

PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

# Discussion Paper

House of Representatives Select Committee on Intergenerational Welfare  
Dependence

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CANBERRA

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# Terms of Reference

To inquire into and report on matters relating to welfare dependence of families and outcomes for children, and in conducting the inquiry, the committee:

- a. examine the reasons for welfare dependence, with particular focus on why some families require welfare assistance for short periods only and why others become 'trapped' in the system;
- b. consider:
  - i. the factors preventing parents from gaining employment;
  - ii. the impact of intergenerational unemployment on children;
  - iii. the important role of parents as 'first teachers';
  - iv. a multi-generational approach which assists parents and their children together;
  - v. the impact, if any, of welfare in creating disadvantage; and
  - vi. the impact of economic development in different locations and geography;
- c. recommend options for:
  - i. breaking cycles of disadvantage;
  - ii. measuring the effectiveness of evidence-based interventions;
  - iii. the improvement of the financial capacity and security of families; and
  - iv. better coordinating services between tiers of government to support families; and
- d. consider any other related matter.



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# 1. Introduction

- 1.1 The Select Committee on Intergenerational Welfare Dependence was appointed on 24 May 2018 to inquire and report on matters relating to welfare dependence of families and outcomes for children.
- 1.2 The full terms of reference for this inquiry are at the front of this discussion paper on page iii.
- 1.3 The Committee's Resolution of Appointment required it to make an interim report by 20 September 2018. Rather than attempt to produce a substantive report in such a short time frame, the Committee decided to use the interim report as a discussion paper to guide witnesses and submitters.
- 1.4 This inquiry involves broad issues of welfare assistance, disadvantage, and social mobility. This discussion paper sets out those areas of particular interest to the Committee. The Committee acknowledges that it is not a comprehensive overview of this far-reaching topic. A full report is due to be tabled on or before 12 April 2019.
- 1.5 The Committee welcomes and encourages submissions from interested people and organisations. The Committee is only focussing on the intergenerational aspects of welfare, and notes that this inquiry is not a review of the entire welfare system. This discussion paper, and the terms of reference, should provide guidance on the scope and focus of the Committee's inquiry.



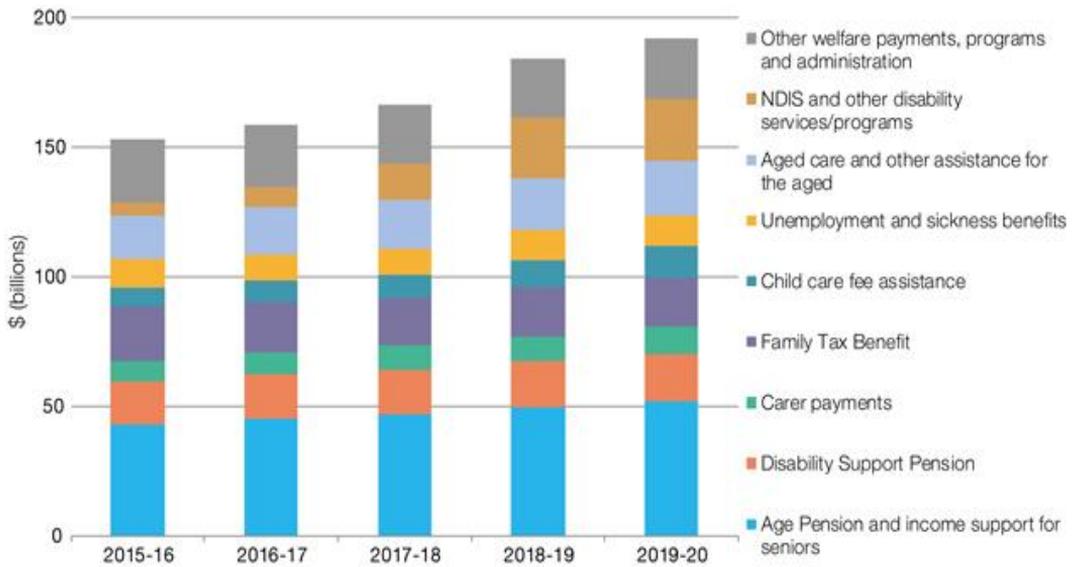
## 2. Scale, scope and definitions

- 2.1 Intergenerational disadvantage is a broad topic that touches on many aspects of public policy. This inquiry focusses on welfare dependence of families and the outcomes for children. The Committee intends to progress this inquiry on the basis of agreed definitions of key terms, and with an agreed understanding of the scale and scope of the issue.
- 2.2 The Committee is therefore interested in views on the following definitional matters.

