

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

4 – 6 June 2013

Question: BET 315

Topic: Unemployment

Written: 17 June 2013

Senator WATERS asked:

315. Are there 'hysteresis' effects in unemployment – that is the longer people stay unemployed the harder it becomes to find a job? Does the ability to find a job depend on being able to afford decent clothes to attend interviews and pay fares, eat healthy meals and have adequate accommodation? What income level is necessary for this?

Answer:

315. Economists generally consider labour market hysteresis to occur when a shock to unemployment has a persistent effect on equilibrium unemployment. This is an area of extensive economic research and the subject of many academic studies. In their paper *Examining Full Employment in Australia Using the Phillips and Beveridge Curves*¹, Kennedy, Luu and Goldbloom conclude that 'shocks which affect long-run unemployment have a long lived impact on the natural unemployment rate (a manifestation of hysteresis).'

The Australian Government acknowledges that looking for work involves costs, as does going to work or undertaking study or even doing volunteer work. That is why the general expenses of searching for work are included as part of the broader Newstart Allowance package.

The full package of income support assistance recognises individual needs and barriers to employment and may include supplementary payments such as Rent Assistance, Clean Energy Supplement, Income Support Bonus, approved program of work supplements and the Pensioner Education Supplement, as well as employment services. Newstart recipients can access one of four streams of support, depending on their level of disadvantage. An individualised Employment Pathway Plan is negotiated with the job seeker to identify the activities that will assist them to find work and/or develop the skills that will assist them to secure ongoing employment. All eligible job seekers, including Newstart recipients, can get assistance in seeking and obtaining employment from their Job Services Australia (JSA) provider through the Employment Pathway Fund (EPF).

The EPF helps eligible job seekers address their vocational and non-vocational barriers to employment. Support for job seekers may include tools, training courses, work experience, clothing, transport costs as well as assisting them to overcome any personal difficulties that may be hindering their ability to find and keep a job. Since JSA commenced on 1 July 2009 to 31 March 2013, providers have spent \$1.4 billion of EPF funds assisting job seekers, 11.1

¹ Kennedy, S; Luu, N and Goldbloom, A, 2008, 'Examining Full Employment in Australia Using the Phillips and Beveridge Curves', *The Australian Economic Review*, vol. 41, no. 3, pp. 286-97.

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per cent of which has been used for clothing and presentation, transport and licensing assistance.