The Australia Institute

Research that matters.

Are unemployment benefits adequate in Australia?

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Policy Brief

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Summary

The unemployment rate in Australia was 5.2 per cent in March 2012[1] which is low by historic and international standards. However, a substantial number of people who are looking for work cannot find it with the Australian Bureau of Statistics (ABS) reporting that the number of people unemployed in March 2012 was 626,800. That is, for every 20 employed people in Australia there is around one unemployed person.[2] Put another way, there are three times as many unemployed people in Australia as there are people employed in the mining industry.

The historically low levels of unemployment in Australia should not, however, be seen as an indicator of the stability of the modern labour market. Indeed, the official monthly statistics on changes in employment and unemployment tend to conceal the reality of the labour market. That is, while media and political attention is typically focussed on the 'net change' in total employment and unemployment the 'gross flows' of people into and out of employment are far larger.

The high degree of volatility in employment means the risk for an individual of experiencing a period of unemployment at some point in the next twelve months is significantly higher than the 5.2 per cent chance that an individual is unemployed today. It is also important to note that the risk of unemployment is significantly greater for some demographic groups, especially for younger workers, those who live in regional areas and those with lower levels of education. For example, in March 2012 the unemployment rate in Tasmania was 7.0 per cent, nearly twice the 3.7 per cent rate in the Northern Territory. Similarly, in March 2012 the unemployment rate for those aged 15-19 is 18 per cent, more than three times the national average.

Figure 1 shows that during 2009 an average of around 367,000 ceased employment each month and either became unemployed or left the labour market altogether. Fortunately, over the same period an average of around 372,000 people also moved into work each month.

The role of unemployment benefits is to insulate people from the severe financial hardship of going to work one day and discovering that they no longer have a job. Few people earning $60,000 per year, raising children and attempting to repay their home loan can afford to remain unemployed for more than a few months before facing the likelihood of losing their home. Indeed, as discussed below few people in Australia believe that the current unemployment benefit of $245 per week[3] is sufficient to cover even the most basic costs of living.

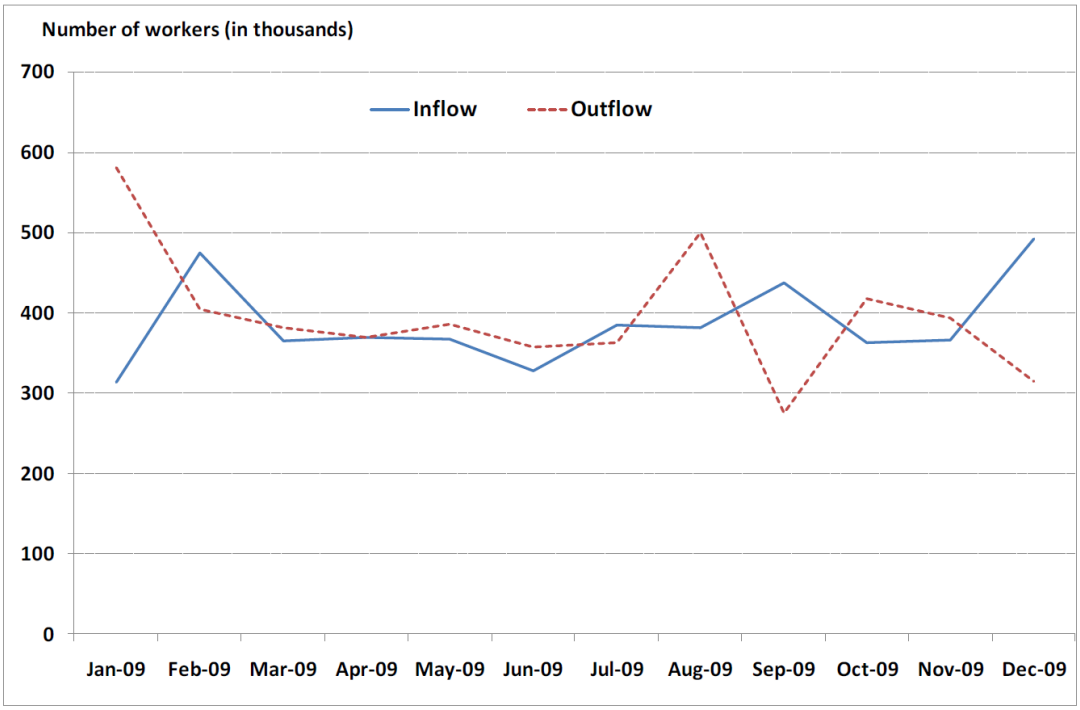
This paper considers the adequacy of existing unemployment benefits in Australia. It provides data on the relative decline in the value of unemployment benefits and presents new survey evidence on community perceptions about the adequacy of unemployment benefits.