### Welfare

- 2.3 A fundamental question for the inquiry is the definition of 'welfare'. At its broadest, welfare can be defined as all social assistance payments. The administrative category of 'social security and welfare' is used for budget papers. The total estimated cost of this is shown in the graph below, sourced from the 2016–17 Budget papers.

**Figure 2.1** Estimated Australian Government expenses on social security and welfare



[Source: Parliamentary Library]<sup>1</sup>

- 2.4 As Figure 2.1 shows, a substantial proportion of social assistance payments are on age pension, aged care, child care and NDIS. These categories — particularly aged care — are expected to increase over time due to changing demographics in the Australian population. Most of the estimated increase in Australia’s welfare spending is driven by these categories.
- 2.5 This inquiry is about the effect of welfare payments over generations, which necessarily focusses on people who are raising children. It may be therefore useful for this inquiry to focus on payments to working age people. This would exclude age pension and aged care but would include childcare assistance and study assistance.
- 2.6 The Committee is conscious of the complexity of the payment system, and the many differences of design and delivery between all the payment types. It may be that each payment type has differing impacts on children, and cannot be usefully discussed as a broad ‘welfare’ group, or even a ‘working age’ group.
- 2.7 An important part of limiting the definition of welfare for the purposes of this inquiry is to ensure the accuracy of data. In particular, the Committee wishes to ensure that data about one category is not inaccurately extrapolated to more categories; and that data about the overall social

<sup>1</sup> M Klapdor and D Arthur, ‘Welfare — What Does it Cost?’ Parliamentary Library Briefing Book, August 2016.

assistance spend is not inaccurately used to draw conclusions about a particular category.

## Capacity to work

- 2.8 The Committee seeks views on whether this inquiry should be limited to recipients of working-age payments who have a capacity to work. This would include Newstart Allowance and activity tested Parenting Payment. The Committee also seeks views on what, if any, barriers to employment exist for children of Disability Support Payment recipients.
- 2.9 On the one hand, becoming ‘trapped’ in the system is only relevant where the option of working is available, but is not taken up or is difficult to access. On the other hand, there is a strong correlation between parental disability and a young person’s likelihood of requiring welfare support. Some research suggests that poor parental labour market outcomes are easier for young people to overcome than parental disability.<sup>2</sup>
- 2.10 More broadly, the Committee is interested in the differing influence of intergenerational outcomes between parental welfare payments that do, or do not, indicate a capacity to work.

## Dependence

- 2.11 Receipt of welfare payments does not in itself constitute welfare dependence. However at some point the *amount* of welfare received, the *proportion* of family income derived from welfare and the *duration* of time spent become sufficient to be classified as dependence.
- 2.12 According to a report from the US Department of Health and Human Services:

Welfare dependence, like poverty, is a continuum, with variations in degree and in duration. Families may be more or less dependent if larger or smaller shares of their total resources are derived from welfare programs. The amount of time over which a family depends on welfare might also be considered in assessing its degree of dependence.<sup>3</sup>

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<sup>2</sup> D Cobb-Clark, S Dahmann, N Salamanca, A Zhu, ‘Intergenerational Disadvantage: Learning About Equal Opportunity From Social Assistance Receipt’, Life Course Centre, October 2017, p. 26.

<sup>3</sup> G Crouse and A Waters, ‘Indicators of Welfare Dependence: Twelfth Report to Congress’, US Department of Health and Human Services, Washington DC, 2013, p. I-2.

- 2.13 Different commentators and studies have defined dependence in differing ways. For example, the New Zealand Welfare Working Group focussed on long-term benefit recipients, defining this group as those who had received a benefit for five years or more.<sup>4</sup>
- 2.14 The proportion of income derived from welfare may also be relevant. In the US Department of Health and Human Services report quoted above, the report adopted a definition of welfare dependence among individuals in families as ‘the proportion of all individuals in families that receive more than half of their total family income in one year’ from welfare payments.<sup>5</sup>
- 2.15 It may be more helpful to introduce degrees of welfare dependency to target interventions where necessary, or to predict future welfare expenditure. For example, the recent Valuation Report by the Department of Social Services grouped the level of parental welfare dependence into four bands:

%ge of childhood where parents or guardians reliant on income support	Dependence measure
0	None
1 – 35	Some
36 – 80	High
81 – 100	Very High

*[Source: Department of Social Services]<sup>6</sup>*

- 2.16 The Committee is interested in how to accurately identify groups that are—or that could become—long term welfare recipients, as this will lead to better targeted programs for addressing entrenched disadvantage.

