

Newstart, or False Start?

ACTU Submission to the Inquiry into the Adequacy of Newstart

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Introduction

The Australian Council of Trade Unions ('ACTU') is the peak national body representing Australian workers, approximately 1.6 million in total, through our affiliated unions and trades and labour councils. We are grateful for this opportunity to call for an increase to the unreasonably low rate of Newstart.

Newstart has been too low for too long and there is really no pretending that this is not a widely known and acknowledged feature of our income support system. The arguments against an increase are tired and well-worn – that an increase would cost too much and that increasing Newstart would encourage people to stay on it longer. However, it is the ACTU's submission that these arguments are inaccurate and in fact the opposite is true. As this submission will explore, Newstart is currently manifestly inadequate and that inadequacy is costing our economy, trapping people in poverty and actively reducing the ability of the unemployed to look for work.

Is Newstart Adequate?

On this question there can be no beating around the bush – a single person on Newstart is expected to live on \$555.70 a fortnight, or \$14,448.20 a year.¹ If that single person has a dependent child or children, they are bestowed an additional \$45.40 a fortnight, bringing them up to \$601.10 a fortnight or \$15,628.60 a year.² This equates to, by some analysis, the lowest unemployment payment in the OECD.³

Newstart is indexed annually to the consumer price index, which ensures its value does not fall due to inflation, but crucially it also ensures that its value does not rise compared to inflation without specific intervention. With that intervention not forthcoming from government, Newstart has not risen in real terms for 25 years. There is no argument to be made that \$14,448.20 a year is enough for even a single person to live a life of dignity. There is no argument that a young person who cannot find a job, because there simply are not enough jobs for everyone, should be forced to live in poverty. As we have seen in the media,⁴ mature-age Australians who lose their jobs just before retirement and who have little chance of finding new work should not be forced to subsist on this manifestly inadequate payment for years before they are eligible for the aged pension.

¹ DHS

² DHS

³<https://www.theguardian.com/australia-news/2019/jul/23/one-of-the-worst-how-newstart-compares-to-unemployment-payments-in-rest-of-the-world>

⁴ Q&A Lady

Newstart for a single person is \$39.69 a day and none of the members of government who earn an amount equal to a fortnightly Newstart payment (\$556 or more) a day⁵ and are responsible for keeping it this low have ever been able to satisfactorily explain why or how that figure is adequate.

It is often argued that while Newstart may seem low, '95% of Newstart recipients receive an additional allowance' and so we should not be concerned with the adequacy of Newstart alone. Leaving aside the apparent lack of concern for the 5% of Australians this dooms to grinding poverty, Department of Human Services data revealed in 2018 Senate Estimates has indicated that the majority of Newstart recipients (51%) receive an additional supplement to the value of \$7.30 a week. This brings them up to \$40 a day, \$570.30 a fortnight and \$14,827.80 a year. While there are varying views about the increase to Newstart required to reach adequacy, we are not aware of any that believe a single dollar extra a day is sufficient to address adequacy concerns.

However, adequacy cannot be considered purely in terms of numbers, regardless of how crushingly low they are. It must be considered in terms of costs. If Newstart were a very low number but somehow covered all the costs necessary for a person to live, then it would manifestly be adequate. Unfortunately, this is not the case. Jobs Australia, the peak body for Australian Employment Services Organisations has argued that Newstart is currently inadequate for basic needs⁶ and there is a surfeit of evidence that this is the case. For instance, the average electricity bill for a single-person household in Australia is \$1322.56 a year⁷ – nearly 10% of the annual Newstart payment received by a single person. This is the equivalent of the median household being faced with an annual electricity bill of more than \$7,000 – an unmanageable expense. There are numerous media stories about people on Newstart switching off their refrigerators or refusing to turn on lights due to concerns about their electricity bill⁸ as well as people avoiding showers, dentist appointment and skipping meals.⁹

