

families with children increased between 2001 and 2006 (Figure 4.4, Panel F), and children under 12 now comprise 12% of the homeless population. This is of particular concern as homeless children are more likely to become homeless when they grow up. Other important homeless groups are older Australians,<sup>9</sup> people with disability and mental health and Indigenous Australians (9%).

“Network poverty” is part of social exclusion people need to have someone to turn to at a “time of crisis”. This is lacking for several groups those with low incomes, the unemployed, those with poor health, people not proficient in English, and people in jobless homes (ASIB, 2010). Most of these groups also have particular difficulty in “having a say” in their community issues or in influencing decision makers. Finding it difficult to have a say increases as people’s self-assessed health deteriorates (Figure 4.4, Panel G).

Some groups also face difficulties in accessing services, such as banks, health and employment services. This reflects mainly a lack of services in the areas of residence, difficulty with transport, or distance to, and the cost of services (ABS, 2007). People with low incomes, in one-parent families, with disability or poor health, living in remote areas (Figure 4.4, Panel H), public housing renters, the unemployed and jobless families are more likely to face poor access to services than the general population. The gap between Indigenous and non-Indigenous Australians in accessing Internet at home was over 20 percentage points in mid-2000s (ASIB, 2010). The youngest, oldest, Indigenous Australians and people with low levels of education were less likely to seek legal assistance (Coumarelos et al., 2006).

Social exclusion in Australia is being tackled at all levels of government and is focused on six most vulnerable priority groups. These are: improving the life chances of children at greatest risk of long-term disadvantage; targeting jobless families with children; reducing the incidence of homelessness; enhancing outcomes for people with disability or mental illness and their carers; closing the gap for Indigenous Australians; and addressing locations of concentrated disadvantage (Australian Government, 2010a). The policies are based on the recognition that simply increasing government expenditure does not necessarily improve social inclusion. Mainstream services also need to be accessible to those who need them most, and initiatives to tackle deficits in areas such as education, health and housing, can be effective in reducing persistent disadvantages. Given the close links between labour market outcomes and social inclusion, the solutions need to cover policies related to the tax-transfer system, labour market, education and training, health care and social housing.

## Addressing Australia’s future employment needs and social challenges

### ***The tax-transfer systems need to strike a balance between poverty and incentives to work for disadvantaged groups***

The current tax-transfer system can discourage work incentives of some groups. The flat-rate and means-tested nature of Australia’s social security benefits is less costly, more targeted, and more re-distributive than in most OECD countries (Whiteford, 2009a). However, the system raises issues of benefit adequacy, horizontal equity and incentives to work (Australian Government 2010d). At the same time, multiple and often overlapping transfers and cumulative withdrawal rates can result in relatively high effective marginal tax rates (EMTRs), especially for second earners (Chapter 2).

Income support benefits are paid at two main rates.<sup>10</sup> The higher pensions have traditionally been paid to people who were not expected to work (the aged, those with significant disability and their carers and single parents whose youngest child is below 8), and involve more generous participation tests and withdrawal rates. The lower allowances are granted to those having the capacity to work (usually the unemployed and students). The gap between the two is considerable: in 2010 the allowance for a single, unemployed person was 68% of a pension. Longer term projections show that the allowance would fall to 46% of the pension by 2040 under unchanged indexation arrangements (Australian Government 2010d).<sup>11</sup>

The low level of the unemployment allowance (Newstart Allowance) has raised concerns about its adequacy. Unlike most OECD countries, Australia provides a flat (non-earnings related) means-tested allowance to meet social risks such as unemployment, which may be paid for an unlimited period. In terms of other countries' programmes, this can be thought of as combining social assistance and unemployment benefits. The allowance for a single person for the full-year in 2007-08 amounted to 31% of net median income, which is below the poverty threshold of 50% of median income (Australian Government 2010d). The resulting net replacement rate is below the OECD average for the initial stage of unemployment. However, it gradually rises above the average, because of its flat and unlimited nature compared to declining and time-limited benefits in many other countries (Table 4.1).

