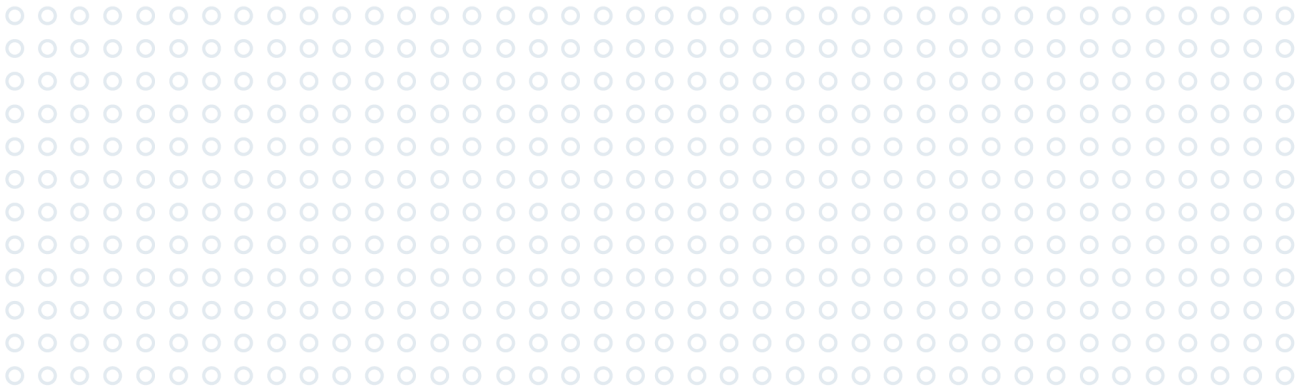


Business
Council of
Australia



Submission to the Senate
Education, Employment and
Workplace Relations References
Committee Inquiry into the
Adequacy of the Allowance Payment
System for Jobseekers and Others

AUGUST 2012

The Business Council of Australia welcomes the opportunity to make a submission to the Senate inquiry into the adequacy of the allowance payment system for jobseekers and others, the appropriateness of the allowance payment system as an incentive and support into work, and the impact of the changing nature of the labour market.

The BCA brings together the chief executives of 100 of Australia's leading companies. For almost 30 years, the BCA has provided a unique forum for some of Australia's most experienced corporate leaders to contribute to public policy reform that affects business and the community as a whole. Our vision is for Australia to be the best place in the world in which to live, learn, work and do business.

Members of the council are committed to policies that foster productivity, participation and competitiveness as a foundation for shared prosperity.

The BCA would like to make the following points in response to the Senate inquiry.

- There is a need for an increase in the Newstart allowance on an adequacy and fairness basis:
 - the value of Newstart has fallen progressively further behind levels of income support available to other working age Australians
 - the rate of Newstart no longer meets a reasonable community standard of adequacy, particularly in the case of single adult recipients, the long-term unemployed and those in private rental accommodation
 - there is concern that the low rate of Newstart itself now presents a barrier to employment and risks entrenching poverty.
- A disproportionately low rate for the Newstart allowance will not, in and of itself, act as an incentive for people to return to work.
- There must be a focus on the effectiveness of the full range of incentives and support initiatives to help people return to work. The employment assistance programs must also be reformed to support the successful transition from welfare to work.
- Reforming Newstart should be part of a comprehensive review of Australia's taxation system that takes into consideration all Australia's income support arrangements. We need to ensure that the welfare system and its interaction with the taxation system supports incentives for people to participate where they can in the workforce while ensuring income support is adequate and targeted to those in greatest need.
- Clearly as part of such a review the recommendations which resulted from the Henry tax review – particularly the recommendations in relation to reform of the categories of income support payments and the need for a more consistent approach to payment relativities – should be considered.
- Should a comprehensive taxation system review not be put in place, the task remains for you to both improve the effectiveness in the delivery of employment and other support services and increase the level of the Newstart allowance to unemployed people within the overall welfare services budget without reducing the existing allowances and pensions paid already to those in greatest need.

By way of background please find below a short note including some of the key data.