A 2017 UNSW study found that for a single person Newstart provides nearly \$100 a week less than a person requires for basic expenses and that there is no combination of recipients (single, couple, children or no) which provides an amount adequate for basic living expenses.¹⁰ A 2018 Salvation Army study found that most Newstart recipients have just \$17 a day to live on once they have paid for their accommodation – meaning that most recipients spend more than 50% of their

⁵ Using parliamentary base salary of \$203,000

⁶ [Jobs Australia says inadequate for basic needs](#)

⁷ <https://www.canstarblue.com.au/electricity/average-electricity-bills/>

⁸ <https://www.theguardian.com/australia-news/2019/jul/29/i-regularly-dont-eat-at-all-how-people-on-newstart-get-by>

⁹ <https://www.theguardian.com/australia-news/2019/jul/23/one-of-the-worst-how-newstart-compares-to-unemployment-payments-in-rest-of-the-world>

¹⁰ <http://unsworks.unsw.edu.au/fapi/datastream/unsworks:46140/bin17c2c332-a166-4fc0-931e-27943a930769?view=true>

income on accommodation expenses.¹¹ This finding is reinforced by the Anglicare Rental Affordability Snapshot which surveyed 69,000 rental properties across Australia in 2019 and found that there were just 2 (0.0% of the sample) that were affordable for a single person on Newstart and only 75 properties (0.1%) that were affordable for a single parent on Newstart. This is not an isolated case - the snapshot has recorded similar results since its first report in 2011. For nearly a decade this report has exposed the reality that Newstart is fundamentally inadequate for the housing costs of unemployed Australians.

All of this must be taken in the context of the significant administrative burden placed on unemployed Australians to qualify for and continue to receive Newstart as well as the regular periods spent having payments withheld for, real or perceived, breaches of those administrative requirements. It is particularly unacceptable that Indigenous Australians living in remote areas are expected to work 25 hours a week, for free, in order to receive this payment under the Community Development Programme.

None of the information above is new and none of it is truly shocking to anybody who has been paying attention the last 10 years. Newstart is known to be inadequate and this has been borne out time and time again through studies, surveys and simple arithmetic. There is no reason for people who have found themselves unemployed or who simply can't find a job to be relegated to poverty, but this is the reality under the current Newstart payment.

An increase in Newstart will increase aggregate demand and create jobs

There is a significant body of empirical evidence that suggests raising Newstart will create jobs and help stimulate aggregate demand in the Australian economy. The Deloitte Access Economics report '*Analysis of the impact of raising benefits*' considers the impact of boosting a range of allowance payments¹². The proposed policy change is a 'catch up increase' of \$75 a week –an extra \$10.71 a day that would be received by around 770,000 Australians receiving the 'single rate' of one of these payments. This report finds that the introduction of such a policy would have a range of 'prosperity effects', boosting the size of the economy and the number of people employed in Australia. The latter effect would result in an additional 12,000 people being in work in 2020-21¹³.

¹¹ <https://www.salvationarmy.org.au/about-us/news-and-stories/media-newsroom/its-time-to-kick-start-newstart/>

¹² <https://www.acoss.org.au/wp-content/uploads/2018/09/DAE-Analysis-of-the-impact-of-raising-benefit-rates-FINAL-4-September-...-1.pdf>

¹³ ibid

In nominal dollars, the size of the Australian economy (“the prosperity dividend”) would lift by some \$4.0billion as a result of that extra spending¹⁴.

Recent economic data highlights the desperate need for extra spending in the Australian economy. The national accounts, retail sales and labour market indicators suggest that growth is slowing rapidly. We are now in our third consecutive quarter of a so-called per capita recession. This is the most protracted period of slow growth since the global financial crisis. Extra spending in the economy is now essential.

The decision by the Reserve Bank to reduce interest rates to record lows, and foreshadow further cuts, highlights the precarious nature of our current economic situation. The active use of monetary policy to try and stimulate higher consumption and investment is welcome, but as most observers have noted, this will not be adequate to lift economic growth back to levels we have enjoyed in the past.