The relatively low net replacement rate in the first year of the unemployment spell raises issues about its effectiveness in providing sufficient support for those experiencing a

**Table 4.1. Generosity of unemployment benefits**  
Net replacement rates at different points during an unemployment spell, 2007,<sup>1</sup> in percentage

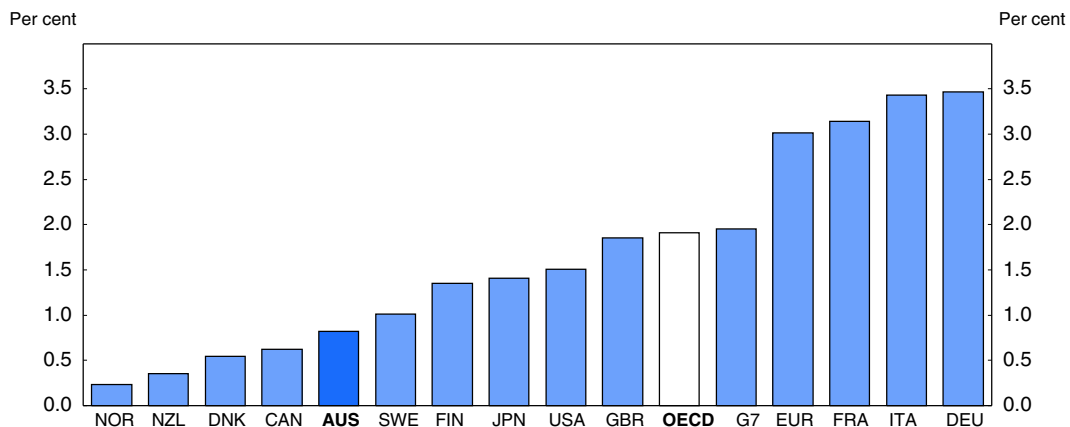
	Year 1	Year 2	Year 3	Year 4	Year 5	Five-year average
Norway	72	72	72	72	72	72
Belgium	65	63	63	63	63	63
Denmark	68	68	68	68	9	56
Ireland	50	50	50	50	50	50
Germany	64	48	42	36	36	45
France	67	64	31	31	31	45
Finland	60	58	33	33	33	43
<b>Australia</b>	<b>42</b>	<b>42</b>	<b>42</b>	<b>42</b>	<b>42</b>	<b>42</b>
New Zealand	38	38	38	38	38	38
Sweden	66	63	41	8	8	37
United Kingdom	28	28	28	28	28	28
Canada	52	14	14	14	14	22
Japan	45	3	3	3	3	11
Italy	37	0	0	0	0	7
United States	28	0	0	0	0	6
<b>Median</b>	<b>52</b>	<b>40</b>	<b>25</b>	<b>13</b>	<b>9</b>	<b>28</b>

1. Countries are shown in descending order of the overall generosity measure (the five-year average). Calculations consider cash incomes (excluding, for instance, employer contributions to health or pension insurance for workers and in-kind transfers for the unemployed) as well as income taxes and mandatory social security contributions paid by employees. To focus on the role of unemployment benefits, they assume that no social assistance or housing-related benefits are available as income top-ups for low-income families. Any entitlements to severance payments are also not accounted for.

Source: OECD (2009), *OECD Economic Outlook*.


job loss, or enabling someone to look for a suitable job. There is empirical evidence on skill mismatches in Australia, although it is difficult to single out the impact of the unemployment benefit scheme. Skill mismatches appear to be a problem for a number of groups, including newly arrived immigrants who do not have initially access to social security, immigrants from non-English speaking countries (see below) and graduates from vocational education and training, especially in the case of tradepersons (Karmel, 2007). Mavromaras *et al.* (2007) conclude that overskilling is persistent in the labour market, with a wide variation in its incidence and wage consequences. The ratio of job vacancies to unemployment has increased between the end-1990s and later in the following decade, but this most likely reflects the strong growth of the economy (OECD, 2008a). However, long-term unemployment in Australia is well below the OECD average (Figure 4.5). This reflects the close linking of unemployment allowances to active labour market policies, and a well functioning compliance and sanctions regime.<sup>12</sup> Net impact analyses over the past 15 years, which are a measure of programme effectiveness, have shown that Australia's active labour market programmes are very effective in assisting job seekers into employment.