[1] Australian Bureau of Statistics (2012). *Labour Force, Australia*, Cat No. 6202.0.

[2] Australian Bureau of Statistics (2012). *Labour Force, Australia*, Cat No. 6202.0.

[3] Centrelink (2012). *Payment. Rates.*

Figure 1 - Gross monthly flows into and out of employment in Australia during 2009



Source: Chapman B & Lounkaew K (2011). *How many jobs is 23,510, really?: Recasting the mining job loss debate.*

Unemployment benefits in Australia

An adult Australian eligible to receive the full Newstart Allowance will receive $245 per week, rising to $265 per week if they have dependent children. Recipients aged over 60 who have been unemployed for more than nine months are also be eligible for the higher rate of $265 per week. In comparison, a single person receiving the Disability Support or Aged Pension is entitled to a weekly benefit of $347 per week.[4] While supplementary payments are sometimes payable, for example to assist with rental payments, these supplements are always lower for the unemployed than for other benefit recipients.

There is now a large disparity between the Newstart Allowance and benefits such as Disability Support and Aged Pensions. This disparity has emerged gradually, primarily due to the higher rate of indexation that has been applied to the latter payments. That is, while Newstart payments have risen in line with the Consumer Price Index (CPI), since 1997 the Aged Pension has risen in line with the higher of either the Male Total Average Weekly Earnings (MTAWE) or the CPI.

In 1997 the Newstart Allowance was 91 per cent of the Aged Pension but today, as a result of the different indexation factors, the Newstart Allowance accounts for only 65 per cent of the Aged Pension.

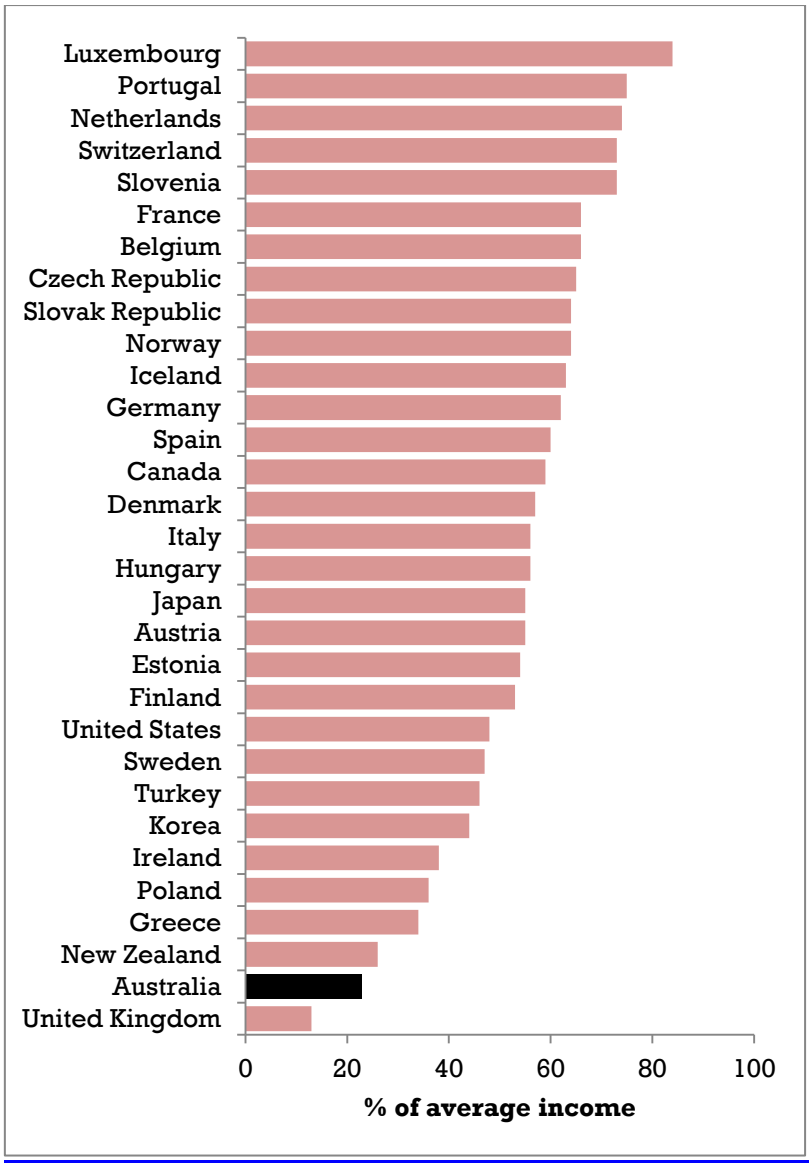
Even the OECD has expressed concern that the Newstart payment is so low that it 'raises issues about its effectiveness'[5]. As Figure 2 shows, according to the OECD Australia has one

