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Senate Standing Committees on Community Affairs
Adequacy of Newstart and related payments and alternative mechanisms to determine the level of income support payments in Australia
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RE: Adequacy of Newstart and related payments and alternative mechanisms to determine the level of income support payments in Australia

To whom it may concern,

I welcome the opportunity to make a submission to the consultation process for the adequacy of Newstart and related payments and alternative mechanism to determine the level of income support payments in Australia.

The logic is clear as to why Newstart should be increased, simply because it is currently impoverishing people and leading to bad behaviour and real costs in the criminal justice and on the health system. I am sure many other submissions will address this and the issues with the Indue card. They will mention the Henderson Poverty Line from Household, Income and Labour Dynamics in Australia at the Melbourne University and the Minimum Wage for Healthy Living from the University of NSW.

A great rule of thumb in my humble opinion is $20000 for a single adult and an extra $12000 for every additional person in a household.

What my submission primarily addresses is an alternative mechanism for a level of income support for social and retirement security in Australia that keeps all Australians socially included.

Yours faithfully,

Darren Quinn

SUMMARY OF RECOMMENDATIONS

1. **An immediate raise the rate of Newstart and Youth Allowance payments by at least $75 and $96 per week in line with the Henderson Poverty Line and Minimum Income for Healthy Living**
2. **Trial an Employer of Last Resort framework**

People locked out of paid work have to survive on just $39 a day. That's just $39 to cover groceries, medication, clothing, electricity, and rent.

In a recent nationwide survey of 67,000 rental properties, Anglicare Australia found only three properties were affordable for a single person reliant on Newstart. People can't be expected to find paid work, if they can't even afford to keep a roof over their heads.

This is in part because Newstart hasn't been increased in real terms for 24 years. No adjustments have been made to keep up with inflation, and the payment now sits well below the poverty line.

Meanwhile, corporate profits have soared, the cost of living has grown, and conservative governments have continued to weaken our social safety net.

Groups and representatives from across the political spectrum are now calling for an increase to Newstart, including The Australian Council of Social Services (ACOSS), Australian Council of Trade Unions (ACTU), St Vincent de Paul, The Salvation Army, The Anti-Poverty Network, the Australian Unemployed Workers Union (AUWU), Anglicare – even former Liberal leaders like John Howard and John Hewson and the Business Council of Australia (BCA) agree the rate of Newstart is too low.

An increase in Newstart will increase demand in the declining business sectors and this demand will increase the need to hire to produce more and this will reduce the impact it has on the budget. A real rise of Newstart is required to prevent the impact on the health system as it is well known that stress leads to ill health and the more stress, the more illness, the heavier the impact on the health system. A real rise of Newstart and other payments will reduce the impact and need for this services making this country great again!

One former RBA boss who seemed to take the ‘full employment’ part of the Bank’s mandate seriously was its first Governor, H.C. ‘Nugget’ Coombs. Coombs had codified his commitment to full employment some fifteen years before he was appointed to the Governorship, in the 1945 White Paper on Full Employment. The White Paper outlined a policy in which:

Governments should accept responsibility for spending on goods and services to the extent necessary to sustain full employment. There will be no place in this full employment policy for schemes designed to make work for work’s sake.

Whether Coombs maintained this position during his tenure as RBA Governor might be surmised from the average unemployment rate over 1960–1968: **1.5 per cent.**

This rate of unemployment sounds almost fanciful in Australia today, where according to current RBA Governor, Phil Lowe:

The current unemployment rate of 5.2 per cent is or a bit more above full employment.

So what happened? How could one Reserve Bank Governor consider employment to be 'full' when 70,000 people were between jobs, while another can think the same when 700,000 people are unemployed? The answer lies in the perceptive analysis of one of the 20th century's more understudied economists: Abba Lerner.

Lerner was a prolific and prescient economist, but arguably his most important contributions were in labour economics. In his 1951 book, The Economics of Employment:

'Low' full employment, where fiscal and monetary policies–the actions of the government and the central bank, respectively and collectively–ensure that aggregate demand for goods and services is sufficient to employ as much of the labour force as will not lead to sustained price increases.

'High' full employment, where additional policies to control any increases in prices and incomes enable a still-greater number of potential workers to be employed without threatening price stability.