Figure 4.5. Long term unemployment rate<sup>1</sup>  
2009



1. One year and over.

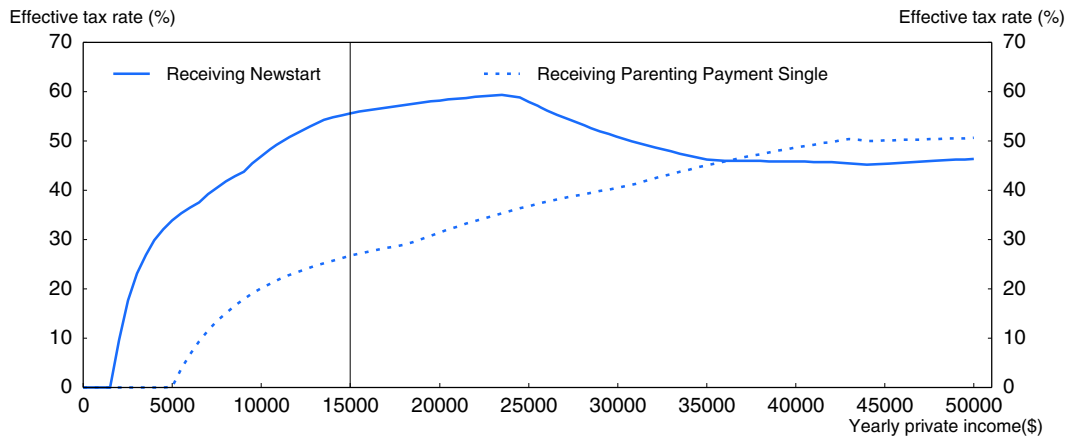
Source: OECD, Labour Force Statistics Database.

StatLink  <http://dx.doi.org/10.1787/888932344824>

The large gap between the benefits in the current system can reduce incentives to work. The unemployed may have an incentive to apply for the Disability Support Pension (DSP), which has a higher risk of long-term welfare dependency, although the eligibility for the benefit is determined by a comprehensive, independent assessment of the individual's capacity to work (see below). For example, in September 2009, the net income of a person receiving the Newstart Allowance and working 15 hours at the minimum wage was only about 3 dollars more than the maximum disability pension. Those eligible for pension payments thus have a strong disincentive to work (Australian Government, 2010d). Outflow rates from DSP were approximately three quarters of inflows in 2008, but the majority of those leaving DSP does so either because they took up Age Pension or died. At the same time, more than a third of those entering DSP in 2008 had previously had Newstart Allowances.

Financial incentives to work are also weak for single parents at low incomes who are transferred from the parenting payment pension to the Newstart Allowance when their youngest child turns eight. For example, the average effective tax rate for a single parent with a parenting pension working 20 hours per week at the minimum wage (AUD 15 000) would increase from below 30% to above 50% when the child turns 8 years (Figure 4.6). The

Figure 4.6. **Participation tax rates:<sup>1</sup> Single parent, 2009**



1. The participation tax rate is the average effective tax rate from no work to the level of yearly private income.

Source: Australian Government, The Treasury.

StatLink  <http://dx.doi.org/10.1787/888932344843>

significant change in the average effective tax rate reduces the attractiveness of low paid work to single parents, impacting on part time work, in particular (Whiteford, 2009b). On the other hand, the drop in benefit rate facing single parents when their youngest child turns eight may provide a strong income effect to seek work. Parents receiving lower subsidies may also have stronger incentives to apply for a more generous benefit: the second largest group (12%) that has entered the disability payment system from another income support scheme in 2008 was former recipients of parenting payments. However, for higher earnings (above AUD 15 000) the average effective tax rate under Newstart declines relative to the average rate under parenting pension. Thus, the financial incentive to take a full-time job, even below average earnings, is higher under Newstart Allowances (especially, taking into account the income effect component of the incentive). Moreover, Newstart is subject to activity requirements and a legal obligation to accept suitable work, and the employment service providers generate job offers, which should also have a positive impact on work incentives for single parents. The official evaluation of the 2006 welfare reforms (see below), tightening the eligibility for single parenting payments, provide evidence in this regard (as evidenced by higher exit rates from payments).

Large differences in the benefit rates also raise concerns about horizontal equity. The present payment structure leads to very different outcomes for people with similar work capacity, because benefit conditions can change markedly for marginal changes in personal or family circumstances. This is for example the case of single parents when their youngest child reaches eight, discussed above.