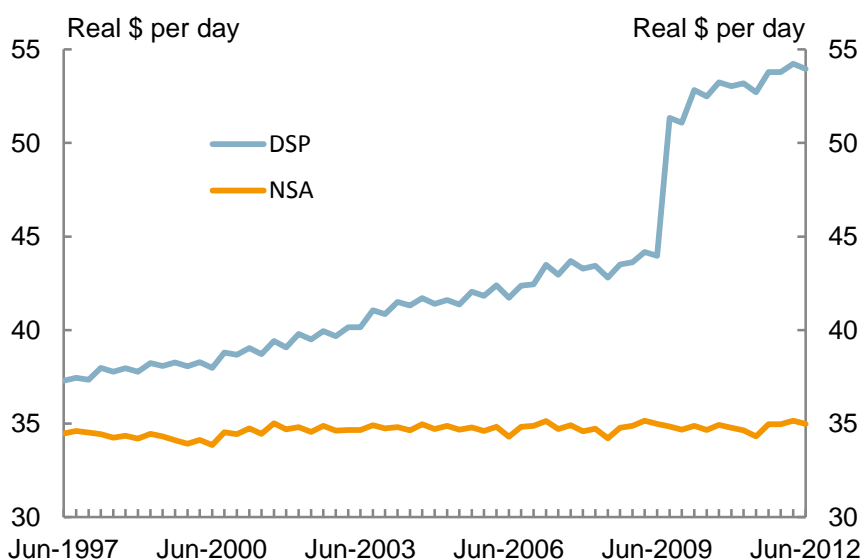
The Newstart Allowance: Key Data

A snapshot of the current situation

Fifteen years ago, the Newstart Allowance (NSA) for a single unemployed adult was equivalent to \$241 per week, or \$34.50 per day, in today's dollars. This compared with a base disability rate pension for a person in otherwise similar circumstances of around \$37.30 per day. Today the same adult would receive just \$35 per day on Newstart compared with \$54 a day on a disability support pension (DSP).

Figure 1 highlights this growing divergence between levels of income support for working age Australians on disability pensions relative to unemployment benefits.

Figure 1: Real daily benefit rates



Source: FaHCSIA historical benefit rates, *Consumer Price Index*, ABS cat. no. 6401.0, Table 1, June 2012. Rates are for a single adult over 21 years old with no dependants, DSP includes pension supplement. Deflated by CPI with June 2012 base period.

The progressive widening of the gap between Newstart and DSP has come about largely as a result of the application of differing indexation arrangements. Whereas Newstart has been adjusted annually in line with CPI, pensions for both retired and working age Australians have since 1997 been formally indexed to at least 25 per cent of male total average weekly earnings (MTAWE).¹

In addition, in 2009–10 pensioners were given the additional safety net that pensions would be benchmarked to around 27.7 per cent of MTAWE. This decision gave rise to a further large step increase of over \$7 in the daily rate of DSP for a single adult relative to Newstart.

By contrast, the last adjustment to the single rate of Newstart apart from normal price indexation was in 1994.

In principle some gap is warranted for working-age people between 'temporary' income support for jobseekers, and ongoing support for people permanently unable to work due to disability. In fact, many who receive Newstart have been doing so long term (see Figure 2) and the differences in rates of support between these two categories of people are now so stark as to raise significant relativity issues.

Such large differences in rates and conditions of payment relative to other welfare recipients of working age who might be similar in many other respects seem difficult to justify on equity grounds.

Furthermore, the indexation arrangements that have produced this widening gap mean that Newstart rates will continue to fall further and further behind the level of support to other working age welfare recipients. As the Henry tax review concluded, were these indexation arrangements to continue: '... it is likely that by 2040 a single pensioner would be paid more than twice as much as a single unemployed person'.² This would be a certain route to entrenched poverty for many unemployed people, is clearly unsustainable and is not acceptable under Australian community standards.

System objectives

Determining an appropriate level of income support requires a balance to be struck between three competing objectives: adequacy; incentives to employment participation; and fiscal sustainability.

