

Work incentives are no reason to decrease JobSeeker

Submission to the Inquiry into the Social Services and Other Legislation Amendment (Extension of Coronavirus Support) Bill 2020

Bruce Bradbury (UNSW) and Peter Whiteford (ANU)

19 November 2020

For many years now, there has been strong pressure from welfare, union and even employer and business groups for JobSeeker to be substantially increased.

Prior to the Covid-19 crisis, income support payments for the unemployed were among the lowest in the OECD.¹ Set at a level well below conventionally defined poverty lines, the pre-Covid payment was a long way short of meeting any sensible poverty alleviation goal.² The payment was even more inadequate at providing income replacement for people newly unemployed.

The Australian system has historically provided flat-rate benefits that are not related to past earnings – unlike the model in nearly all other OECD countries. This means that the loss of income for the newly unemployed was greater in Australia than elsewhere.

Consequently, as the Covid-19 crisis hit, the Commonwealth government was forced to respond with rapid policy innovations. The payment for the unemployed, JobSeeker (formerly Newstart), was almost doubled,³ and a new wage subsidy scheme, JobKeeper, introduced for businesses facing substantial income losses. More recently, there were new short-term payments for those testing and quarantining (in some states). However, gaps in the social support system remain, particularly for temporary foreign workers.

The changes also introduced anomalies. Some people previously on low hours actually found their income increasing under JobKeeper, and the structure of the JobSeeker supplement meant that recipients faced perplexing income ‘cliffs’ as they increased their incomes.

Many of these were inevitable given the lack of an institutional base for expanded payments of this sort (e.g. compared to countries with effectively functioning insurance systems). This meant that payment levels and eligibility were set using simple, but often arbitrary, rules. Possibly, some in the government saw these anomalies as a feature rather than a bug as they would make it easier to ‘snap back’ to the previous system once the, hopefully short-term, crisis passed.

Partly because of these anomalies, but mainly because of a desire to reduce expenditure, JobKeeper will be scaled back and abolished sometime next year, and JobSeeker Supplement was reduced at the end of September, will be reduced further at the end of 2020 and (on current policy) abolished at the end of March 2021.

¹ <https://www.oecd.org/social/benefits-and-wages/>

² https://www.arts.unsw.edu.au/sites/default/files/documents/ACOSS_Poverty_in_Report_Final.pdf

³ <https://theconversation.com/coronavirus-supplement-your-guide-to-the-australian-payments-that-will-go-to-the-extra-million-on-welfare-134358>

While there has been increasing pressure to maintain a higher level of JobSeeker supplement, there have also been calls from Government ministers and backbenchers to remove it to maintain the incentive for people to look for work.⁴

Nonetheless, there is little evidence that a lack of job search effort is a significant current problem for the economy.⁵ Around 7.0% of the workforce are officially looking for work, but in July the Treasurer acknowledged that the real unemployment rate was closer to 13.3%, when including “discouraged jobseekers” not actively looking for work because of lockdowns and businesses on hold.⁶ With 1.6 million people on JobSeeker but with only 130,000 vacancies in May 2020,⁷ it matters little if some jobseekers are more selective about the job offers they accept.

In fact, for the longer term health of the economy, it is important that people find jobs that suit their skills.⁸ International evidence shows that the provision of unemployment benefits slightly increase both the wages received when work is found and the duration of the new job (job stability).⁹

Would higher benefits be a problem as the economy recovers? If benefits start to approach the level of minimum wages, then some workers with low earning potential might decide that the extra effort is not worth it – and so reduce their job search effort. As the economy recovers, this will mean that some potential jobs will go unfilled and government expenditure on JobSeeker will remain high.

One simple measure of the incentives in the Australian unemployment payment system is shown below. This figure shows trends over the last three decades in the level of Newstart or JobSeeker payment available to a single adult, relative to the minimum adult full-time wage (after tax and superannuation). This ‘replacement rate’ is the standard benchmark for assessing incentives to move from benefits into work – assuming that work is available.

We also show the corresponding estimate for single pensioners. For pensioners, the replacement rate was around 55% up until 2009, when the pension was increased under the Rudd government. Thereafter, net pension income was around 65% of the minimum wage – close to the commonly used poverty line set at half the median household disposable income.

For job seekers, on the other hand, the past two decades have seen a steady decline in their replacement rate, from around 50% in the 1990s down to under 40% at the start of 2020 – a level well below the poverty line.

This all changed with the introduction of the Coronavirus supplement, which almost doubled the payment for single unemployed. Nonetheless, JobSeeker plus the supplement was still well below the adult minimum wage (around 75% or just over 80% if we add rent

⁴ <https://www.theguardian.com/australia-news/2020/jun/30/deeply-hurtful-claims-of-australian-jobseekers-turning-down-work-are-based-on-scant-evidence> and <https://www.smh.com.au/politics/federal/welfare-payments-making-recruitment-tougher-coalition-backbenchers-say-20200908-p55tjy.html>

⁵ <https://www.abc.net.au/news/2020-07-16/unemployment-jobs-coronavirus-june-2020-abs/12460890>