Work incentives can be reduced by the rise in effective marginal tax rates (EMTRs) as benefits are withdrawn. Many of the tax and transfer policy changes implemented over the past decade were designed to reduce EMTRs and boost work incentives. Despite the reforms, EMTRs can still be high for families with children due to overlapping withdrawal rates of multiple family benefits (Australian Government 2010d). Empirical evidence suggests that a fifth of lone parents and around 14% of couples with children face EMTRs above 50%. This compares to 3.1% of couples without children and 2.4% of single people (Harding *et al.*, 2009). Second earners are particularly affected. This group is taxed more heavily in Australia than in other OECD countries, despite separate personal income taxation for spouses, because means-testing is less common in other countries and the relative generosity of family benefits in the first place. High EMTRs also hit single parents and one-earner couples with children in their transition from part- to full-time work (see Figure 2.11), reinforcing concerns about “low-wage traps” highlighted in previous *Surveys*. On the other hand, Australia does not stand out in international comparisons with regards to the EMTRs faced by these groups when they move from inactivity to part-time work. However, the large share of jobless households with children the fifth highest in OECD (Whiteford, 2009b) indicates that there is scope for further reducing “inactivity traps”. Measures beyond welfare policy would also be important in this regard given the multifaceted disadvantages experienced by such households.

Changes in taxation<sup>13</sup> introduced since 2008 are expected to have a positive impact on labour supply. Official estimates suggest that around 85 000 individuals would be encouraged to enter the labour force as a result of changes in income tax rates and low-income tax offsets. Including additional hours for existing workers, this could imply around 3 million additional hours of work per week.

### **Employment is affected by access to affordable high quality child care services**

The cost of child care to be borne by parents can reduce the financial benefits from returning to work. Recent research highlights the importance of child care prices on labour supply of mothers (Gong *et al.*, 2010). Non-price factors, such as availability and quality of services, also affect labour supply decisions of married women with young children (Breuing and Gong, 2010). The Australian Government provides a subsidy to both working and non-working parents through the Child Care Benefit (CCB) (a means-tested per hour assistance) and a complementary Child Care Rebate (CCR) available to working parents, which cover 50% of “out-of-pocket” expenses for approved child care, up to a cap.<sup>14</sup> The CCB rate varies depending on family income, the number of children in care and the type of the care used. The formula for calculating the CCB, and its interaction with the CCR scheme are complex. Although the maximum rates of CCB are indexed to inflation (CPI), this assistance has not kept pace with increases in child care prices in recent years (Australian Government 2010d).

Beyond government funding, supply constraints could also affect affordability of care. As discussed in the previous *Survey*, there is no clear evidence of a shortage of child-care places, but at the local level anecdotal evidence suggests that parents can experience difficulties in finding care for very young children (0-2 years), or at specific times of the week that match their working hours. Whereas these may reflect complex parental preferences rather than an under-supply of child care places, the structure of Child Care Benefit (CCB) should take into account the fact that the provision of services for very young children is more expensive.

## **Reforms in the transfer system and childcare services should boost labour force participation**

### **Increasing allowances while keeping incentives to work**

Measures of relative poverty (described above) indicate that the Newstart Allowance should be raised (subject to fiscal constraints and in line with community expectations that payments are affordable, sustainable and fair) to provide a more adequate level of income support. To reduce the risk for long-term unemployment, however, job-search requirements for benefit eligibility, active labour market policies and a credible compliance and sanctions regime should be maintained. It is important, in this context, to ensure that the new employment services system, with greater emphasis on more disadvantaged, provides adequate incentives for service providers to place job seekers with low barriers to employment (Box 4.2). In addition, the higher Newstart Allowance could be of a limited

#### **Box 4.2. The new employment services system**

The new employment services system, Job Services Australia (JSA), in effect since July 2009, has a number of commendable features. It empowers providers to be more responsive to job seekers and puts greater emphasis on more disadvantaged job seekers through better levels of service. The system is also simpler and more integrated than previous schemes, including only one employment services contract which integrates a range of services previously provided under separate arrangements. The new system entails payments for employment and education outcomes. Higher levels of employment and social inclusion are closely linked to education, as discussed above. In particular, a bonus is to be paid to providers when the job seeker has achieved a successful transition to work and has completed an accredited course in a skill shortage area.

The new system assesses a job seeker for eligibility of services and income support with Centrelink, which is the primary gateway to JSA (private providers and community organisations contracted by the government). The services are demand driven. Every job seeker is linked to a provider of their choice who will have the flexibility to develop individually tailored assistance proportional to the disadvantage of the job seekers. JSA offers four employment assistance streams (Stream Services) adapted to job seekers, depending on the job seekers assessed difficulty of finding employment. This replaces the previous time-based employment services. Job seekers who have completed approximately a year of Stream Services, commence in the work experience phase of their stream or, if they are assessed as requiring a higher level of service, move to a higher stream for another 12 months of assistance; the most disadvantaged job seekers (Stream 4), either move into work experience or receive further assistance in their stream for another 6 months after which they automatically move to work experience.