Adequacy

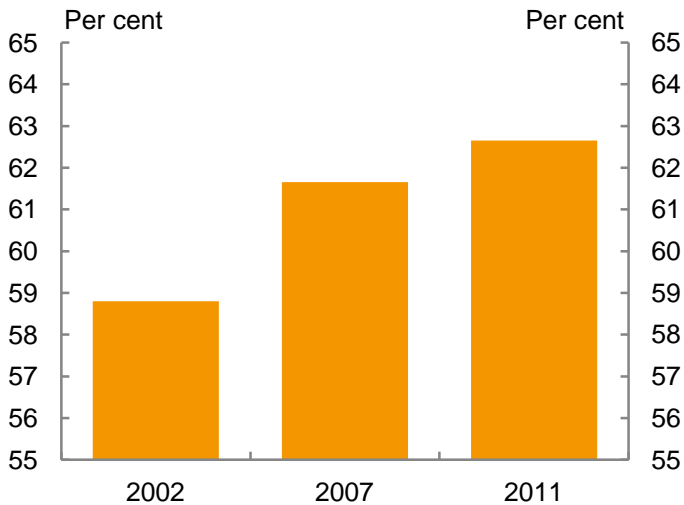
Adequacy refers to the minimum standards required to meet basic needs and sustain some level of social engagement. In the case of unemployment benefits, this needs to be sufficient to support active job search. The Henry tax review noted that the income support system may in fact entrench poverty if income support creates a barrier to employment.

It is likely that the Newstart allowance is now so low as to be a barrier to employment. Trying to survive on \$35 a day is likely to erode the capacity of individuals to present themselves well or maintain their readiness for work. Newstart recipients who may be particularly vulnerable are:

- single adults, who are unable to supplement their allowance through Australia's relatively generous family benefit scheme
- those dependent on the private rental market, where rental allowance payments have also fallen progressively below private rental costs.

While the combined Newstart and rental allowance may tide people through relatively short periods of unemployment, for those out of work for long periods of time, such low levels of support greatly increase the risk of homelessness. Once homeless, job seekers are severely disadvantaged in their ability to maintain active job search and present themselves decently for job interviews.

Even though aggregate unemployment rates have fallen over the past decade, the average length of time on benefits for people on Newstart has actually increased, with those on benefits for 12 months or more now almost 63 per cent of all recipients (Figure 2). In a time of low overall unemployment, this suggests that a growing proportion of the group who are unemployed are very disadvantaged and this risks them facing longer periods of unemployment.

Figure 2: Share of recipients on Newstart for 12 months or more

Source: FaHCSIA.

Incentives for working age people

A second key objective of Australia's income support system is that it provide incentives to work for those who are able to do so.

Participation in the paid labour market represents the best means of getting welfare recipients onto a path towards economic independence and of improving their economic and social wellbeing.

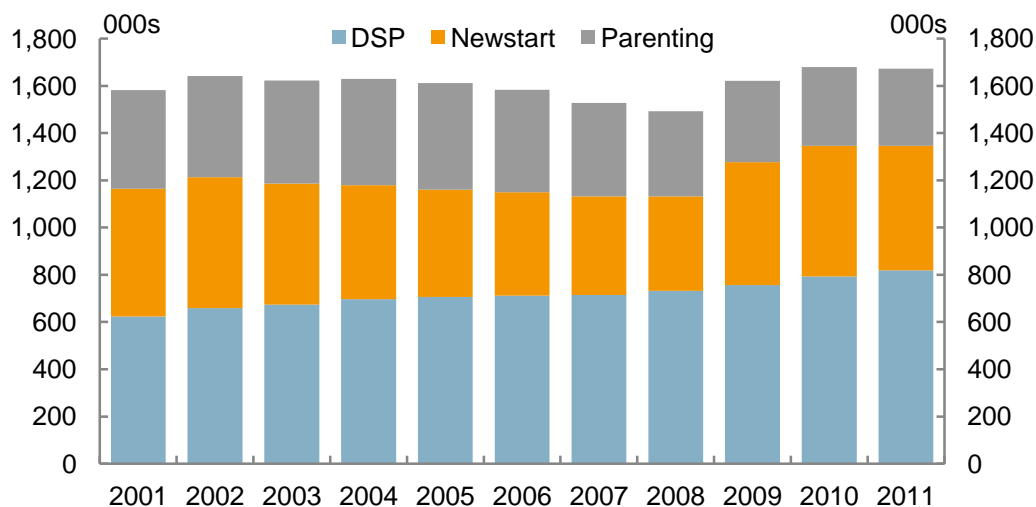
As the population ages and the ratio of working age to retired people shrinks, policies to increase labour force participation and improve outcomes for job seekers will become increasingly important to growth in Australia's living standards.