We need immediate action to help people on Newstart and the plight of all people trying to make ends meet on low incomes. Many of our fellow Australians are struggling to provide their families with the basic living conditions we have long come to expect in our country. Stretching a static pay packet to meet rising energy bills, childcare costs, medical expenses and other necessities of life is an ongoing nightmare for many families.

Boosting Newstart is not merely desirable from a social perspective. There are also very sound economic reasons for lifting the incomes of those at the bottom of the income distribution. The Governor of the Reserve Bank (RBA), the institution responsible for ensuring sound money and macroeconomic stability, thinks that aggregate demand and wage inflation is too low. Dr Philip Lowe and many other leading economic figures have argued that Newstart should be raised and that real wages should be rising in line with national productivity improvements and that this will have a more immediate and substantial impact on aggregate demand than other potential stimulatory fiscal measures¹⁵.

¹⁴ ibid

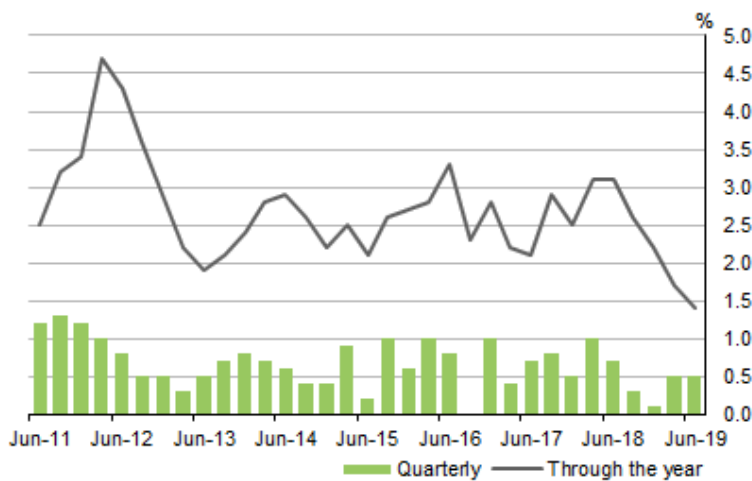
¹⁵ <https://www.theguardian.com/australia-news/2019/jun/21/reserve-bank-governor-suggests-newstart-increase-would-be-good-for-the-economy>

Australian wages are experiencing an unusual and prolonged period of weakness. In fact, Australia has seen wages growth at the slowest of any sustained period since World War II. ¹⁶ As a result, household saving levels, consumption expenditure levels and economic confidence are well below their desired levels. The wages crisis has now turned into macroeconomic decline.

If we look in detail, we see that information from the national accounts shows that economic growth is slowing, consumption is falling, and the household savings rate is heading towards negative territory. Clear indications that we need to raise aggregate demand in Australia.

The Australian economy grew at 1.4% through the year in the June 2019 quarter. The slowest since the GFC.

Figure one: The Australian economy is slowing

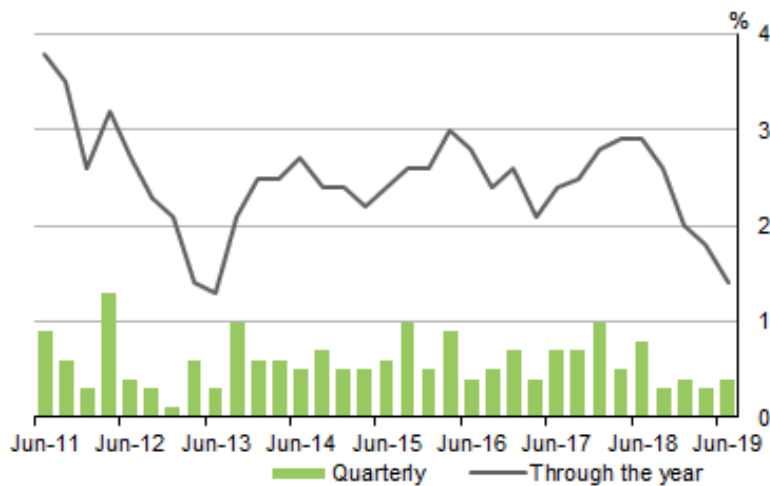


Source: ABS, GDP chain volume measure seasonally adjusted

Household final consumption expenditure moderated to 1.4% through the year. In the latest national accounts, the growth in household consumption was modest across almost all categories.

