The JobSeeker rise isn't enough

Submission to the Senate Standing Committee on Community Affairs

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1 Summary

We welcome the opportunity to make a submission to the Senate Standing Committee on Community Affairs on the Social Services Legislation Amendment (Strengthening Income Support) Bill 2021.

Australia's unemployment benefit was inadequate before the COVID crisis; the crisis highlighted its inadequacy. Recognising this, the Federal Government provided substantial additional support to unemployed people in the form of the $275-a-week Coronavirus Supplement. That supplement was cut back to $125 a week in September 2020, and now it's $75 a week. The Supplement is due to expire at the end of March.

In its place, the Federal Government has announced a $25-a-week increase in the permanent rate of JobSeeker. But the payment will still be substantially below the poverty line. Even with this permanent increase, the new base JobSeeker payment rate of $307 a week will be so low that it will not adequately fulfil its core function of providing a minimum, adequate income. As well as having an income below the poverty line, people on unemployment benefits have heightened levels of financial deprivation and stress. Even at the new rate Australia, will have the second-stingiest payment for newly-unemployed people – relative to average wages – of the 37 members of the OECD, behind only Greece.

The new JobSeeker payment will still be increased only in line with increases in inflation, rather than wages. This means that over time JobSeeker will again fall further behind the living standards of other Australians.

There's little doubt that a very big increase in the long-term unemployment benefit would discourage some people from trying to get a job. But there is little evidence that Australia is approaching that level – even if we kept the Coronavirus Supplement. Even after the JobSeeker rate was temporarily doubled last year, there was little change in the proportion of unemployed Australians who found work each month, or in the rate of advertised job vacancies. Even if the $75-a-week Coronavirus Supplement stayed, the payment would be only about half the full-time minimum wage – hardly a meaningful disincentive to search for work.

Cutting unemployment benefits in the middle of a recession is likely to cost jobs, rather than create them. JobSeeker is one of the best forms of fiscal stimulus there is: unemployed people are likely to spend all or at least most of what they receive. Cutting unemployment benefits by $50 a week will take about $5 billion out of the economy in the coming year. That's likely to push the unemployment rate 0.1-to-0.15 per cent higher than if the current $75-a-week supplement were kept. And that means up to 40,000 fewer jobs. If the Federal Government really wants to get more Australians working, it should increase rather than cut unemployment benefits.

The Government should increase the permanent rate of JobSeeker, not by $25 a week but by at least $100 a week for singles. And JobSeeker should be benchmarked to increases in wages, not inflation. Even with such an increase, JobSeeker would still be only about half (51.4 per cent) of the full-time minimum wage, meaning that unemployed people would still have a substantial financial incentive to find work.

2 The $25-a-week 'rise' isn't enough

2.1 JobSeeker will remain well below the poverty line

Australia doesn't have an official poverty line,[1] but researchers commonly use at least two: the relative line, which is half of median household income; and the Henderson line, which was set by an inquiry in the 1970s and is updated by the Melbourne Institute. The relative line is used most often, including by the OECD and other international organisations.

The relative poverty line is $450 a week — or at least it was back in 2018 when the latest data were released.[2] That means a single adult, living alone, would need at least that amount to be considered out of poverty. After the $25 increase to the permanent rate, JobSeeker (including the Energy Supplement) will be $312 a week — $138 below the relative poverty line. And the gap between JobSeeker and the Henderson poverty line is even bigger.

The gap wasn't always so big. As Figure 2.1 on the following page shows, in the early years of the Howard Government the unemployment benefit was nearly at the relative poverty line.

By the time John Howard left office in 2007, the Newstart Allowance was $214.90 a week and the minimum wage for a full-time worker was $522.12 a week, so the unemployment benefit was worth 41 per cent of the minimum wage.

Since then, the minimum wage has grown a little faster than inflation, while Newstart/JobSeeker has only kept pace with inflation. As a result, the gap between the unemployment benefit and the minimum wage has widened.