[4] Centrelink (2012). *Payment rates.*

[5] Office of Senator Rachel Siewert (2012). *Increasing Newstart. A Real Start: smarter income support for job seekers*.

of the lowest unemployment benefits, as a percentage of the average wage, in the developed world.

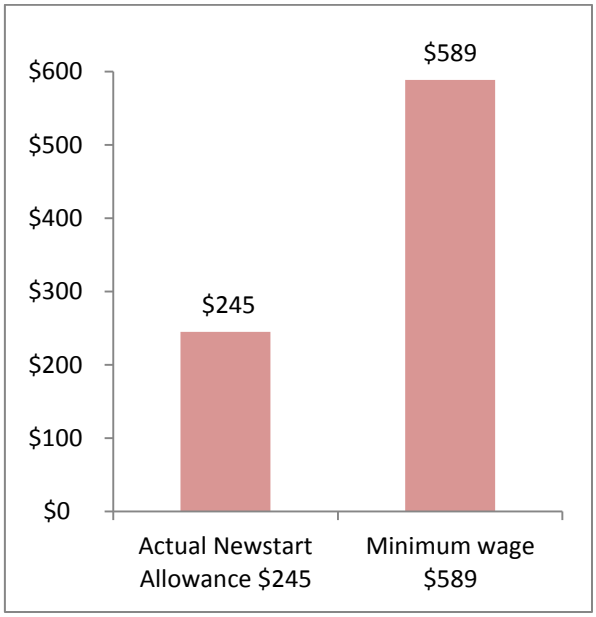
Figure 2 - Unemployment benefit as a percentage of an average workers income – single person no children



Source: OECD (2011). *Benefits and Wages: OECD Indicators.*

Within the Australian context Figure 3 shows how low the Newstart Allowance is relative to the minimum wage.

Figure 3 - Comparison of Newstart and the minimum wage



Source: Centrelink (2012). *Payment rates*.; Fair Work Ombudsman (2012), *National minimum Wage.*

It is important to note that Australia does not have an independent mechanism through which income support payments can be assessed for their adequacy and to set payment levels. This is in stark contrast to the minimum wage, which is set by Fair Work Australia, through a process of assessing changes in the costs of living and the capacity of employers to meet increased wage costs.

Should unemployment benefits be increased?

In recent times there has been support for an increase in unemployment benefits from a number of community organisations including ACOSS[6] and UnitingCare Australia[7]. There has even been support for an increase from some more unexpected sources including Judith Sloan and the Chief Executive of the Business Council of Australia, Jennifer Westacott, who stated:

> *"People can't live on $35 a day. Entrenching them (unemployed people) into poverty is not a pathway back into employment."*[8]

Despite the benign economic conditions and the broad range of support in the lead up to the 2012 budget the Gillard Government has been clear that it has no intention of increasing the level of the benefit paid to Australia's lowest income earners. According to the Minister for Employment and Workplace Relations Bill Shorten:

> *"In the current economic climate, I believe we have got the balance about right. Particularly when delivering a surplus and continuing our strong economic management is an important part of this balance."*[9]

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6 Australian Council of Social Service (2012). *$35 a day is not enough! Lift paltry allowances and help people into paid work.*

7 Probono Australia (2012). 'Senator to Live on the Dole for a Week'.

8 ABC Radio National (2012). *Business thinks laterally on social welfare.*

The Newstart benefit has steadily declined relative to average incomes and to the Aged Pension. It is now one of the lowest levels of income support provided in the developed world. Given that Minister Shorten believes that the current payment of $245 per week gets 'the balance about right' this seems to suggest that in the past unemployment benefits were excessively generous and, that payments provided overseas are excessively generous.

The following section provides new survey evidence that suggests that, on average, Australians do not agree with either the decision of the Gillard Government or the assessment of Minister Shorten. Indeed, most Australians believe that the current Newstart Allowance is significantly lower than the income required to meet the most basic costs of living.

