

Submission to the 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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We thank the Committee for the opportunity to make a submission to this inquiry.

By way of brief personal background, we both write with academic and practical expertise in the area of Indigenous livelihoods. Dr Markham is an economic geographer working at the Centre for Aboriginal Economic Policy Research at the Australian National University (ANU), and has conducted research on Indigenous poverty, among other relevant topics. Professor Altman is an economic anthropologist currently with the School of Regulation and Governance at the ANU who has been studying the diverse economic situations of Indigenous Australians since 1977.

We limit our submission to address the specific issue of ‘the impact of the current approach to setting income support payments on ... First Nations peoples...’, point ‘f’ of the Inquiry’s terms of reference. But in doing so we are highly conscious that there are numerous structural factors and policy settings that impact on the lives of Indigenous Australians beyond the level of income support payments, especially in remote Australia where 18 per cent of the Indigenous population live. In particular, many Indigenous Australians receiving income support payments live in places where the cost of basic commodities such as purchased food and fuel are extremely high owing to remoteness (Ferguson et al., 2016) and the ineligibility of many in remote communities to access Commonwealth Rental Assistance (NTDCDSCA, 2004). Yet no adjustment is made for this in setting universal benefit rates. And many Indigenous people, especially in the Northern Territory but also elsewhere, see their income support quarantined by income management instruments like the BasicsCard and the Cashless Debit Card. Compulsory income management reduces the range of choice that people can exercise in spending their income support payments and this too might have a negative impact in limiting, for example, access to goods in informal market settings. Finally, under the Community Development Program (CDP) Indigenous jobless in regional and remote Australia need to work longer hours for their Newstart payments than those on Jobactive in non-remote Australia. This in turn sees higher levels of breaching and financial penalties (Fowkes, 2019) that further reduce what we shall show are already inadequate, poverty-creating levels of income support payment.

Background

By way of broader background, we note that Australia has seen almost 28 years of uninterrupted economic expansion (Productivity Commission, 2018). This period of growth, especially until the Global Financial Crisis, delivered rising incomes and wealth for the majority of Australians. Those employed benefited from rising real wages, asset owners saw significant capital gains and business owners enjoyed rising profits. Aged pensioners saw their benefits increase in line with wages, according to the benchmark of 27.7 per cent of Male Total Average Weekly Earnings, while those with large superannuation holdings saw their assets increase by an annual average of 6.1 per cent (Productivity Commission, 2019). While the period since the Global Financial Crisis has seen a slow-down in wage growth and increasing levels of labour underutilisation, the statistically 'average' Australian household is far wealthier in monetary terms in 2019 than it was in 1989.

But these gains have not been equally shared. At a time of unprecedented wealth, the unemployed have been consistently marginalised. As Figure 1 shows, social assistance for the unemployed has fallen as a percentage of average weekly full-time total earnings from a peak of around 23 per cent in early 1991 to around 16 per cent today. Indeed, these figures under-state the decline in the relative incomes of those receiving unemployment assistance, as they do not account for the falling tax rates of the employed. Nevertheless, what is clear is that assistance to the unemployed has not kept pace with the growing incomes of the rest of society.

This has the effect of deepening the poverty experienced by those relying on the Newstart Allowance. In 1995, the full rate of unemployment assistance for a single person was only just below the poverty line. Specifically, the full rate of single adult unemployment assistance in 1995 was 90 per cent of the poverty line calculated as 50 per cent of equivalised disposable household income in the Australian Bureau of Statistics (ABS) Survey of Income and Housing (SIH). Comparable figures today put the full rate of single person Newstart at less than 60 per cent of the poverty line (Figure 2).

What this means is that while the official unemployment rate has fallen over the last three decades, the life of those who are unemployed in Australia is now far worse than it was in 1989.