## Data

<sup>4</sup> ‘Reducing Long-Term Benefit Dependency’, Welfare Working Group, Wellington, February 2011, p. 41.

<sup>5</sup> G Crouse and A Waters, ‘Indicators of Welfare Dependence: Twelfth Report to Congress’, US Department of Health and Human Services, Washington DC, 2013, p. I-3.

<sup>6</sup> Department of Social Services, Final Report 2018, ‘Valuation Report’, p. 22.

- 2.17 Accurate data is essential to determining the scale and scope of intergenerational welfare dependence. The following data sources have been identified as useful in this area. Links to the sources are provided in the footnotes where available.

## Surveys

- 2.18 The National Centre for Longitudinal Data (NCLD) was established to advance a longitudinal evidence base able to inform policies to improve the wellbeing of Australians throughout their lives.<sup>7</sup> The NCLD currently manages four surveys:
- The Household, Income and Labour Dynamics in Australia (HILDA) Survey
  - Growing Up in Australia: The Longitudinal Study of Australian Children (LSAC)
  - Building a New Life in Australia (BNLA): The Longitudinal Study of Humanitarian Migrants
  - Footprints in Time: The Longitudinal Study of Indigenous Children (LSIC).
- 2.19 The Youth in Focus project published a number of papers between 2007 and 2011, combining administrative data with a longitudinal survey.<sup>8</sup>

## Modelling

- 2.20 As discussed elsewhere in this report, an actuarial valuation of the Australian income support and social security system has been prepared by PricewaterhouseCoopers (PwC) for DSS.<sup>9</sup> The model attempts to project individuals' trajectories through life and their interactions with the welfare system. DSS use the model to make decisions about the Australian Priority Investment Approach to Welfare.
- 2.21 The Synthetic Priority Investment Approach Data, 2001–2015 was created to help identify groups at risk of long-term welfare dependence.<sup>10</sup>

## Other data sources

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<sup>7</sup> <https://www.dss.gov.au/about-the-department/national-centre-for-longitudinal-data>

<sup>8</sup> [https://www.rse.anu.edu.au/media/381946/yif\\_dp1\\_yif\\_technical\\_paper\\_1\\_19\\_october\\_07.pdf](https://www.rse.anu.edu.au/media/381946/yif_dp1_yif_technical_paper_1_19_october_07.pdf)

<sup>9</sup> <https://www.dss.gov.au/review-of-australias-welfare-system/2017-valuation-report>

<sup>10</sup> <https://data.gov.au/dataset/synthetic-priority-investment-approach-data-2001-2015>

- 2.22 Data.gov.au provides information on the numbers of people receiving income support payments:
- DSS Payment Trends and Profile Reports<sup>11</sup>
  - DSS Payment Demographic Data<sup>12</sup>
  - DSS Payments by 2016 Commonwealth Electoral Division.<sup>13</sup>
- 2.23 Labour Market and Related Payments Monthly Profile publications present statistical information for the various types of labour market payments delivered by Centrelink on behalf of the Department of Social Services.<sup>14</sup>
- 2.24 Budget Strategy and Outlook Budget Paper No. 1 2018–19 provides information on spending in the ‘social security and welfare category’ (this includes spending on services as well as on income support payments).<sup>15</sup>
- 2.25 There is also information on spending by the Department of Social Services and Department of Human Services in the relevant portfolio budget papers.<sup>16</sup>
- 2.26 The Department of Social Services’ annual reports include data on income support recipients including the percentage of Newstart recipients who exit income support before 3, 6 and 12 months.<sup>17</sup>
- 2.27 The Committee is interested in any other datasets or data sources that are used in determining disadvantage, particularly across generations.