What do Australians think about the adequacy of Newstart?

In a survey by The Australia Institute[10] respondents believed that, on average, the amount required to meet the cost of living was $454. This is equivalent to 187 per cent of the Newstart Allowance and approximately three quarters of the minimum wage.[11]

Interestingly, some Australians think the Newstart Allowance should be less than they estimate a single adult needs to meet cost of living expenses. These respondents have presumably accepted the argument that payment levels should be low enough to incentivise job seeking. Significantly, however, while on average Australians are willing for the Newstart Allowance to be below their estimate of the minimum cost of living they still believe that a substantial increase in the Newstart Allowance is required.

Figure 4 demonstrates how the current level of the Newstart Allowance measures up against other variables that could be used to determine an adequate level of income for a decent life.

The average preferred Newstart Allowance level from our survey respondents was $329, requiring a weekly increase of $84 to attain which is more than the $50 called for by the Australian Greens[12] and even more than the $80 suggested by The Australia Institute in 2009[13]. The cost of living reported by the survey respondents at $454 was almost twice the amount currently received by Newstart recipients. The Australian minimum full time wage is $589, almost two and a half times the Newstart Allowance, demonstrating the gulf between the spending power of the unemployed and the workforce.

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[9] Office of Senator Rachel Siewert (2012). *Increasing Newstart. A Real Start: smarter income support for job seekers*.

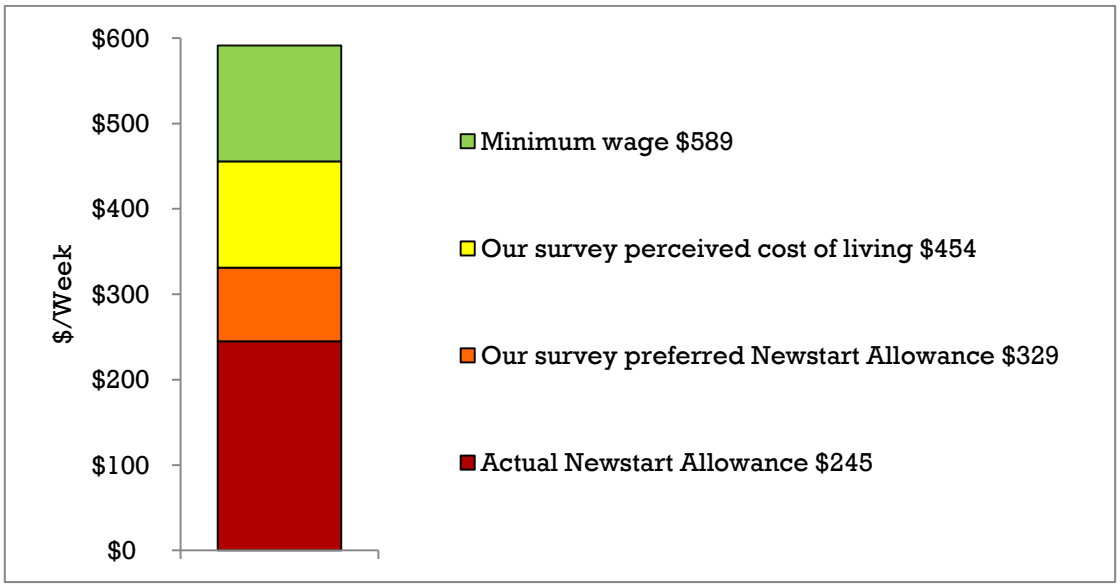
[10] The Australia Institute conducted an online survey of 1,034 Australians in September 2011. The survey sample was representative of the adult Australian population by age, gender and state. The survey was split 50:50 for questions Q1a and Q1b (see appendix) to avoid influencing responses.

[11] Fair Work Australia (2011). *FWA Bulletin.* p.2.