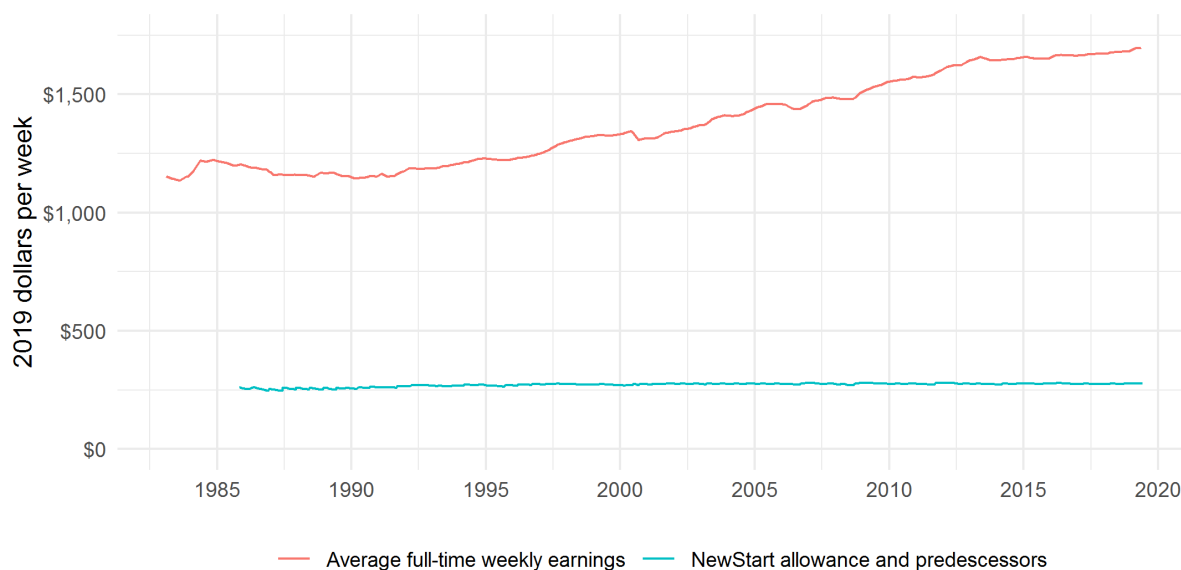


Figure 1: The rate of Newstart allowance and its predecessors compared to average weekly full-time total earnings, 1985 – 2019, inflation adjusted in 2019 dollars. Source: Authors’ calculations from ABS 6302.0 - Average Weekly Earnings; ABS 6401.0 - Consumer Price Index; Department of Social Services (DSS) Family Assistance Guide.



Figure 2: Newstart allowance and its predecessors as a percentage of the 50%-median-income poverty line. Source: Authors’ calculations from ABS 6523.0 - Household Income and Wealth, Australia, 2017-18; ABS 6401.0 - Consumer Price Index; Department of Social Services (DSS) Family Assistance Guide.

In addition to the deepening poverty of those reliant on Newstart, this period has seen a dramatic and bipartisan shift in employment policy, away from an emphasis on assisting the unemployed to find work toward punishing the unemployed with the expectation that this will incentivise them to find work, irrespective of whether work is locally or regionally available

This incentivisation has involved increasing ‘activation requirements’ (along with concomitant penalties including income support suspensions); penalising or

suspending the payments of those who fail to meet those requirements; and placing greater bureaucratic hurdles in front of those attempting to apply for all social security benefits, especially Newstart but also the Disability Support Pension (DSP). The move from a policy of 'help' to one of 'hassle' (to use the terminology of the influential behaviouralist proponents of this approach such as American Lawrence Mead) has made the life of the unemployed much more difficult.

While punishing the poor with the expectation that such a punishment will result in them seeking and securing employment is arguably perverse at any time, it presents real social, political and macroeconomic risks during the present period of global uncertainty. It is more likely that Australia is headed toward an economic downturn today than at any other time during the past 28 years. The most recent national accounts show that economic growth continues to slow, falling to the lowest level of annual GDP growth in a decade. As early as in January this year, a panel of respected economists judged the probability of Australia entering a recession at 29 per cent (Martin, 2019), a likelihood that we can only expect to have increased over recent months given national economic performance and the continued threat of global trade wars. And beyond the short-term threat of a recession, there are good reasons to expect that unemployment rates may rise in the medium term given the prospect that automation could lead to large-scale future shedding of jobs. We addressed this issue in some detail in a submission we made last year to the Senate Select Committee Inquiry into the Future of Work and Workers (Altman & Markham, 2018).