1. Senate Community Affairs References Committee (2020, p. 24).
2. ABS (2019).

Raising the permanent rate of JobSeeker by $25 a week puts the payment back where it was in 2007 — 41 per cent of the minimum wage.

But the increase isn't enough to restore the unemployment benefit to where it was earlier in Mr Howard's term. In 2000, when the Howard Government introduced the GST, the unemployment benefit was 43 per cent of the minimum wage. The $25 a week rise announced by the Morrison Government will leave it well below that mark.

Restoring unemployment benefits to the same proportion of the median wage as in July 2000, after the introduction of the GST and in the middle of the Howard era, would require not a $25-a-week rise, but a $58-a-week rise.

And the $25-a-week increase barely puts a dent in the large and growing gap between payments to unemployment people and payments to pensioners. In 2000, Newstart was worth 89 per cent of the single pension; after the $25 increase, it will be worth just 66 per cent of the pension (Figure 2.2 on page 5).

2.2 Jobseeker remains inadequate compared to other benchmarks

There are other indications that JobSeeker is inadequate.

The Social Policy Research Centre at UNSW estimates that a single adult, living alone, would have needed $459.90 a week in mid-2019 to meet basic consumption needs.[3] This is slightly above the relative poverty line – well above both the current and new rate of JobSeeker.

3. Senate Community Affairs References Committee (2020, p. 28).

And about two-thirds (65 per cent) of households that rely on allowances such as JobSeeker say they suffer at least three forms of financial stress. This compares to only 27 per cent of pensioner households and 12 per cent of working households. The proportion of allowance-dependent households suffering a high degree of financial stress has risen from about half – 49 per cent – in 2003.[4]

2.3 JobSeeker will still be the second-stingiest unemployment benefit among OECD countries

Even with the $25-a-week increase, Australia will have the second-stingiest payment for newly-unemployed people, relative to average wages, of the 37 members of the OECD, behind only Greece.

For an Australian on an average wage who loses their job, JobSeeker and Commonwealth Rent Assistance combined add up to only a bit more than a quarter – 27 per cent – of what they earned when they were working. An unemployed Canadian would get 62 per cent of the average wage. The average across the OECD countries is 58 per cent, about double Australia's new payment (Figure 2.3 on page 6).

Unlike most OECD countries, Australia pays the same unemployment benefit regardless of how long a person has been unemployed – in most rich countries, benefits decline for long-term unemployed people. But even for long-term unemployed people, Australia's benefit is below the OECD average.

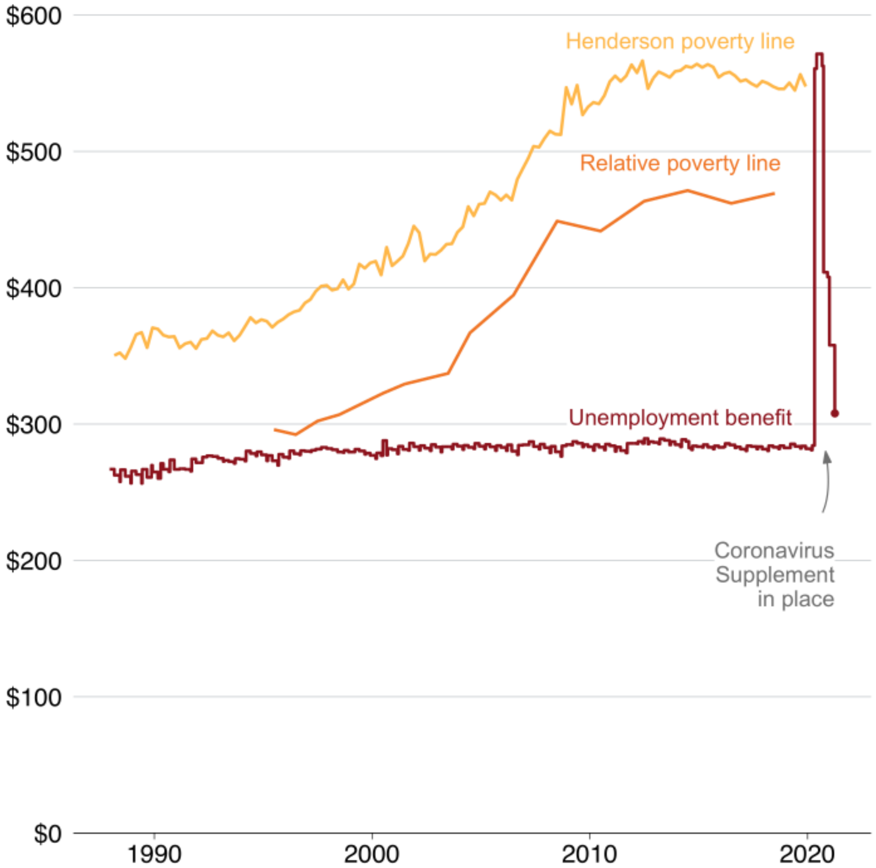
2.4 JobSeeker will still be benchmarked to inflation, not wages