¹⁶ 'The Wages Crisis in Australia', the University of Adelaide, edited by Andrew Stewart, Tess Hardy and Jim Stanford, 2018

Figure two: Household consumptions remains subdued



Source: ABS

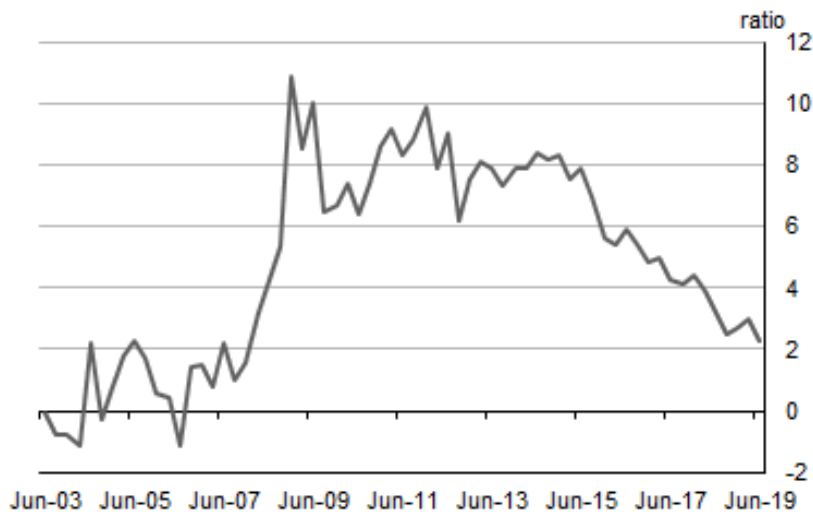
Many households have seen their living standards fall for the past three-and-a-half years, and they are now back at 2010 levels¹⁷. That is why household consumption growth is so low – with nearly half of the growth in spending on rents and housing costs, and health items. The growth in spending on recreation and culture, furnishings, eating out and staying in hotels is all below what you would expect it to be; essentially, we are shifting our spending towards necessities¹⁸.

Households are also being forced to dip into their savings as the wages crisis continues. The household saving ratio fell to 2.3 with growth in household final consumption expenditure outpacing household disposable income.

¹⁷ <https://www.theguardian.com/business/grogonomics/2019/sep/08/has-scott-morrison-s-governments-government-failed-to-plan-or-is-it-actually-planning-to-fail>

¹⁸ ibid

Figure three: Household saving ratio lowers



Source: ABS

These are disturbing economic figures. It's the first time since 1991 that we have seen four consecutive quarters of trend growth below 0.5%. In the past 35 financial years only five years have seen worse per-capita growth, and in the past 40 only four years have seen lower productivity growth¹⁹. The ACTU would like to see a strong national economy as well as a country where the vast majority get their fair share of economic growth. In the current economic environment immediate policy action is needed.

In addition to a \$75 increase in Newstart, the ACTU has also advocated immediate action on three fronts to increase aggregate demand:

- a reversal of the penalty rate cuts;
- restoration of normal wage increases for public sector workers; and²⁰,
- the introduction of a Living Wage.