Care should be taken, however, that the new system minimises risks for “cherry picking” behaviour by getting right the incentives to service providers. There is a widespread view among providers, according to ACOSS (2010), that the JSA funding model offers “scant” resources to assist Stream 1 job seekers, who form half of new job seekers. The structure of payments to providers and the rating system under JSA increases greatly the weight on outcomes achieved for individuals with significant barriers to employment. In particular, in Stream 1, there is a payment to provider for placements but not for “outcomes” (i.e. the placement to jobs that last at least 3 months)<sup>1</sup> (DEEWR, 2008). Moreover, in terms of the contribution of each stream to overall performance rating, Stream 1 is attached a weight of only 10% compared to 40% for Stream 4, reducing the incentives of providers to place

**Box 4.2. The new employment services system (cont.)**

the least disadvantaged job seekers during the first year of unemployment.<sup>2</sup> Preliminary evidence suggests poor scores for over half of all providers with a Stream 1 rating (DEEWR, 2010). While it is still early to assess the performance of the JSA system, this issue may have to be revisited in light of experience. Consideration could be given to increase the currently low weight within the performance management system, on achieving employment outcomes for less disadvantaged workers. At the same time it needs to make sure that the new system leads to performance increases for job seekers facing the greatest barriers to work. A frequent monitoring and assessment of the training programmes which are available to job seekers is essential.

1. Outcome Payments are not paid for Stream 1 job seekers before they commence in the Work Experience Phase.
2. Ratings for each stream measure providers' performance against efficiency and effectiveness that is, the average time required, compared to other providers, to place relevant participants and the proportion for whom placements and outcomes were achieved. They then are averaged, with progressive weights, to calculate the overall rating.

duration, with the benefits being gradually phased out over time to their current flat rate. This would not solve problems of adequacy for those remaining on Newstart for a longer period, but it would improve the effectiveness of Newstart as “the first line of defense” for those losing their job, while maintaining incentives to find a job over time. A potential cost of this change, however, is reduced employment incentives, especially for those at low incomes, during the period of the higher time-limited unemployment supplement, an issue that should be carefully studied. Beyond addressing adequacy issues, such a scheme could also improve matching by enabling the unemployed to look for a suitable job. Increasing Newstart for a limited duration at the initial stages of the unemployment spell could also reduce incentives to apply for more generous social security payments, such as DSP, although only on a temporary basis. As noted earlier, more than a third of those entering DSP in 2008 had previously had Newstart Allowances, even though the large majority of exits from unemployment are still towards employment.

***Participation of families with children can be boosted through better work incentives and income support***

A key challenge is to increase incentives to work for sole parents, which is a large socially excluded group. The “welfare to work” reforms, introduced in 2006, shortened the duration of eligibility for Parenting Payment Single pension, with single parents whose youngest child turns 8 moving from parenting payments to unemployment benefits, and introduced part-time participation requirements for parents (both partnered and single) with school-age children. More recently, part-time activity requirements have been refined to include more flexible combinations of job search, work, study or volunteer work. The reforms seem to have improved work incentives, as more single parents with a school age child have left income support. There has also been a small decline in the number of single parents with pre-school age children on benefits (Australian Government, 2010d). Further measures are needed however to improve the work incentives for this group. One option is to tighten participation requirements for the parents with pensions coupled with improvements in early childhood education and care services (Whiteford, 2009b). The age of the child at which parents on income support are required to look for part-time work could be reduced gradually from 6 to

4 years, as recommended in the recent tax review (*Australia's Future Tax System, AFTS*), with a simultaneous increase in child services (Australian Government, 2010d).

The incentives to take up low paid work for single parents not eligible for parenting payment (that is, youngest child reached 8 years) could be improved by reducing, finances permitting, the withdrawal rates for Newstart Allowance for low level earnings. This, of course, involves trade-offs in terms of complexity of the benefit system. Care should be taken to strike the right balance between more generous benefits and incentives to work, and sustainability of fiscal policy.