Lerner's definitions of 'low' and 'high' full employment don't completely capture the differences in policy settings between 2010s and 1960s Australia. Average consumer price inflation during Coombs's Governorship (1960–1968) hit the middle of the current RBA target range of 2–3 per cent, but any wage restraint that contributed to these quiescent prices was afforded by a savvy Commonwealth Conciliation and Arbitration Commission, which kept wages growing at around the same rate as productivity, rather than by enforcing an explicit incomes policy.

Nevertheless, the post-war boom in Australia was accommodated by a Reserve Bank that, under Coombs, had an 'employment-first' mandate. In effect, if not in precise detail, Coombs and his counterparts in government delivered a period of sustained, 'high' full employment, consistent with Lerner's estimation of that term.

The Reserve Bank of 2017 believes that Australia is close to full employment once again. With interest rates at all-time lows and the budget deficit forecast to close, it appears that the RBA and the government have exhausted their policy options and, according to Governor Lowe's remarks, it's now just a matter of waiting for the pesky decimal to disappear before we're back at the magical jobless rate of 5 per cent.

Needless to say, the benchmark of 5 per cent unemployment, with fiscal and monetary policy apparently fully deployed, would be considered 'low' full employment in the Lerner taxonomy. Regardless of:

- the wide range[1] of estimates[2] of full employment[3] in Australia,
- the countless[4] concessions[5] to underemployment[6],
- the recognition[7] of record-low[8] wage growth[9],
- the acknowledgment[10] that workers[11] are taking less income from national product[12] than they have in at least 60 years

The magical figure of 5 per cent remains lodged in the minds of most Australian economists and public policy makers as being synonymous with full employment[13]. Any unemployment rate lower than 5 per cent and we've got a one-way ticket for runaway inflation. Apparently[14].

The shift from high to low full employment as an acceptable policy goal has its roots in the history of macroeconomics. Following the relative economic tranquility of the 1960s, when inflation and unemployment were low, their relationship was stable, and both could be managed with apparent ease, the oil price shocks following the OPEC embargo[15] of the early 1970s triggered in many western countries a wage-price spiral[16], which was reinforced by the aggressive competition between labour and capital for available economic output.

The inflationary outbreak of the early 1970s appeared to shatter the so-called Keynesian consensus[17]. Into the intellectual vacuum slipped monetarism, whose standard-bearer Milton Friedman had advocated in 1968[18] for a 'natural rate of unemployment', which coincided with wage and price stability:

> *"A lower level of unemployment [than the natural rate] is an indication that there is an excess demand for labor that will produce upward pressure on real wage rates. A higher level of unemployment is an indication that there is an excess supply of labor that will produce downward pressure on real wage rates."*

Friedman's natural rate of unemployment was soon formalised as the non-accelerating-inflation rate of unemployment (NAIRU)[19], which has, more or less, been synonymous with [low] full employment ever since.

Accompanying the collapse of the Keynesian consensus were two other trends in macroeconomics:

- The ascendancy of monetary policy at the expense of fiscal policy, and
- The push for central banks to formulate monetary policy independently of the government.

Firstly, the primacy of monetary policy meant that the government's operations of spending and taxing took a back seat to central bank operations of 'controlling' the money supply and, when that failed[20], setting the price of money, or the cash rate. It didn't matter so much what the government was spending money on, or how many people it was employing in the process, as it mattered that budget expenditures were matched by tax collection and by selling any outstanding debt to private investors in the primary market.

Secondly, central bank independence meant that governments could no longer turn to the Reserve Bank to finance any additional expenditures. That is, 'printing money' for government expenditure was strictly forbidden–even if this money simply filled the pockets of new employees, rather than drove up the prices of goods and services.

The confluence of these trends, in conjunction with the apparent unwillingness of economists to consider an incomes policy (although with the present wage stagnation it's hard to see whether this would be immediately necessary), means that 'full employment' is something of a misnomer today, relative to its more generous and intuitive definition during the 1960s.

With the abandonment of the high full employment objective and the emasculation of fiscal policy came the notion, now commonplace, that below a certain level of unemployment, the remaining unemployed were simply beyond help. Whether they were lazy, incompetent, or a mortal threat to inflation, there was just something about that stubborn 5 per cent of the labour force that meant they'd never be employed.