The reason JobSeeker got so low in the first place is because allowance payments such as JobSeeker (but also Youth Allowance) are adjusted only in line with changes in the cost of living, as measured by the Consumer Price Index (CPI). In contrast, pensions in Australia –

4. Phillips et al (2019).

Figure 2.1: The unemployment benefit has fallen further and further below the poverty line

Poverty lines and unemployment benefits per week, inflation-adjusted 2020 dollars



Notes: Unemployment benefit includes Energy Supplement. Poverty lines indexed to March 2020 using household disposable income per capita. Adjusted for inflation using the Consumer Price Index. Unemployment benefits have at various times been called the unemployment benefit, the Job Search allowance, the Newstart Allowance, and the JobSeeker payment.

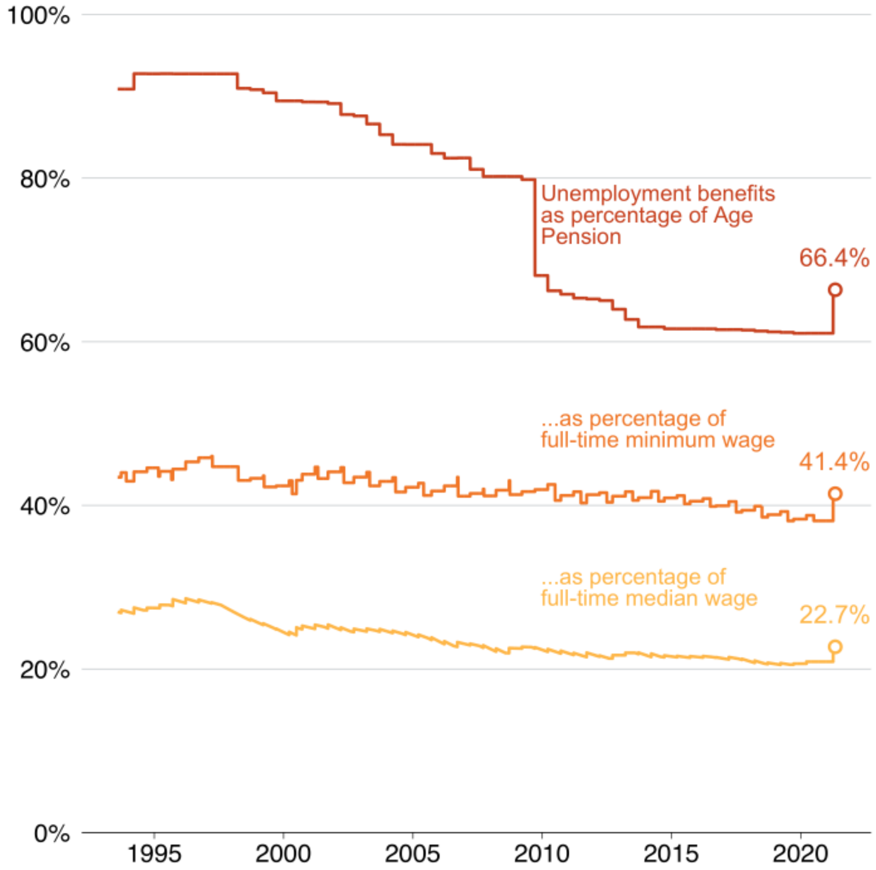
Source: Grattan analysis based on Melbourne Institute (2020), ABS (2019), ABS (2020a), DSS (2020) and ABS (2020b).