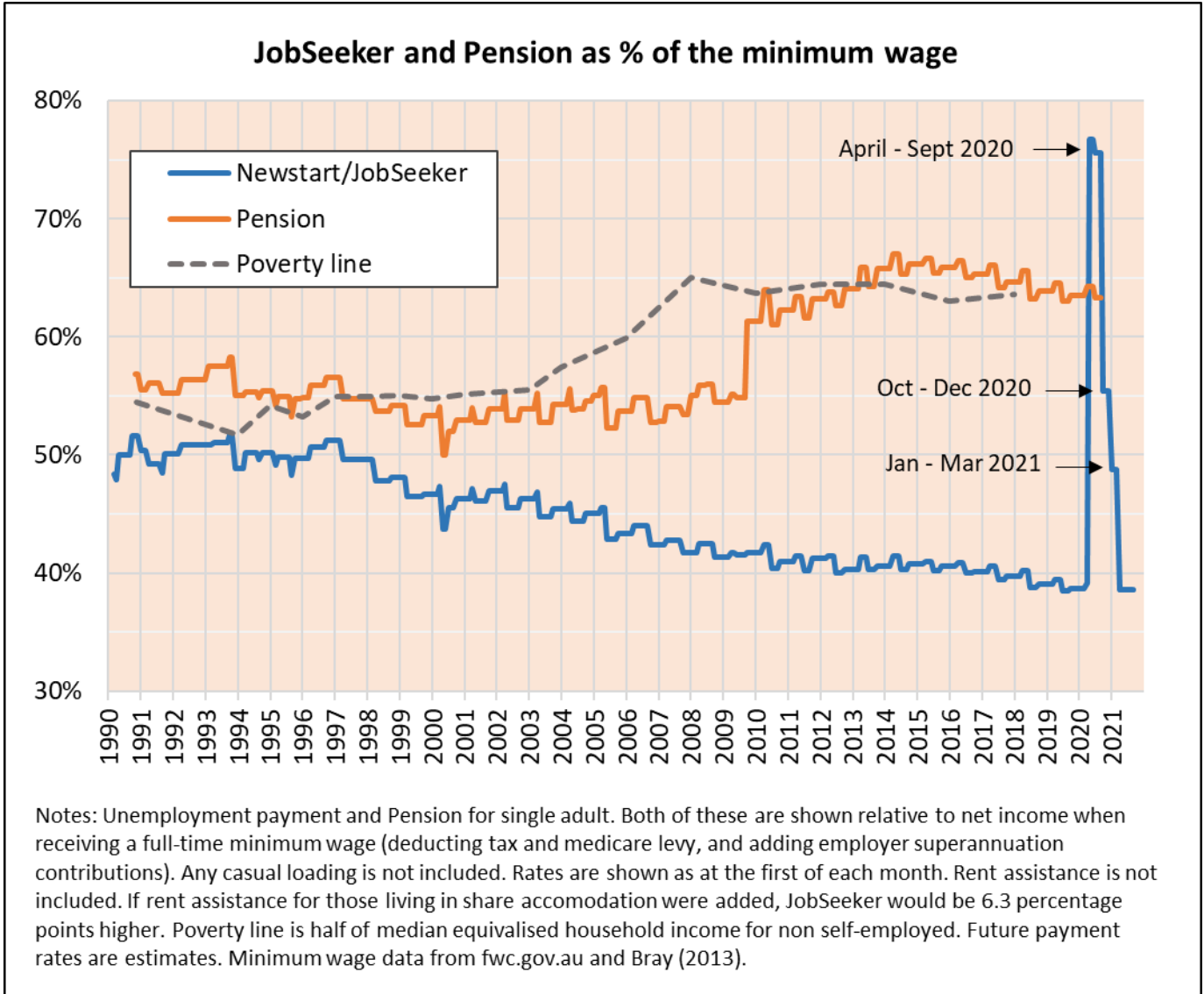
⁶ <https://www.businessinsider.com.au/australia-real-unemployment-jobs-figures-2020-7>

⁷ <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6354.0>

⁸ <https://wol.iza.org/articles/job-search-monitoring-and-assistance-for-the-unemployed/long>

⁹ <https://wol.iza.org/articles/unemployment-benefits-and-job-match-quality>

assistance). At the end of September, the combined payment fell back to 55% of the minimum wage. This will apply until the end of the year, when it will be reduced to under 50%. Unless the government makes further changes, the supplement will be removed entirely at the end of March 2021 – back to under 40% of the minimum wage.



At the same time, as the wage subsidy program JobKeeper is wound back, increasing numbers will become reliant upon JobSeeker. If the payment reductions continue as currently forecast, this will force many people well below the poverty line – with estimates of more than three quarters of a million people being forced into poverty.¹⁰ This would not only be a disaster for the people directly affected but is likely to have large adverse macro-

¹⁰ https://theconversation.com/winding-back-jobkeeper-and-jobseeker-will-push-740-000-australians-into-poverty-145308?utm_source=twitter&utm_medium=twitterbutton

economic effects, with Deloitte Access Economics estimating that withdrawing support would be equal to a reduction in the size of the economy of \$31.3 billion and an average loss of 145,000 Full-Time Equivalent jobs.¹¹

The case to maintain most of the crisis-induced increase in payments is clear. In the short-term, there will be no shortage of people looking for work. Maintaining payments at around the pension level (close to the poverty line) should be our policy objective.¹²

Even in the longer term, as labour demand increases, the large gap between payments and minimum wages leaves ample room for permanent increases in unemployment income support. At a minimum, a target of 50% of the minimum wage – as was the case in the 1990s – should be an easily achievable target.

¹¹ <https://www.acoss.org.au/wp-content/uploads/2020/09/Final-ACOSS-Coronavirus-Supplement-to-ACOSS-09.09.2020.pdf>

¹² <https://theconversation.com/when-the-coronavirus-supplement-stops-jobseeker-needs-to-increase-by-185-a-week-138417>