If Australia does enter recession, the number of unemployed people will increase markedly. If the national unemployment rate reaches the level of the early 1990s recession (10.8%), that would mean the number of unemployed (potential Newstart recipients) would reach almost 1.5 million people. In such circumstances, the continuation of the current punitive approach to 'incentivizing' the unemployed back into work is likely to have significant social consequences (increased poverty and hardship), political consequences (electoral backlash and a potential turn to populism) and macroeconomic consequence (low rates of Newstart limit its effectiveness as a counter-cyclical automatic stabiliser).

Of course, unemployment is not evenly distributed spatially or socially in Australia. The Department of Employment, Skills, Small and Family Business estimate that in March 2019, the unemployment rate in the remote region of *Kowanyama - Pormpuraaw* in north Queensland was an extraordinarily high 59.2 per cent. Around 5 per cent of Indigenous adults live in 105 communities or small regions designated by the ABS as 'Indigenous Locations' where less than 20 per cent of prime-working age (25–54 years) Indigenous people were employed at the time of the 2016 Census. Nevertheless, pockets of extremely high unemployment exist beyond very remote Australia—for example, 28.2 per cent in Logan SA2 and 27.9 per cent in outer Hobart (Bridgewater–Gagebrook SA2).

Given the existing socio-spatial distribution of unemployment, we highlight available statistics about unemployment and poverty in remote Indigenous Australia where mainstream labour market failure is most evident and paid work is most scarce.

The adequacy of Newstart and Indigenous people

As is well documented, the legacy of colonialism and on-going discrimination places Indigenous people in a disadvantaged position in the labour market. When last measured in the 2016 Census, the unemployment rate for Indigenous people of working age was 18.4 per cent, 2.7 times the non-Indigenous unemployment rate. Indigenous employment is falling rapidly in remote Australia (Figure 3), and employment rates are falling nationally for Indigenous men. Consequently, according to *Payment Demographic Data* from the Department of Social Services (DSS), 80,700 Indigenous people received Newstart in December 2018. More than one-in-ten Newstart recipients are Indigenous, as are exactly one-in-five Youth Allowance (Other) recipients. Consequently, the adequacy of Newstart and related payments is particularly important to Indigenous people in Australia.