New independent simulations from the Centre of Future of Work estimate that these three measures to support stronger wage growth would boost household incomes by \$10.2 billion dollars per year, stimulate \$8.5 billion per year in additional consumer spending, strengthen government

¹⁹ <https://www.theguardian.com/business/grogonomics/2019/sep/08/has-scott-morrison-s-government-failed-to-plan-or-is-it-actually-planning-to-fail>

²⁰ Figures are based on all Federal public sector workers. If we included all public sector workers across different levels of government the stimulus would be far higher.

revenues, and drive an ultimate increase in broader GDP of at least \$8.5 billion²¹. Given the current state of Australia's economy this is desperately needed.

Implementation of our recommendations would provide the income/wage stimulus, especially for low income households, that the Governor of the RBA has called for and would complement the recent cuts in interest rates. From an economic perspective the great advantage of the recommendations we propose is that social security and wage increases in the hands of those at the lower end of the income distribution scale are highly likely to be spent immediately in our local communities and provide a rapid stimulus for small businesses thereby creating significant economic benefits for all.

For entrepreneurs running a small restaurant, the local hairdressers or the plumbing contractor the survival of their business depends primarily on people in their local community having the cash available to buy their services. When a government decides it will deliberately keep Newstart at poverty levels, target workers and diminish their incomes, the repercussions are felt more broadly.

Any sensible government should be aiming for sustained and relatively rapid growth, low but positive inflation, with both real wages and profits increasing in line with national productivity trends plus a labour market that is as close to full employment as possible.

The notion that a government would deliberately keep Newstart low and push wages down when the Reserve Bank has consistently failed to meet its inflation target for the last 6 years and real unit labour costs and the labour share of national income are at record lows is foolish in the extreme. We desperately need to boost domestic demand.

Australia requires national political leaders with the economic knowledge and experience to develop and implement enlightened and courageous policies. There is also a desperate need to act to reduce spare capacity in the labour market. Many people on Newstart simply cannot get a job because there are not enough jobs available. The rising unemployment rate remains a serious concern and highlights the structural issues the labour market is facing. There are more than 1.8 million Australians looking for work, or more work, but unable to find it. Our plan for *'Jobs You Can*

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https://d3n8a8pro7vhmx.cloudfront.net/theausinstitute/pages/3031/attachments/original/1561412040/KickStarting_Wage_Growth_FINAL.pdf?1561412040

*Count On*²² aims to stabilise and restore job quality, at the same time as dramatically expanding the quantity of work available²³. We specifically aim to support local business through effective industry policy to create more high quality, secure local jobs, particularly in regional areas which have been left behind.

Alleviating the difficulties that those people on Newstart face must encompass both a significant rise in the level of Newstart, and a more ambitious job creation strategy - especially in deprived areas. We must also end the despicable demonisation of those receiving Newstart.

Poverty and Job Seeker Activation

It is clear at this point both that Newstart is inadequate and that this inadequacy is costing the Australian economy and keeping some of its recipients unemployed. Opponents of an increase to Newstart often argue that these two facts must be ignored because increasing Newstart would serve as 'a disincentive to work'. In employment services, 'activation' is the term used for the motivation of job seekers to look for work and comply with their obligations and what is essentially argued is that the low rate of Newstart functions as an activation measure. Leaving aside the morality of government deliberately and openly using poverty as a motivational tool, this approach is simply not effective. In fact, there is a gathering body of evidence showing that keeping Newstart low not only discourages job seekers from finding jobs but also reduces the effectiveness of job matching.

The OECD, for example, is moving away from the idea of generous unemployment benefits as disincentives to work. Instead, the 2018 OECD Jobs Strategy, acknowledges that reasonable benefit levels help to maintain consumption during periods of unemployment, ensure a fair distribution of income, reduce poverty and improve the quality of job matches in terms of earnings and job stability by allowing workers more time to find a suitable position. This improvement in job matches and job stability is crucial, as churn, when job seekers get a job for a short period and then fall back into unemployment, has become a significant feature of our system. Because Newstart keeps job seekers in poverty they are forced to take any job that is offered. In fact, they are penalised for not taking any job offered, which ensures that job matches are low quality and this merely increases the chance of churning back onto income support.