[12] Australian Greens (2012). *Evidence mounts for a $50 a week Newstart increase.*

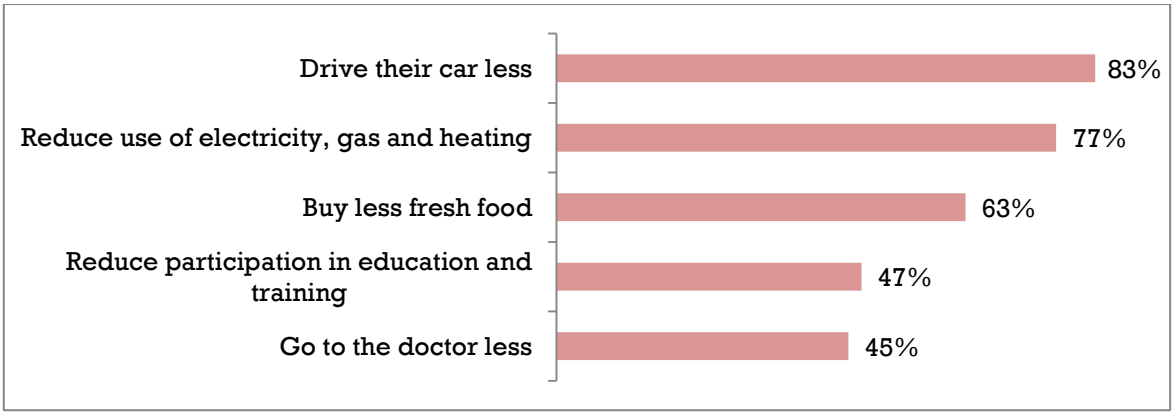
[13] Ingles D & Denniss R (2009). *Increasing the Newstart Allowance: A necessary part of equitable fiscal stimulus*.

Figure 4 – Newstart compared with preferred Newstart Allowance, cost of living and minimum wage



Survey respondents were also asked how their spending patterns would likely change if they were required to live on the Newstart Allowance. The vast majority of people said that they would drive their car less (83 per cent) use less energy (77 per cent) and buy less fresh food (63 per cent). A significant proportion also said that they would be less likely to participate in education or training (47 per cent) or go to the doctor (45 per cent). These results are summarised in Figure 5.

Figure 5 – Surveyed perceptions of spending pattern changes required to live on Newstart Allowance



The results presented in Figure 5 highlight the likely adverse consequences of requiring people who lose their jobs to live on an income that is significantly below the estimated cost of living. Placing people in such circumstances forces them to redefine 'discretionary' expenditure to include participating in education or training (which would increase their chances of escaping unemployment) or visiting the doctor. Poor health as a result of a failure to intervene early is likely to both reduce the chances of an individual finding work and impose greater costs on the health system if symptomatic illness becomes chronic illness.

Similarly, while individuals may anticipate spending less money on transport and energy in reality a major determinant of household energy use is the amount of time spent in the home.

People at work have their work time heating and cooling costs met by their employer, and many employees get access to telephone and computer services via their job. People who are looking for work, on the other hand, have to meet all these expenses themselves. Searching for work and attending job interviews, especially for people in regional areas, can also make it difficult to reduce transport expenditure. Keeping a car roadworthy, insured and full of petrol is a hard ask on $245 a week.

Conclusion

Unemployment benefits in Australia have declined steadily compared to other benefits and to community standards regarding costs of living. These benefits are not only among the lowest in the world but they are well below what Australians believe they should be.

While the purpose of an unemployment benefit is to support an individual, and their family members, during a time of unemployment the survey results presented above suggest that people would be forced to cut spending on essential items that is likely to make it harder to get back into the workforce, and exacerbate the risk of health and financial problems, not to mention putting people at risk of losing their home.

Increasing the payment level for Newstart would significantly improve the equity of income distribution as, at present, Newstart recipients are among the lowest income earners in the country. To the extent that such an increase means that unemployed people do not have to cut back on their own participation in education and training or their family's access to healthcare or consumption of fresh food there would be significant benefits to the Australian economy and the Commonwealth budget in future years. There would also be an opportunity to demonstrate that in the twenty-first century Australia can be a place where, in Treasurer Swan's words everyone has the right to "a decent shot at a decent life."[14]

[14] Swan, W (2012). *If we don't grow together, we grow apart.*

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Appendix: Survey questions

%50 of sample: Q1a. How much money do you think a single adult living in Australia needs per week in order to meet the cost of living?

$[enter number]

Or tick ‘not sure’ box

(Page break)

%50 of sample: Q1b. How much do you think a single unemployed adult should receive per week from Centrelink?

$[enter number]

Or tick ‘not sure’ box

(Page break)

Q2. If your weekly income was reduced to $243, would you need to cut back on any of the following?

Please select all that apply.

Randomise, exclude last 2

a. Buying fresh food
b. Studying/training
c. Going to the doctor
d. Driving your car
e. Electricity/gas/heating
f. None of these
g. Not sure