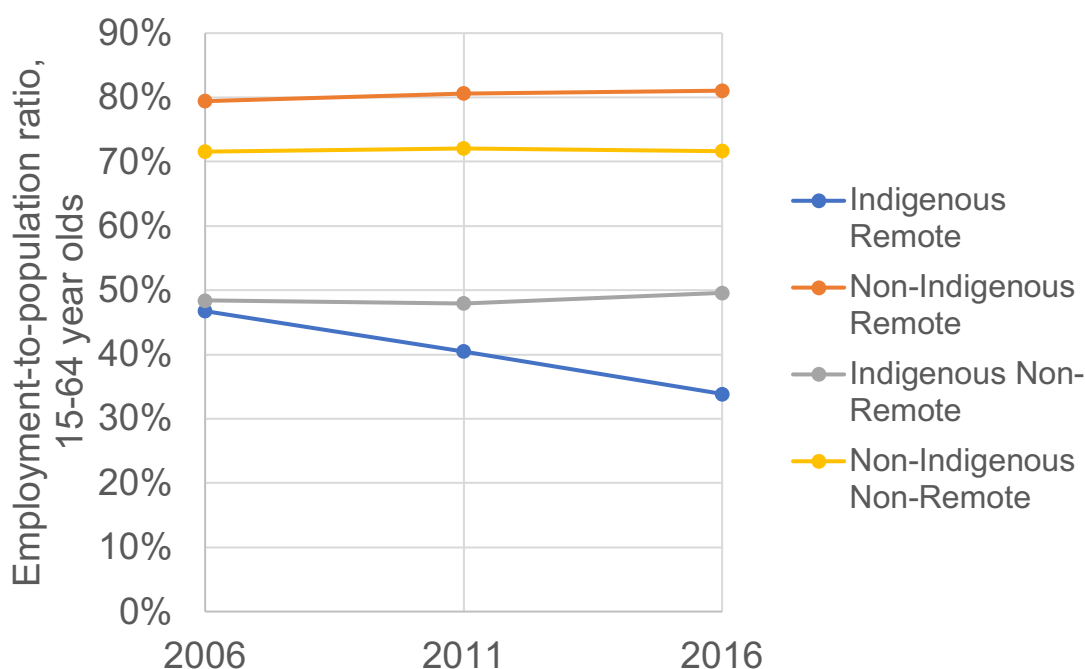


Figure 3: Employment-to-population ratios for working-age Indigenous and non-Indigenous people, 2006-2016, by remoteness. The employment-to-population ratio is the number of working-age people employed divided by the working-age population. Source: Authors' calculations from ABS Censuses 2006, 2011 and 2016.

Most Indigenous Newstart recipients have been relying on some form of income support payment for a long period of time. According to official administrative data from the Department of Social Services (*Payment Demographic Data* from December 2018), two-thirds of current Newstart recipients have been relying on the payment for more than a year. DSS does not provide these durational statistics separately for identifying Indigenous people receiving income support. However, survey-based estimates are possible. Our estimates from the National Aboriginal and Torres Strait Islander Social Survey (NATSISS) 2014–15 find that that 57,400 (95% confidence interval: 51,000–63,800) Indigenous people were receiving Newstart as their main source of income at the time of survey fieldwork between September 2014 and June 2015.¹ This is around 15 per cent of the working age population at this

¹ This is plausible but is an underestimate, compared with administrative data showing 67,250 Indigenous Newstart recipients in the December 2014 DSS *Payment Demographic Data*.

time, ignoring those on Youth Allowance (Other) and other working-age payments. Among this group, the median length of time that individuals reported receiving the payment is exactly two years. This is a startling statistic given that the Newstart-linked Remote Jobs and Communities Programme (RJCP) had only been in operation from mid-2013. In effect, at least half of Indigenous Newstart recipients surveyed in NATSISS had been on the payment the entire period since the Community Development Employment Projects (CDEP) scheme was grandfathered in remote areas. We can only expect that the average duration of Newstart receipt has lengthened among the Indigenous population, as the final participants in the CDEP scheme transitioned to Newstart from 1 July 2015.²

Consequently, for remote-dwelling Indigenous Australians (and indeed many non-Indigenous Australians) Newstart cannot be considered a transitional payment despite the persistent insistence of the Australian government of the day, and its adequacy must be assessed in light of this. Rather, since the abolition of the CDEP scheme, Newstart has become the long-term 'destination' for many unemployed Indigenous people. (While some criticised the CDEP scheme for also being a long-term destination as we will show below this destination was far more comfortable in income terms than life coping with Newstart.) As such, this is where the consequences of current policies are most profound.

We think it self-evident that a payment of only 60 per cent of a poverty income is inadequate. Its consequences are profound. To give but one example, the best epidemiological research available estimates that one-third to half of the life expectancy gap between Indigenous and non-Indigenous Australians in the Northern Territory is the result of poverty (Zhao, Wright, Begg, & Guthridge, 2013). The simplest way to reduce poverty in remote Indigenous Australia is to raise the rate of Newstart. It is not hyperbolic, but merely a restatement of the epidemiological evidence to point out that the current rate of Newstart is killing Indigenous Australians. Life expectancy gaps between Indigenous and non-Indigenous Australians cannot be expected to close while the rate of Newstart remains so low.

However, we want to make the point that the current 'official' low level of Newstart (which we term *de jure* inadequacy) is only part of the picture. In addition to *de jure* inadequacy, we draw attention to what we call '*de facto* inadequacy'. Because activation requirements and administrative burden reduce the average incomes of those eligible for Newstart through penalties and disengagement from social security or non-take-up, the actual payments received by eligible individuals and their families and communities is lower in practice than the official Newstart rate. As such, raising the rate of Newstart is a necessary but far from sufficient condition for decreasing deep inter-generational poverty.