## Scale

- 2.28 Although there is a lack of long-term data, current evidence suggests people with higher parental welfare dependence tend to enter into the welfare system earlier, utilise more income support, and have a higher average

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<sup>11</sup> <https://data.gov.au/dataset/dss-payment-trends-and-profile-reports>

<sup>12</sup> <https://data.gov.au/dataset/dss-payment-demographic-data>

<sup>13</sup> <https://data.gov.au/dataset/dss-payments-by-2016-commonwealth-electoral-division>

<sup>14</sup> <https://www.dss.gov.au/about-the-department/labour-market-and-related-payments-monthly-profile-publications>

<sup>15</sup> [https://www.budget.gov.au/2018-19/content/bp1/download/BP1\\_full.pdf](https://www.budget.gov.au/2018-19/content/bp1/download/BP1_full.pdf)

<sup>16</sup> <https://www.dss.gov.au/about-the-department/publications-articles/corporate-publications/budget-and-additional-estimates-statements;>  
<https://www.humanservices.gov.au/organisations/about-us/budget>

<sup>17</sup> <https://www.dss.gov.au/about-the-department/publications-articles/corporate-publications/annual-reports>

lifetime cost. The Committee recognises that accessing welfare payments by the children of parent/s who also rely on welfare payments may be an indication of these means-tested payments working as intended. However the issue of these same children being 'trapped' into long term reliance on welfare dependence requires further review.

- 2.29 There are generally large differences in outcomes between those with the highest parental welfare dependence and those with none. Two examples of these differences are:
- Around 26% of 16 to 20 year olds with a very high level of parental welfare dependency are currently receiving Working Age payments, compared to just 2% for those individuals with no parental welfare dependency.
  - By the age of 25, around 90% of children with very high parental welfare dependence will have interacted with the welfare system, compared to around 45% for those with no such dependence.<sup>18</sup>
- 2.30 Data collection in Australia for long term welfare recipients is limited. Data that shows a snapshot in time is not always useful in predicting the scale of future welfare, and the lines of causation (as opposed to correlation) between parental and child welfare receipt. Potential causes are discussed more in Chapter 3 of this paper; however the Committee is interested in exploring ways to measure intergenerational welfare that moves beyond anecdotal evidence.
- 2.31 Recent media reports have talked of the 'welfare time bomb' – a potential for rapidly increasing welfare expenditure over the future years and decades.<sup>19</sup> The increase is mostly driven by increases in age pension, with total payments to working-age people falling.<sup>20</sup>
- 2.32 The Committee is seeking detailed information on the scale and potential of Australia's welfare expenditure.

## Families

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<sup>18</sup> Department of Social Services, Final Report 2018, 'Valuation Report', p. 12.

<sup>19</sup> A Smethurst, 'Cycle of Welfare Trapping Our Kids', *Sunday Telegraph*, 1 July 2018.

<sup>20</sup> P Whiteford, 'Can We Afford the Welfare System?', Crawford School of Public Policy, 18 November 2015, <https://crawford.anu.edu.au/news-events/news/6760/can-we-afford-welfare-system>.

- 2.33 This inquiry focusses on families and improving outcomes for children. As part of the inquiry, the Committee is interested in evidence on what are the primary influences on children that may affect their later labour force engagement.
- 2.34 Without necessarily making a hard and fast definition of what is a 'family', it is important for this inquiry to explore the potential influence of all social networks, including extended families, paid and unpaid carers, professional educators and any other adults who may play the important role of 'first teachers'.

## 3. Possible causes and solutions

- 3.1 There is statistical evidence that children who grow up in families that are heavily reliant on welfare support are more likely to become welfare recipients. However there are a number of different causes put forward to explain this correlation.
- 3.2 This chapter broadly discusses some of the current approaches to addressing welfare dependence. It also discusses possible causes and potential solutions—ranging from broadly conceptual to specific programs—that have been identified or trialled in the past. There is also a brief overview of relevant international practice.

### Two main approaches

- 3.3 Academics and policymakers believe there are two broad approaches to work towards solving welfare dependency:
  - **Resources and opportunity approach**—also named the structural approach. This approach is based on the assumption that disadvantaged families lack opportunities to develop human capital, earn income, and maintain wellbeing, and that poor outcomes for parents lead to poor outcomes for children. The approach focuses on policies that provide families with additional resources as well as policies that seek to remove structural barriers to opportunity (for example, by dealing with discrimination).
  - **Behavioural approach**—also named the individual approach. This approach is based on the assumption that disadvantaged parents need to change their behaviour in order to achieve better outcomes for themselves and their children. According to this approach, the major

problem is not a lack of resources and opportunity but a failure to take advantage of opportunities that are already available.