The level of income support provided to the unemployed and other working age welfare recipients should not be so high as to discourage individuals from looking for work. This implies that pensions and allowances should not provide levels of income equivalent or close to equivalent to what could be achieved from working.

Nor should the relativities between payments drive people from seeking employment to some other form of income payment or pension.

The stark differential that now exists between levels of support available to Newstart and disability and parenting pensioners of working age is a concern because, as the Henry tax review concluded: 'large differences in payment rates and conditions create incentives to switch to high payment categories that carry greater risk of long-term welfare dependency'.³ Compared to a successful transition to work, such an outcome would almost certainly be worse for the individuals concerned; and by lowering overall participation rates and increasing the call on the public purse it would also undermine the ability to support higher living standards and share wealth throughout the community.

Figure 3 shows trends in the composition of working age pensions and allowances over the past decade. It shows a clear upward trend in the proportion on DSP. The Productivity Commission⁴ found this growth could not be accounted for by growth in the prevalence of disability among the working age population, but instead reflects a combination of changing economic conditions and welfare policies.

Figure 3: Trends in Disability Support, Parenting and Newstart Beneficiaries (2001–2011)

Source: FaHCSIA, *Income Support Customers: A Statistical Overview*, Statistical Paper No. 10, 2011.

Fiscal sustainability

Australia's income support system must not just be affordable for today – it must be fiscally sustainable over the long term after taking account of the effects of population ageing.

The Pension Review⁵ found population ageing is likely to increase pension expenditure by 1.9 per cent of gross domestic product by the middle of the century and spending on health and other services could grow even more strongly. Further, the cost of any given pension increase today will double as a share of GDP by 2050.

Not only current pension and allowance rates and eligibility requirements, but current indexation arrangements for maintaining income support levels over time all need to be considered in this light.

As population ageing reduces the working age population relative to the retired population, boosting labour force participation by presently under-represented population groups will become increasingly important to maintaining future living standards.

For this reason as part of a comprehensive review of Australia's taxation system there should be consideration of Australia's income support arrangements and fiscal sustainability. We need to ensure that the welfare system and its interaction with the taxation system supports incentives for people to participate where they can in the workforce while ensuring income support is adequate and targeted to those in greatest need.

Clearly as part of such a review the recommendations that resulted from the Henry tax review – particularly the recommendations in relation to the categories of income support payment and the need for a more consistent approach to payment relativities – should be considered.

The Henry tax review recommended that you restructure income support into: '... three primary payment categories that reflect societal expectations about the level of work that can reasonably be expected to be undertaken by an individual – a pension category where there is no expectation of work; a participation category for those who are expected to work now or in the near future; and a student category for those undertaking full-time study in an approved course. Rates of payment for those in the pension category should generally provide a higher level of adequacy than rates in either the participation or student categories.'⁶

Notes

1. Prior to 1997 the benchmarking of pensions to 25 per cent of MTAW was a policy target for maintaining the value of pensions over time relative to movements in average living standards, but in 1997 this benchmark was formalised through legislation.
2. Commonwealth of Australia, *Australia's Future Tax System: Report to the Treasurer*, 2010, Part 2, Volume 2, p. 501.
3. *ibid.*, p. 493.
4. Productivity Commission, *Disability Care and Support: Inquiry Report*, 2011, Appendix K, p. 9.
5. Commonwealth of Australia, *Pension Review Report*, 2009, p. xii.
6. Commonwealth of Australia, *Australia's Future Tax System*, p. 488.

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