the Age Pension and the Disability Support Pension – are increased in line with wages.[5]

The first problem with CPI indexation is that the CPI understates the change in the cost of living for allowance recipients.[6] The second, more important, problem is that CPI indexation means that a person on the unemployment benefit falls further and further behind other members of the community, including pensioners. This also creates incentives for people to seek to claim higher-paying disability pensions.[7]

The Government's plan to increase JobSeeker does nothing to fix these problems. JobSeeker will still be benchmarked to inflation, rather than wages. This means that over time, people on JobSeeker will again fall further behind the living standards of other Australians.

Figure 2.2: The extra $25 a week will leave JobSeeker lower than it was in the 1990s relative to wages and pensions



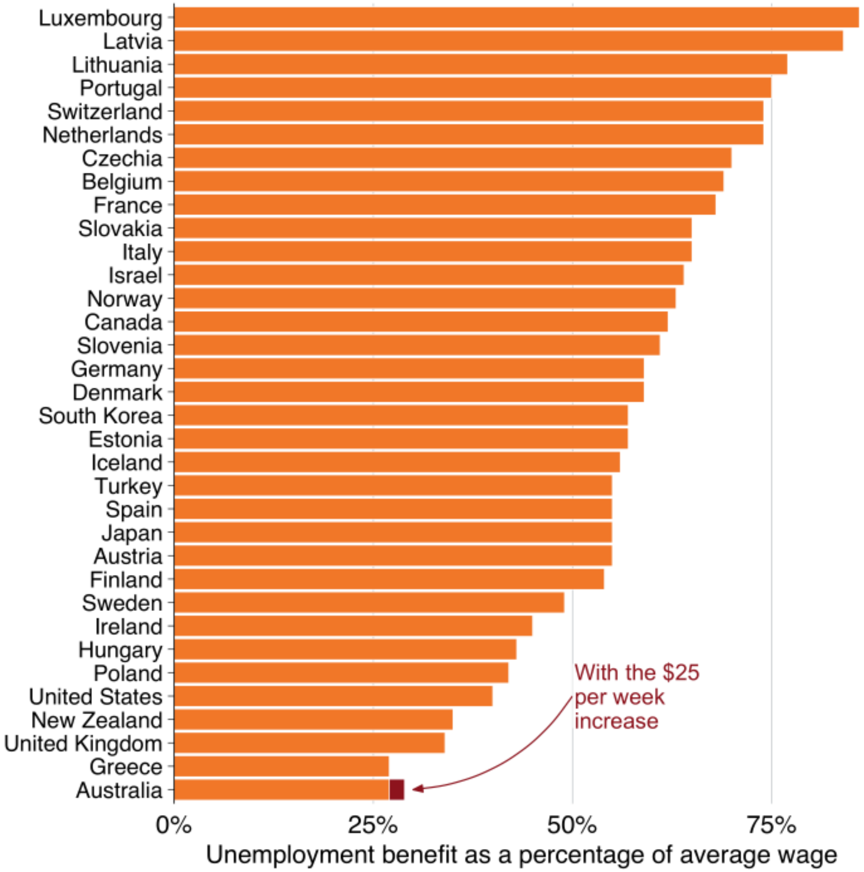
Notes: Includes Energy Supplement and Pension Supplement. Excludes Rent Assistance and Coronavirus Supplement. Assumes median wage is unchanged since latest data (August 2019).

