

Newstart myth busters:

Separating fact from fiction



St Vincent de Paul Society National Council

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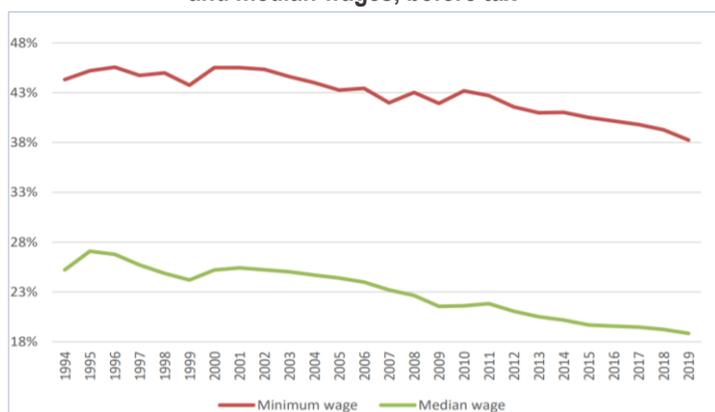
MYTH #1: Keeping unemployment benefits low encourages people to look for work

The notion that unemployment payments must remain extremely low to provide an ‘incentive’ to take up paid work is not supported by evidence. A lower payment increases the risk of poverty and can reduce an unemployed person’s capacity to look for, secure and maintain employment.

One of the arguments used to justify a low rate is that generous benefits will discourage people from engaging in paid work. However, the notion that people should be forced into destitution to incentivise them to work is not only morally indefensible, but lacks evidence. Even if this argument is accepted, there is considerable scope to increase Newstart without eroding work incentives.

The gap between the minimum wage and Newstart is vast and growing. Since 1996, Newstart for a single person has fallen from 44% to 38% of the minimum wage. Even if Newstart increased by \$75 a week, it would still be less than 50% of the full-time minimum wage. This means a single unemployed person would more than double their disposable income if they got a full-time job at the minimum wage.

Single adult rate of Newstart Allowance as a % of minimum and median wages, before tax



Source: *ACOSS, Minimum wage submission 2019*

When we look at the effects of unemployment benefits across different countries, the empirical evidence is mixed and suggests no consistent relationship between the generosity of unemployment benefits and the rate of unemployment.^{1,2}

In Australia, the main driver of unemployment is not a lack of incentives or unwillingness to work, but rather the lack of sufficient job opportunities. There are around eight unemployed or under-employed people for every job vacancy. When employed people changing jobs are added in, the number applying for each vacancy almost doubles, and the situation is even worse for those seeking low-skilled or entry-level jobs.

A low payment is counter-productive if the aim is to get people back into employment. It is nearly impossible to look for paid work if you are homeless and hungry, engaged in a daily struggle of simply trying to make ends meet.

The rates of Newstart and Youth Allowance fall below the poverty line, leaving recipients vulnerable to poverty, debt, homelessness, social exclusion and mental health issues – factors that detract from job search activities. Research from the UK shows that inadequate payments decrease the likelihood of successfully securing and sustaining work, whereas increasing payments so that subsistence needs can be met improves employment outcomes. This research found that “the more jobless people carry out subsistence activities, the less attention they are able to put into the job search process”.³

Keeping Newstart low means people may struggle to meet the costs incurred when searching for work, such as transport to job search activities and interviews; purchasing clothes appropriate for interviews and the workplace; and telephone, printing and internet expenses to contact prospective employers. An inadequate income limits a person’s ability to participate in education or training; it can mean they are unable to afford dental and medical treatment, leading to health issues that further diminish their employment prospects. Some are also forced to move to areas where the rent is lower and where there are fewer employment opportunities.

In short, keeping benefits so low only serves to entrench poverty and creates a barrier – not incentive – to gaining employment.