Work incentives for second earners could be improved through a better interaction of the tax and benefit systems. Combining family benefits into a “single family payment”, with one withdrawal rate, in line with the AFTS review recommendations, could help to reduce high EMTRs for low-income families arising from cumulative withdrawal rates. Implementation is not easy as there are distributional issues to be considered and complex trade-offs. For example, if the benefit withdraws quickly upon working, there is a risk of an “inactivity trap”, where employment, especially, part-time, does not “pay”. If the benefit is withdrawn slowly, there is a risk of a “low wage trap”. Previous Surveys emphasised the need to reduce low-wage traps, which in Australia are more prevalent than inactivity traps. Suggested measures include, for example, reducing the lowest income tax rate or, increasing the threshold at which income tax is first paid, which Buddelmeyer *et al.* (2006) judge to have the largest impact on the aggregate labour supply in terms of additional hours of work among alternative options.

#### **Better access to quality child care and family friendly policies would boost employment**

Progress in recent years towards reducing the cost (through increases in the Child Care benefit and Child Care Rebate rates) and increasing the number of child care places is welcome. Going forward, it is essential to ensure the sustainability of the generosity of the Child Care Benefit (CCB), as continuation of recent trends would imply a decline over time in the share of child care costs covered by CCB. In addition, reforms are needed to ensure that CCB is more responsive to differences in child care costs across services and locations to facilitate access by low paid families (Australian Government, 2010d). Combining CCB and CCR into a single (means-tested) payment, set as a percentage of out-of-pocket expenses, would simplify the benefit and address the above concerns. Such a scheme would also take better into account the age-related cost profile of child care provision. To contain pressures on government expenditure and child care fees, in view of the higher responsiveness of an out-of-pocket assistance payment to child care prices, a cap on assistance would be necessary. The child care benefit (currently available to all eligible parents for up to 24 hours per week for each child, without participation requirements) could be made more conditional on employment and job search of parents, except if children face multiple disadvantages.

The planned introduction of a paid parental leave (PPL) scheme in January 2011, in line with international practice, is welcome. Combined with other leave arrangements, the PPL scheme will enable most parents to stay with their infants for at least 6 months. Eligibility is subject to primary carer residency and income criteria and having worked continuously for 10 of the 13 months before the expected birth. PPL will be granted to eligible parents for a continuous period of 18 weeks at the minimum wage rate. The PPL scheme is estimated by the Productivity Commission to increase the average Australian women's lifetime employment by 2 to 6 months. The right granted to parents of a child below school age under

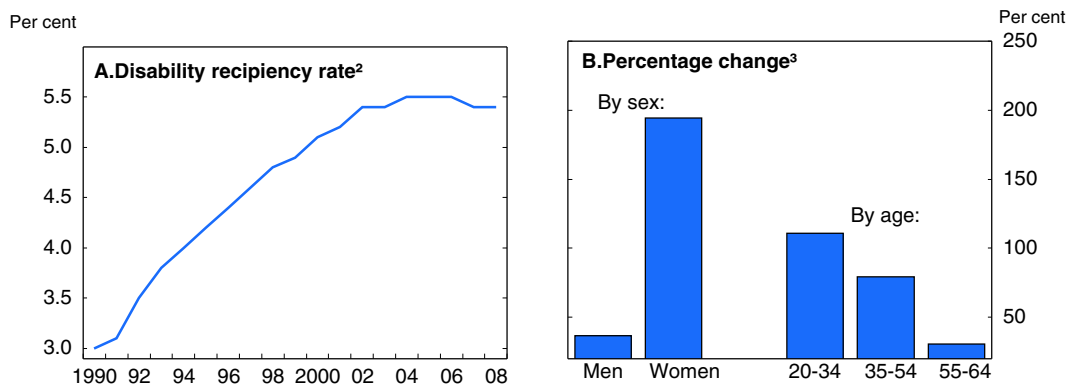


the new industrial relations system (see below) to request flexible working arrangements, including changes to hours, patterns (job-sharing) or location, go in the right direction towards improving the family-work balance.

### *Activating workers with disability who have the capacity to work*

Inflows to disability benefits could be reduced. Recipients of disability benefits nearly doubled as share of working age population over the past two decades, although the trend has stabilised in more recent years (Figure 4.7, Panel A). The highest rise was among women and young people (Figure 4.7, Panel B). Longitudinal data indicate that Australians tend to leave employment more easily than in other OECD countries after the onset of a health problem, with a comparatively high transition rate from employment into disability (OECD, 2009a) and, as discussed above, frequent transitions from unemployment into Disability Support Pension (DSP). These findings suggest that more attention should be paid to monitoring of the sickness absence process of workers, to ensure that as many of those on sick-leave return to employment as possible, if able to (OECD, 2007a).

