just the result of the relative price of CDEP compared to entry-level work in the real economy. Family payments (the Parenting Payment, the Family Tax Benefit part A and part B, and lump sum payments) constitute a large proportion of the pedestal.

It can be argued that the Family Tax Benefit does not contribute to setting up a welfare trap. It is the Government's intention that the Family Tax Benefits be incentive-neutral, and the benefits are therefore not income-tested below \$40,000. People moving from welfare to work and people on moderate wages get to keep increases in their income.

However, the absence of punitive marginal tax rates is probably not an important consideration when people in Cape York Peninsula make their decisions about how many hours of the week they allocate to work or leisure. As a general rule, as people's income rises you need to pay them more to take on an extra hour of work. If they reach a target level of income on which they are prepared to exist, this will obviously affect their labour supply decisions.

Indigenous parents are having large families at an earlier age. Their welfare payments add up to a significant yearly wage. This income is received without them ever having to make any active decisions about education or work. When they have started receiving family payments, they face this choice: have an income which they are prepared to exist on for minimal work obligations or work longer hours for a limited increase in income and significantly less leisure time.

The behaviour of people in our communities indicates that many of our people do not intend to increase their income by increasing their labour supply. In some remote communities, it has been difficult to find applicants for the real jobs that do exist, despite the fact that the vast majority of people are unemployed.

As I have outlined above, it would be relatively straightforward to reform indigenous unemployment and community funding policies to improve incentives. But the other big component of the welfare pedestal, the family payments, would remain unconditional and discretionary. Ideally, conditions and incentives to make active and beneficial life choices should apply to family payments too, since they constitute such a large part of the flow of money to indigenous families. Reforming family payments is much more difficult than reforming CDEP, however, because they are not indigenous-specific schemes.