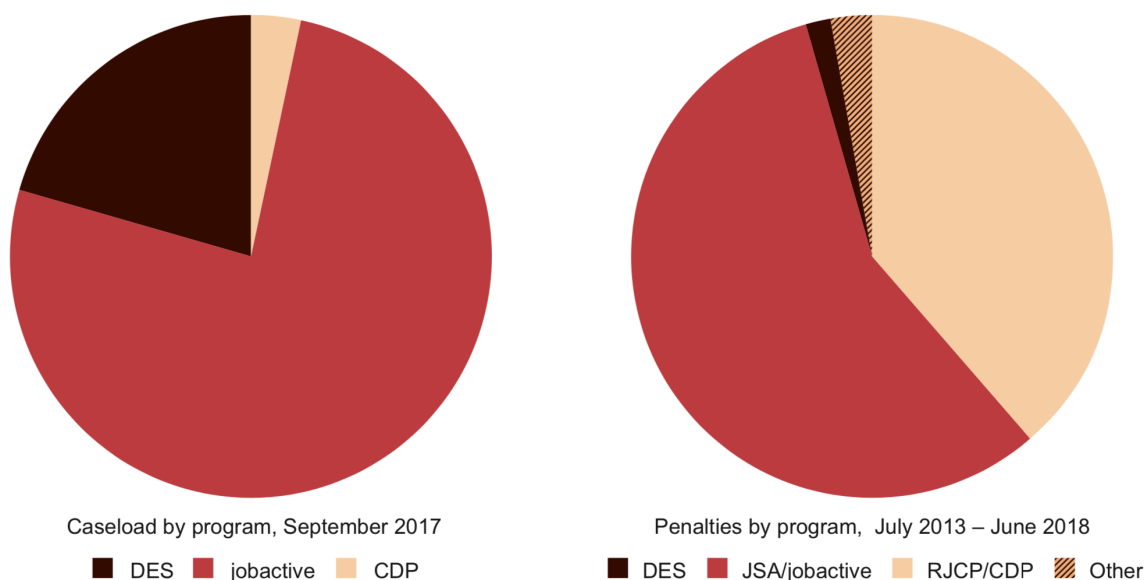
What we are terming the '*de facto* rate' of Newstart is difficult to estimate using publicly available data. No official statistics are published. However, our own personal research contact with a number of remote communities indicates that CDP (not to be confused with the former CDEP scheme) is crucial to this. Introduced from 1 July 2015, CDP is a compulsory 'employment services' program delivered to all activity-tested income support recipients across remote Australia, including Newstart

² For a chronology of the staggered constriction and final abolition of CDEP, see Blakeman (2016)

recipients. In September 2017, there were 32,600 CDP participants, 82.5 per cent of whom identified as Indigenous.³ CDP, like its mainstream sibling program Jobactive in non-remote Australia, requires Newstart recipients to undertake certain tasks in order to receive their payment but it is far more onerous. CDP requirements are much more stringent than those of Jobactive. These differences are detailed by Fowkes (2019) but we think it important to repeat some of the more egregious obligations:

- CDP participants must commence Work for the Dole immediately, unlike Jobactive participants who have a 12-month grace period
- Whereas Jobactive participants are required to undertake six continuous months of activity in each year of unemployment, CDP participants have a minimum requirements of 46 weeks per year
- CDP participants aged 18–49 must undertake Work for the Dole activities for 20 hours per week (until recently this was 25 hours per week), and where scheduling is flexible for Jobactive participants, CDP participants must follow an inflexible daily routine for each weekday

One consequence of this is that CDP participants are penalised for breaching their obligations at extraordinarily high rates. Figure 4 shows the respective caseloads of Jobactive and CDP from 2013-2018, and the number of penalties imposed by program over this same time period. In 2016, 5.0 ‘no show no pay’ penalties were issued per CDP participant, compared with 0.9 penalties per Jobactive participant (Fowkes 2019).



CDP = Community Development Program; DES = Disability Employment Services; JSA = Job Services Australia; RJCPCDP = Remote Jobs and Communities Program

Figure 4: Caseload and penalties by employment services program. Source: Fowkes (2019).