²² <https://www.actu.org.au/media/1033878/jobs-you-can-count-on.pdf>

In fact, the OECD appears to largely reject the government’s entire approach to Newstart, with the 2018 OECD Jobs Strategy stating that excessive bureaucratic hurdles for access to unemployment benefits and excessive monitoring of ‘mutual obligation’ requirements can be counterproductive for activating job seekers. For activation to be effective, the OECD argues it needs to be combined with “moderately generous” and “high coverage” unemployment benefits.²⁴

KPMG has echoed this point, arguing that the low level of Newstart is actually forming a barrier to employment, as it is insufficient to allow unemployed people to actively conduct job searches.²⁵ KPMG’s report goes on to say that this is an example of how some cuts to welfare can be counterproductive, both socially and in terms of cutting the long-term deficit.²⁶

Keeping Newstart low as an activation measure has been government’s final refuge against the inexorable logic for raising the rate for too long, but as we can see, even this ground is being eroded under their feet.

Newstart contributes to women being pushed into poverty as they age

The silos of government policy–workplace, superannuation, housing and social security, including Newstart–are impacting on women disproportionately. The policy settings in and around Newstart create a system working against women as they head towards retirement, especially those women aged between 55 and 67.

Despite changing attitudes to parental roles, parents’ employment remains very gendered, with fathers far more likely to be working full-time than mothers²⁷. Women also carry most of the unpaid parenting responsibilities and, as they near retirement, they continue to carry caring responsibilities for their children, grandchildren and parents.

The workplace is inequitable for women. Women earn on average just 78% of men’s full-time earnings, hold just 17.1% of CEO roles and 39.1% of management roles and 25.8% of roles as

²⁴ OECD Jobs Strategy 2018

²⁵ <https://home.kpmg/au/en/home/media/press-releases/2016/04/kpmg-urges-changes-to-cut-australias-structural-deficit-28-apr-2016.html>

²⁶ <https://home.kpmg/au/en/home/media/press-releases/2016/04/kpmg-urges-changes-to-cut-australias-structural-deficit-28-apr-2016.html>

²⁷ See data from the Australian Institute of Family Studies (<https://aifs.gov.au/facts-and-figures/work-and-family>) and/or the HILDA Survey at: <https://melbourneinstitute.unimelb.edu.au/hilda/publications/hilda-statistical-reports> and as discussed in “HILDA findings on Australian families’ experience of childcare should be a call-to-arms for government” (<https://theconversation.com/hilda-findings-on-australian-families-experience>)

directors on boards, and 30% of employers are unable to demonstrate flexible work policies²⁸. The impact of this inequity throughout their working life is resulting in them working for longer than they used to and with less satisfactory conditions. In 2012, it was shown that Australian women aged 55-64 were the largest driver of the aging of the workforce. They moved from a participation level of 20-24% before the 1990s to reach 55%²⁹.

However, many academics have highlighted that financial strain has been a contributing factor to increased participation amongst older women. Professor Marian Baird, quoting the national benchmarking survey of mature workers in Australia, showed that nearly 70 per cent of women say they feel considerable financial pressure to continue working. Over 300,000 women between the ages of 45 and 64 have multiple jobs in order to meet these needs³⁰. The report of the Australian's Women's Working Future Project shows that women in multiple jobs were less likely to feel their jobs were secure³¹.

Women are also losing out due to the structural deficiencies of the of superannuation. Women retire with 47% less superannuation than men. Yet, arguably, they need more superannuation as they live five years longer than men on average. Tax concessions, part-time work, lower earnings, time out of the workforce and the definition of a worker result in women not accruing enough savings for a comfortable retirement. An estimated 220,000 women miss out on \$125 million of superannuation contributions as they do not meet the requirement to earn \$450 per month (before tax) from one employer (as many women work more than one part-time job)³². If they need to access some of their superannuation to reduce the impact of a lack of employment, their poor retirement income is exacerbated.