Figure 4.7. **Disability indicators**<sup>1</sup>




1. Current and suspended customers in June of each year.

2. Number of disability benefit recipients divided by population. Data refer to persons aged 20-64.

3. 1990-2008.

Source: OECD, Directorate for Employment, Labour and Social Affairs.

StatLink  <http://dx.doi.org/10.1787/888932344862>

The effectiveness of the work capacity test for access to DSP could also be tightened. For example, the assessment of capacity to work for less than 15 hours per week, which is required for eligibility, is currently made before most claimants have had any retraining or rehabilitation (Australia Government, 2010d). This means that such an assessment is based on a prediction about a person's future capacity to work, with little information about the likely benefits of rehabilitation. This constrains the effectiveness of any potential change in the eligibility requirements of DSP.

Measures in the May 2010 budget to reform the process of job capacity assessments go in the right direction, though could be applied to all DSP recipients, including those who were granted DSP eligibility before 2006. The reforms aim at refining the assessment process to place a greater focus on a person's future potential to work, with appropriate capacity building and rehabilitation. From 2012, job capacity assessments will also be based on revised impairment tables, which are being updated to make them consistent with contemporary medical and rehabilitation practice. Most applicants will have to provide

evidence that they would be unable to obtain employment, even with appropriate assistance, such as employment service or vocational rehabilitation. Should they not qualify for DSP, they will be referred to an alternative income support payment (such as Newstart Allowance) and offered employment assistance through Job Services Australia (Box 4.2) or the new Disability Employment Services (DES) system that started in March 2010. The DES programme ensures access to services for all job seekers with disability, attempts to provide the right assistance as early as possible, involves less complex assessments and referral processes, and has a strong focus on outcomes with the greatest rewards when providers find job seekers sustainable jobs. Emphasis is placed on skills acquisitions, especially in areas of skill shortages.

Recent policy changes have also aimed at removing disincentives for DSP recipients to use employment services to find work. Disability pensioners can currently seek employment assistance without fear of losing their pension through an automatic review of eligibility. This reform, introduced in 2008, appears to have positive results (Australia Government, 2010a). To further improve incentives to work of people with disability able to do so, the generosity of DSP could be reduced although the Australian government has advised in its response to the AFTS review that it would preserve the current income support rates set by the recent Pension Review in line with the community standards.

### ***Labour market institutions should remain flexible***

#### ***The flexibility of the labour market should be preserved under the new system of industrial relations***

Australia's labour market institutions work well overall. The tax wedge is low and employment protection legislation is not very restrictive compared to other OECD members (Figure 4.8). Labour markets also performed well during the global economic crisis. A new system of industrial relations was introduced in July 2009 to strengthen bargaining at enterprise level, widen the minimum employment conditions safety net (i.e. minimum terms of employment and wages) and establishing a right of appeal against unfair dismissal of employees of small and medium-sized firms (OECD, 2008a). The challenge for its implementation is to balance flexibility and legitimate fairness concerns. Flexibility is particularly important in view of the expected structural change from the mining boom and reallocation of workers across sectors (Chapter 1). Ensuring adequate wage differentiation to limit the larger wage increases in the booming sectors and regions from spilling over to the rest of the economy is critical. The enterprise-level bargaining under the new system can reduce this risk by linking wages to productivity gains. It is important that arrangements do not extend beyond the company level, apart from the exceptions already envisaged by the legislation.<sup>15</sup>

Care needs to be taken that the restoration of unfair dismissal protection at small and medium-size enterprises does not impair labour market flexibility. Empirical studies for OECD countries do not appear to establish a clear link between stricter EPL and employment (OECD, 2007b), nor is there evidence of any link with hiring, firing or working hours of the exemption given to small firms from unfair dismissal under the Work Choices in 2006 (Venn, 2010). The new system of dealing with unfair dismissal claims should, however, be closely monitored to make sure that the administrative costs faced by the firms, especially smaller ones, are not so high as to jeopardize productivity growth and redeployment of labour<sup>16</sup> (OECD, 2008a). Moreover, the recent government decision requiring companies wishing to qualify for federal government contracts to accept stricter