Source: DSS (2020), FWC (2020), Bray (2013), ABS (2003) and ABS (2020c) and Grattan analysis.

5. The maximum single basic pension is effectively benchmarked to about 27.7 per cent of male total average weekly earnings; see DSS (2020, Section 5.1.8.50).
6. The ABS reports a measure of the cost of living specific to benefit recipients. Between 1998 and 2020, the cost of living for government transfer recipients rose at an average rate of 2.8 per cent a year; over the same period, the CPI rose by an average of 2.55 per cent a year. Grattan calculations based on ABS (2020d) and ABS (2020a).
7. Henry et al (2010, p. 505).

Figure 2.3: The extra $25 a week will take Australia's unemployment benefit from the lowest to the second lowest in the OECD

Unemployment benefit as a percentage of average wage



Note: Figures are from 2018-19; they do not include changes to benefit systems implemented in response to the COVID-19 crisis.

Source: OECD (2020).

3 Cutting JobSeeker in the middle of a recession is likely to cost jobs

In announcing the $25-a-week increase in JobSeeker, Prime Minister Scott Morrison expressed concerns that leaving the current JobSeeker rate in place (including the Coronavirus Supplement) would dull job seekers' incentives to search for work.[8] Yet there is little evidence that the current level creates a big disincentive to work.

Cutting the overall level of unemployment benefits that job-seekers receive in the middle of a recession is likely to cost jobs, rather than create them.

3.1 There is little evidence that the current JobSeeker rate is hurting employment

There is little doubt that a very big increase in the long-term unemployment benefit would discourage some people from trying to get a job.[9] But there is little evidence that the current level creates a big disincentive to work.

Even after the JobSeeker rate was doubled last year, there was little change in the proportion of unemployed Australians who found work each month, or in the rate of advertised job vacancies.[10]

After all, searching for jobs takes time and costs money.[11] Set the rate too low and unemployed people will struggle to afford to search for work, a concern noted recently by the OECD among many others.[12]

Australia already requires unemployed people to jump through lots of hoops – applying for jobs, doing 'mutual obligation' – that make JobSeeker far from a comfortable existence. And the Morrison Government plans to make those requirements more onorous.

Sub-par unemployment benefits can also lead to unemployed people taking jobs that are inappropriate for them – for example, jobs that require them to commute very long distances – which can often just lead to people 'churning' on and off unemployment benefits.[13]

3.2 Now is an especially bad time to cut the JobSeeker rate

Australia's economy has made a stronger-than-expected recovery from COVID so far. But, as the Governor of the Reserve Bank recently noted, 'we still have a fair way to go'. Unemployment remains high at 6.4 per cent.[14] On current forecasts, it won't return to pre-crisis levels

8. Scott Morrison (2021).
9. It is generally accepted that when unemployment benefits are very high, relative to wages, recipients have less financial incentive to seek work. For example, see overviews in Gruber (2005) and Krueger and Meyer (2002). But some recent studies have found that increasing the generosity of unemployment benefits does not necessarily reduce employment or efforts to find a job. See: Hussain et al (2020) and Boone et al (2016).
10. Borland (2020a).
11. Deloitte Access Economics (2018).
12. OECD (2010, pp. 127–28). The 2020 Senate inquiry into the adequacy of Newstart similarly found that 'the income support system itself is acting as a key barrier to employment because of the inadequate payment rates that force people into poverty': Senate Community Affairs References Committee (2020, p. xviii). In its submission to the inquiry, the Business Council of Australia noted that 'job seeking is not costless and should be accessible. If a bus fare or a collared shirt become unaffordable, then getting to job interviews and presenting as a credible employee may move out of reach': BCA (2019, p. 4).
13. Barrett et al (2021).
14. Lowe (2021).

until at least 2023.[15] Even lower unemployment will be needed to get real wages moving again.[16]