Also, of concern is that women are increasingly at risk of homelessness. Anglicare's 2019 Rental Affordability Snapshot revealed that no properties in any capital city were affordable for a single person on Newstart. Rental stress particularly affects older women and is reflected in their growing rates of homelessness. Older single women are the fastest growing cohort of people experiencing

²⁸ Workplace Gender Equality Agency, 2017-18 WGEA data, (<https://www.wgea.gov.au/> accessed 8/9/19)

²⁹ Chomik, R and Piggott, J "Mature-age labour force participation: Trends, barriers, incentives, and future potential" CEPAR, 2012.

³⁰ See quoting of CEPAR Chief Investigator Prof Marian Baird on the results of the Mature Workers in Organisations Survey as quoted in Price, Jenna, Sydney Morning Herald "The nightmare that's been waiting to hit Australian women" (<https://www.smh.com.au/lifestyle/gender/the-nightmare-that-s-been-waiting-to-hit-australian-women-20190812-p52gc3.html> accessed 8/9/19)

³¹ Baird, M, Cooper, R, Hill, E, Probyn, E and Vromen, A, "Women and the Future of Work Report 1 of The Australian Women's Working Futures Project" 2018.

³² Women in Super, "THE FACTS ABOUT WOMEN AND SUPER" (<https://www.womeninsuper.com.au/content/the-facts-about-women-and-super/gjumzs> accessed 8/9/19)

housing stress and homelessness, and most of them have never been homeless before. Even if these women were to receive the age pension (a higher payment) earlier, it is a payment that assumes most Australians will retire as outright home owners and have no rent to pay³³.

In addition to women's lower workplace standards, greater risk of homelessness and the lower super women can expect on retirement and despite the unpaid contribution women make, women are required to fulfil conditionality requirements. The ACTU has a long-standing policy on conditionality requirements. The ACTU social wage and inclusion policy states, "Forcing the unemployed to undertake unpaid work distorts the labour market by displacing actual paid jobs, and there is no evidence that it leads to ongoing employment. Moreover, it restricts jobseekers from attending other job search activities such as interviews or training. Where jobseekers are performing productive work for an enterprise, Congress affirms that the worker must be paid at least the minimum wage for their work. Congress particularly condemns the practice of jobseekers undertaking unpaid work placements in for-profit businesses."³⁴

If the purpose of Newstart is dignity and safety while a person is not working and providing enough resources to allow a person to get a new job, it is failing for women in this age bracket (55-67) because the low rate and conditionality requirements are pushing them into poverty and homelessness as they prepare for a retirement.

Conclusion

There is no reason for Newstart to be as low as it is or as administratively burdensome as it is. Australians who are unable to find a job or who find themselves unemployed are owed support that allows them to cover basic expenses and which facilitates their job search. Raising Newstart is not only the right thing to do, it is the economically prudent thing to do and it is the best way to get people into work. There are no more excuses left – Newstart must be raised and it should happen now.

³³ Anglicare Australia Rental Affordability Snapshot April 2019 (<https://www.anglicare.asn.au/our-work/research-reports/the-rental-affordability-snapshot> accessed 8/9/19)

³⁴ ACTU, Social wage and social inclusion policy 2018 (<https://www.actu.org.au/our-work/actu-congress/actu-congress-2018/actu-policies> accessed 9/9/19)

Recommendations

- Increase Newstart by at least \$75 a week, with the goal to increase the rate above the poverty line by increasing it ultimately by \$160 a week.
- In the meantime, the indexation rates for all social security payments should be aligned so that the widening gap between pensions and allowances may be closed.
- Incentives for employment service providers should be geared towards placing jobseekers into long term, secure employment rather than churning them through multiple casual engagements.
- Many people on Newstart simply can't get a job because there are not enough jobs available. The rising unemployment rate remains a serious concern and highlights the structural issues the labour market is facing. An ambitious job creation program and other measures to stimulate aggregate demand in the economy are needed.

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