- 3.4 In practice these approaches overlap, and supporters of one will often see value in adopting solutions from the other. For example, supporters of the behavioural approach may acknowledge a need for extra resources such as greater investment in early childhood education and care. Similarly, supporters of the resources and opportunity approach may acknowledge the need for greater conditionality in the income support system to ensure that disadvantaged parents take advantage of programs and services that will benefit their children.
- 3.5 The Committee would like to move beyond this dichotomy and hear from stakeholders about how to develop welfare policy and programs with outcomes that reduce the dependency of families and children on welfare support.

## Causes and potential solutions

- 3.6 The following causes and potential solutions for intergenerational welfare dependence have been gathered from a range of government policies and academic literature. They do not reflect the Committee's views or conclusions.

### Parental capacity to work

- 3.7 The recent Department of Social Security (DSS) Valuation Report, which assessed the likely future welfare cost of classes of individuals, showed that individuals who are currently in the welfare system and not able to work (as shown by an exemption from mutual obligation requirements, reported psychological/psychiatric condition, or assessed work capacity) are more likely to have a greater future dependence on welfare.<sup>1</sup>
- 3.8 While this is not surprising, research shows that children of parents in this group are more likely to receive social assistance in the future than children of parents who are in receipt of unemployment payments:

The extent to which social assistance is linked across generations depends on the nature of those benefits, however. The relationship is particularly strong in the case of single-parent payments (PPS), disability support payments (DSP), and carer payments (CP): The likelihood of youths receiving social assistance is 1.6 times larger if their parents received any of these three payments than if

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<sup>1</sup> Department of Social Services, Final Report 2018, 'Valuation Report', p. 31-33.

they did not. In contrast, partnered-parent payments and unemployment payments are associated with rates of social assistance receipt among young people that are only 1.3 – 1.4 times higher.<sup>2</sup>

- 3.9 There has been an increase in the number of reported psychological or psychiatric conditions for people in the Working Age class over the last five years. This has occurred over the same period as the tightening of DSP eligibility and introduction of DSP medical reviews.
- 3.10 The Committee is interested in views on what interventions are necessary for the children of payment recipients who have an identified lack of capacity to work to reduce the likelihood of their children being recipients of social assistance.

### **Changing frameworks and institutions**

- 3.11 If poor outcomes for families are the result of a lack of opportunity, then one response would be to change mainstream social institutions to ensure all members of society have access to the resources and opportunities they need for development and to maintain wellbeing.
- 3.12 This may include changing access to health and education, remodelling worker protections, or improving anti-discrimination legislation. It could also assist by actively redistributing power by, for example, greater inclusion of disadvantaged groups in policy-making.
- 3.13 The Committee is interested in views on combatting structural disadvantages that promote intergenerational welfare dependence.

### **Family composition**

- 3.14 Data shows that single person family units with children have the highest level of welfare dependency, with the majority of adults in these family units receiving income support. Partnered adults tend to have similar levels of income support dependence regardless of whether or not they have children. However, those people with children tend to have a much higher utilisation of non-income support payments compared to those without children.<sup>3</sup>

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<sup>2</sup> D Cobb-Clark, S Dahmann, N Salamanca, A Zhu, 'Intergenerational Disadvantage: Learning About Equal Opportunity From Social Assistance Receipt', Life Course Centre, October 2017, p. 17.

<sup>3</sup> Department of Social Services, Final Report 2018, 'Valuation Report', pp. 13-14.

- 3.15 The Committee is interested in views on family composition and its potential effect on intergenerational disadvantage.

### **Sustainable self-reliance**

- 3.16 Many welfare assistance programs aim to build an individual's capacity for self-reliance. However each individual or family has differing potential for long-term self-reliance. A recent review identified three separate skill sets needed for long-term employability:

- technical or discipline specific skills
- language, literacy and numeracy skills
- employability skills.<sup>4</sup>

- 3.17 The Committee is interested in ways to target assistance to improve these skill sets where it will cause the most sustainable improvements.

### **Better support for employers**

- 3.18 In order to employ people who are currently disadvantaged in the labour market, employers need support to provide real and meaningful jobs. This also includes support to employers to engage or retain disabled workers, who may otherwise be reliant on the welfare system.
- 3.19 Possible solutions include incentives such as wage subsidies, support for additional job creation, employment covenants, reducing administrative burdens on employers and increasing the links between jobseeker supply and employer demand. The Committee is interested in innovative ways of supporting employers to offer opportunities to job seekers. For example, there may also be scope for creating new businesses or microenterprises based on community needs; particularly in rural and regional areas.