¹ Baker, D., et al. (2005). ‘Labor Market Institutions and Unemployment: A Critical Assessment of the Cross-Country Evidence.’ pp.72-118 in *Fighting Unemployment: The Limits of Free Market Orthodoxy*. Howell D. (ed.). Oxford University Press: New York.

² Howell, D. & Rehm, M. (2009). Unemployment compensation & high European unemployment: a reassessment with new benefit indicators. *Oxford Review of Economic Policy* 25(1):60-93.

³ Mesén Vargas, J. & Van der Linden, B., (2017). *Is there always a trade-off between insurance and incentives? The case of unemployment with subsistence constraints*. Discussion Paper, IZA DP No. 11034. <http://ftp.iza.org/dp11034.pdf>



MYTH #2: Social security payments are generous when you factor in supplement payments

Depending on their circumstances, some people on Newstart and Youth Allowance are eligible for additional payments, such as Rent Assistance or family payments. However, even if you factor in these extra payments, the total amount received by a person on Newstart or Youth Allowance is still not enough to meet basic living costs.

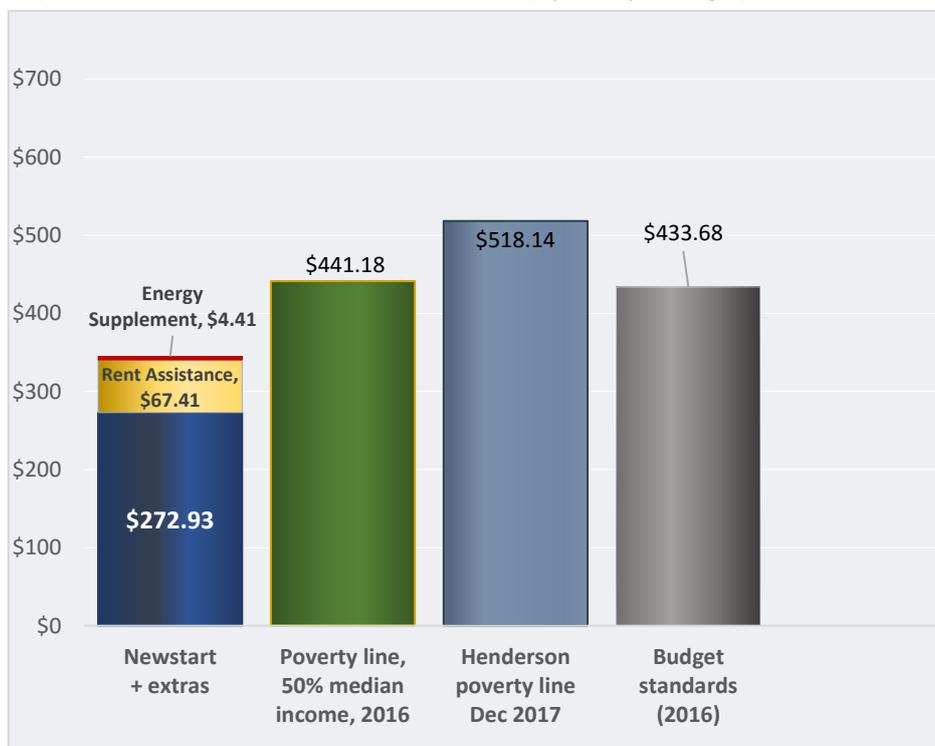
Although 99% of Newstart recipients receive an additional payment, for most the only additional payment they receive is the Energy Supplement which is, on average, around \$0.65 extra a day. For a single person with no children, the extra amount they receive is \$0.63 a day.

About a third of people on Newstart receive **rent assistance**, but the average amount they receive is less than \$10 a day. For a single person, the *maximum* amount they can receive is \$68.50 per week if they spend at least \$150 per week on rent.

Around 20% of Newstart recipients get family payments, but the additional amount depends on the age and number of children and only covers a fraction of the extra costs of raising children. For example, researchers have estimated the minimum income a single-parent household with one child needs to afford essentials (such as housing, food, electricity, healthcare and transport) is around \$675 per week.⁴ For a single parent household relying on Newstart, this is still significantly more than the total amount of income support they receive, even when family payments and other supplements are factored in.