Unemployment is harmful in the short run, but it also has long-lasting effects. People who are unemployed can be 'scarred' by the experience. Young people who graduate during recessions suffer long-term consequences, with worse average labour market outcomes over their lifetimes than cohorts that graduate into a booming labour market.[17] Withdrawing support while the economy is a long way from full employment will mean low wages growth and longer spells of unemployment and under-employment for many, magnifying the risks of scarring.[18]

JobSeeker is one of the best forms of fiscal stimulus there is: unemployed people are likely to spend all or at least most of what they receive.[19] In January 2021 about one in 13 Australians reported they were receiving the Coronavirus Supplement.[20] Just one quarter of recipients said they were saving it. Four in five said they were spending it on household bills and supplies, including groceries. That money is supporting Australian businesses.

We estimate that cutting unemployment benefits by $50 a week will take about $5 billion out of the economy in the coming year.[21] That's likely to push the unemployment rate 0.1-to-0.15 per cent higher than if the current $75 a week supplement were kept.[22] And that means up to 40,000 fewer jobs.[23]

If the Federal Government really wants to get more Australians working, it should think again.

15. Lowe (2021).
16. For example, US unemployment fell to 3.5 per cent before COVID, pushing wages growth higher but without a sustained increase in inflation. Coates (2020).
17. International studies of scarring commonly find that entering the labour market at a time when the rate of unemployment is 3-to-4 percentage points above average causes a decrease in annual earnings of 3-to-6 per cent per year for a decade: Borland (2020b).
18. Coates et al (2020).
19. Boone et al (2016) show that a moderate fiscal multiplier from more generous unemployment benefits is sufficient to offset any reduction in labour supply.
20. ABS (2021).
21. Approximate calculation based on the fiscal cost of the announced increase. The Prime Minister's press release announcing the changes disclosed that about 1.95 million Australians receive allowances affected by these changes; about 1.24 million of these people are on JobSeeker, with the balance on Youth Allowance and the Parenting Payment. A reduction of $50 a week for 1.95 million people adds up to about $5 billion a year.
22. Assumes each dollar of JobSeeker payments boosts economic activity by a dollar (i.e. a fiscal 'multiplier' of 1) and an Okun's law relationship, which suggests that increasing GDP by 1 per cent decreases unemployment by 0.38 per cent. See Grattan Institute's 2020 *Recovery Book* for further details.
23. Employment estimates include both Australians in work due to the lower rate of unemployment, as well as Australians who are currently out of the labour force returning to work. Participation impact based on Evans et al (2018), which suggests that a 1 per cent increase in the cyclical component of GDP leads to a 0.4 percentage point increase in the participation rate over the following two quarters.

4 JobSeeker should be raised not by $25 a week but by at least $100 a week

The Government should increase the permanent rate of JobSeeker not by $25 a week as it has announced, but by at least $100 a week for singles. An increase of $100 a week would restore the unemployment benefit to a similar level, relative to full-time wages, as 1994. It would be a little higher, relative to full-time wages, as in July 2000, when the benefit was increased as part of GST compensation.[24]

The JobSeeker payment should be indexed to wages in the same manner as the Age Pension.[25] This would prevent a person on the unemployment benefit falling further and further behind other Australians over time, including pensioners.

With a $100 increase, JobSeeker would still be only about half (51.4 per cent) of the full-time minimum wage, meaning that an unemployed person would still have a substantial financial incentive to take on full-time work.[26]

The increase we recommend – of at least $100 a week – should not be seen as the final step to fixing Australia's income support system. Rather, it is the minimum amount necessary to ensure some basic level of adequacy pending broader reform.

24. Daley et al (61 2020).
25. This would mean benchmarking JobSeeker to a certain percentage of Male Total Average Weekly Earnings (MTAWE). A future review of the income support system should consider the appropriate indexation arrangements for allowances and pensions, which should be common across payment types. Daley et al (63 ibid)
26. Grattan Institute calculation based on National Minimum Wage of $753.80, to take effect from 1 July 2020. Increases to some award wages will occur later in the financial year.

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