### **Investment approach to welfare**

- 3.20 The development of an investment approach was one of the recommendations of the review of Australia's welfare system, *A New System for Better Employment and Social Outcomes*, the McClure Review, in 2015. An investment approach reduces the future liability associated with long-term income support dependence by targeting investment to build self-reliance.
- 3.21 The first step in the approach is an actuarial valuation that estimates the 'future liability' associated with current income support claims. Policy

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<sup>4</sup> Reference Group on Welfare Reform, 'A New System for Better Employment and Social Outcomes', February 2015, Canberra, p. 110.

makers then identify interventions to reduce the liability and prioritise these interventions by their expected return on investment (the amount they save relative to their cost). The Department of Social Services has recently completed a valuation.<sup>5</sup>

3.22 This approach has been implemented in New Zealand since 2011.<sup>6</sup>

3.23 The Committee is interested in views on how the investment approach and the valuation information can be best used to govern welfare policy in the future.

### **Increasing conditionality**

3.24 If income support fosters dependency because it places too few conditions on recipient behaviour, then increasing conditions should reduce reliance on welfare.

3.25 For example, conditionality may be increased in areas such as participation in job search, training, work experience, drug treatment programs, and school attendance by children.

3.26 Welfare conditionality has been a policy position in the United Kingdom (UK) for many years and the UK has trialled various programs under this policy position.

3.27 The Committee is interested in views on the use and effectiveness of welfare conditionality at reducing intergenerational welfare dependence.

### **Removing access to cash**

3.28 Some argue that welfare payments to working age people result in a combination of cash and free time that enables dysfunctional behaviours such as drug abuse.

3.29 Access to cash can be removed by measures such as income management and the cashless debit card. The cashless debit card is currently operating in the Goldfields region, Western Australia, and the Bundaberg and Hervey Bay region in Queensland, and the Committee would be interested in views on its effectiveness.

### **Culture of dependency**

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<sup>5</sup> Department of Social Services, Final Report 2018, 'Valuation Report', July 2018.

<sup>6</sup> Noting that the New Zealand Government is currently undertaking a review of this approach.

- 3.30 Some commentators claim that one of the causes of intergenerational disadvantage is that parents pass on a 'culture of dependency' to their children. This approach considers that the welfare system itself reduces self-responsibility and a sense of initiative, which is then passed down to children.
- 3.31 Linked to this is the idea that intergenerational disadvantage exists because children lack role models who can model successful behaviour. It is much harder for children to believe that they can gain higher education and secure work if adults around them do not have those advantages.
- 3.32 One of the most controversial theories about intergenerational welfare dependence is British researcher Adam Perkins' 'employment resistant personality' thesis. Perkins claims that individuals 'with aggressive, rule-breaking and antisocial personality characteristics are over-represented among welfare claimants' and that the availability of income support payments mean that more of these individuals are having children.<sup>7</sup> Some opposing academics state that Perkins' argument fails to show causal links to welfare dependency and is instead simply assertion. The Committee notes that this theory is not generally supported.

## International approaches

- 3.33 Globally, the delivery of social welfare is based on disparate policy imperatives. As noted above, New Zealand has followed the investment model since 2011, although it is now reconsidering this approach. The United Kingdom has implemented welfare conditionality for some years. Both models are now able to be assessed with longitudinal data.
- 3.34 Canada delivers welfare at a provincial level to meet the needs of a diverse population that is not dissimilar to Australia's and this may offer some lessons for program delivery.
- 3.35 The United States also has a local and state-based approach to delivery of social welfare initiatives. While it is difficult to make a wholesale comparison of services in the United States and Australia, some of the questions being asked in both countries about work and income security are the same.<sup>8</sup>

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<sup>7</sup> A Perkins, '[State Benefits Negatively Affect Personality – Here's How](#)', The Conversation, 9 November 2015.

<sup>8</sup> MDRC, <https://www.mdrc.org/questions>, accessed 24 July 2018.

- 3.36 The Nordic Model<sup>9</sup>—the balance of a social welfare state with the market economy—may also offer key lessons for Australia about balancing social support with high engagement with the labour force.
- 3.37 A common feature of these disparate policies, however, is to improve intergenerational outcomes and reduce dependence on welfare support.
- 3.38 The Committee is interested in any international examples of policy positions or program delivery that have proven to be effective and should be considered in the Australian context.

**Mr Russell Broadbent MP**

**Chair**

15 August 2018

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<sup>9</sup> The Nordic Model, associated with Sweden, Norway, Finland, Denmark and Iceland combines features of a market economy with social benefits and income distribution.