In short, even with supplements, Newstart and Youth Allowance are still inadequate.

Comparison of income benchmarks with Newstart + extra payments (for a single person with no children)



⁴. Saunders, P, & Bedford, M, (2017). *New minimum income for healthy living budget standards for low-paid and unemployed Australians.* https://www.vinnies.org.au/icms_docs/306343_BudgetStandards.pdf

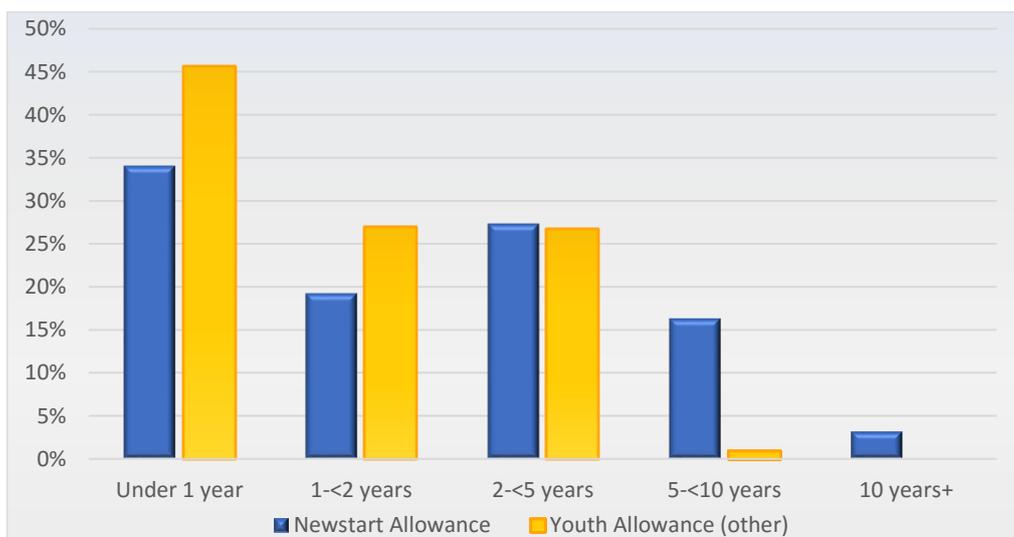


MYTH #3: The rate of Newstart is kept low because it is only a temporary payment

One justification for maintain a low rate of payment for the Newstart Allowance is that it is only meant to be a temporary payment to tide people over until they find a job. However, this justification is based on out-of-date assumptions and does not reflect the realities of the labour market. Most people on Newstart have been on it for MORE than six months, and around two thirds have received unemployment payments for over a year.

Although unemployment benefits were initially intended to be short-term payments for individuals temporarily out of work, the reality for many recipients of Newstart is now very different. The nature and distribution of work has changed significantly over the past 30 years. The Australia labour market is characterised by stubborn levels of workforce underutilisation and significant levels of marginal attachment and exclusion from paid work. These trends are not short-term or cyclical effects of economic downturns but reflect longer-term changes to the labour market.

As a result, a significant number of recipients spend longer and longer on these payments: for many, reliance on Newstart is *not* a temporary state. Nearly half of Newstart recipients and a quarter of Youth Allowance recipients have been on their respective payments for at least two years. There are also a number of Youth Allowance recipients who simply transition from Youth Allowance to Newstart when they turn 22. Newstart Allowance recipients include increasing numbers of long-term unemployed, people with disabilities, people with care responsibilities (mostly women) and older people. Many will combine part-time work with income support for extended periods.



Source: Department of Social Services, Demographics March 2018, <https://data.gov.au/dataset/dss-payment-demographic-data/resource/c9bcd6ed-b6bd-423b-abc5-86b54bd7a591>