When the Keynesian consensus 'collapsed' in the early 1970s, what really collapsed was the economics of the 'neoclassical synthesis', devised by economists like Paul Samuelson and John Hicks, who had read Keynes but had weaved his insights into the architecture of neoclassical economics that Keynes himself was attempting to escape. When the early-1970s stagflation hit, 'synthesis' Keynesianism was mortally wounded.

Meanwhile, the economics of the 'true' Keynesians–the militant interpreters such as Abba Lerner, Joan Robinson and their students–remained intact, but was largely ignored. These 'Post Keynesians' argued that Keynes's General Theory, and its faithful interpretations by Lorie Tarshi[21]s and Abba Lerner, contained all of the insights necessary to overcome stagflation and to maintain high full employment with price stability.

According to Tarshis, full employment with price stability could be achieved through a combination of monetary policy, fiscal policy and incomes policy. Lerner took this analysis a step further with his notion of 'functional finance', which envisaged monetary policy as the direct financing, by the central bank, of as much government expenditure as would guarantee 'high' full employment, accompanied by taxation and incomes policies to contain inflationary pressures.

Lerner and Lowe

Could we ever return to an era of high full employment with price stability? Certainly.

The idea that the federal government could act as an 'employer of last resort'[22] for workers, in parallel to the Reserve Bank's existing capacity as a 'lender of last resort'[23] for banks, is entirely feasible. A job guarantee for anyone willing and able to work would constitute an immediate resumption of full employment.

However, contemporary governments, even those nominally in favour of full employment, have openly resisted any solution to unemployment involving direct job creation programs or adequate ongoing fiscal stimulus, even if these are the 'obvious' answers, containing 'no hidden snags'. The agents of fiscal policy at Treasury, like their monetary policy counterparts at the Reserve Bank, remain wedded to a NAIRU of 5 per cent[24].

On top of this, the artifice of central bank independence, which prohibits the direct financing of government spending, unnecessarily complicates the question for governments of 'how are we going to pay for it?' Of course, this stricture could be abandoned immediately in favour of Lerner's functional finance, but there appears little appetite for so-called 'helicopter money', at least from the previous RBA Governor[25].

All of this leaves employment policy at an impasse, with 5 per cent unemployment apparently as low as can be hoped for. Despite Governor Lowe's guess that full employment is less than half a percentage point away, there's something in his recent statement that workers should be emboldened to ask for higher wages to imply that even if the unemployment rate eased to 5 per cent, employment might not be as 'full' as that number once suggested.

But…if the independence of the central bank truly constitutes the independence to pursue its mandate, then the achievement of full employment becomes relatively straightforward. The solution, inspired by the theory of Abba Lerner and the pragmatism of Nugget Coombs, is where the Reserve Bank becomes Australia's employer of last resort.

It doesn't matter if you're not an economist. In fact, it'd probably be better if you're not.

- Before becoming Governor, Phil Lowe spoke about the need for better infrastructure. I'm sure he has plenty of shovel-ready projects in mind.
- If you have a predilection to 'act local', then maybe you could take a job at the RBA helping to build houses for the homeless who were until not long ago were literally camped on the Bank's doorstep.

- Sydney's live music scene needs rejuvenation, so if that's where your talents lie, the RBA could become a patron of your art.
- As a greater proportion of the workforce enters retirement accommodation, we might choose to foist robots upon them…or, if the customer is always right and 'nothing is as good as humans', the RBA could deploy living, breathing people to spend time with our senior citizens. Maybe you and an elderly stranger could reminisce about your shared experience of full employment in two different eras.
- The Bank already has offices in six capital cities, but there's no reason to stop expanding. Regional areas might well benefit from a local employment office that actually…employs people. The shortage of things to do is limited only by the imagination of local employees, who can see better than most the things that need doing in their communities.

If the institution of high full employment meant that activity in other sectors finally picked up, then maybe you could leave the Bank for a private sector job instead!

Unlike the government which has tied its hands, the Reserve Bank will not run out of money to pay you. Sure, that income might, at times, risk pressing up against the productive capacity of the economy, but what better way to expand productive capacity than through meaningful employment, and what better place to work out how to defuse any inflationary risks than at the RBA, the coalface of inflation control? If we expand the definition of employment, there's truly no shortage of jobs to fill. We should take these jobs to Phil.

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