The large number of penalties accrued by remote CDP participants is now an important factor in driving down the *de facto* rate of NewStart. The CDP evaluation

³ Senate Finance and Public Administration Legislation Committee, additional budget estimates 2017–18, answer to question on notice reference PM133. Caseload at 29 September 2017.

conducted by the Department of the Prime Minister and Cabinet (DPMC) found that each quarter between January 2016 and June 2017, 'around 60 per cent of CDP participants experienced at least one payment suspension and approximately a third experienced at least one penalty' (Department of the Prime Minister and Cabinet, 2018, p 31). These penalties included zero-rate (that is, no income) penalties when payments were suspended entirely, lasting for an average of 23 days.

This has a dramatic effect on the *de facto* adequacy of Newstart. According to data presented in the evaluation, in the second quarter of 2017: 9 per cent of CDP participants lost 2–5 per cent of their quarterly payments to penalties; 8 per cent of CDP participants lost 5–10 per cent of their payments; 5 per cent of CDP participants lost 10–20 per cent of their payments; and 3 per cent of CDP participants lost 20 per cent or more of their payments. These percentages might appear small, but they are on top of already deeply impoverishing Newstart payments well below the poverty line. Penalties are exacerbating already deeply-entrenched poverty.

CDP penalties were concentrated among Indigenous CDP participants and those who had been unemployed the longest. Among those penalised, those on unemployment for 6 months or more lost an average \$179 per quarter more than those unemployed less than 1 month. Indigenous CDP participants were both 3.3 times more likely to be penalised, and received penalties that were, on average, \$166 per quarter higher than those received by the minority of non-Indigenous CDP participants.

Unfortunately, insufficient data were presented in the CDP evaluation to allow for a precise calculation of the *de facto* average rate of Newstart for CDP participants after penalties were deducted. The evaluation only provides data on the amount of penalties as a percentage of all Australian Government payments entering CDP regions, which presumably includes the Age Pension, Parenting Payment, Family Tax Benefits and so on. Nevertheless, we attempt to make a reasonable approximation based on the published data. Our crude estimate puts these penalties as reducing the effective quantity of payments for all CDP participants by around 2.5 per cent.

In addition to money lost to penalties, it is likely that many Indigenous unemployed responded to CDP requirements by disengaging from the income support system entirely. The CDP evaluation found that 4.5 per cent of CDP participants disengaged from the income support system in an average year. Of this group, 14 per cent did not return to income support. Among the 86 per cent who did return to income support, the average period without income support was three months. This would have placed great financial strain on household and family members in receipt of either income support or wages. On the basis of these data, we estimate that disengagement further reduced the *de facto* rate of Newstart for the CDP-eligible population by 1.9 per cent in the year analysed in the CDP evaluation. However, these are annual figures. If those who did not return to the income support system never returned, and the attrition rate described in the CDP evaluation continued each year, then the *de facto* reduction in the rate of Newstart due to disengagement may increase to 3.5 per cent in 2019 (the fourth year of CDP's operation).

In aggregate, based on our crude estimates from the limited data available in the CDP evaluation, CDP is reducing the *de facto* average payment of Newstart by 4.5 – 6 per cent.

In contrast, participants in the CDEP scheme increased their average weekly income by an estimated \$100 (Altman, Gray, & Levitus, 2005, p. 10). According to the 2002 NATSISS the average weekly income of CDEP scheme participants was \$277 compared to \$162 for the unemployed (Newstart) and \$193 for those not in the labour force. In other words, the CDEP scheme increased participants' incomes by an average of 71 per cent. At that time there were about 35,000 CDEP scheme participants, a figure similar to the number of CDP participants today.

The abolition of the CDEP scheme, the stagnation of the *de jure* Newstart rate and the decrease in what we have termed the *de facto* or 'real' Newstart rate for CDP participants is undoubtedly playing a role in the rising poverty rates for the remote Indigenous population. Markham and Biddle (2018) recently calculated poverty rates among the Indigenous population disaggregated by remoteness and census year (Figure 5). While Indigenous poverty rates according to official statistics declined over the last decade in major cities and inner regional areas (down 3.4% in both areas), poverty rates effectively stagnated in outer regional areas (down 0.4%) and rose in remote and very remote areas (up 1.2% and 7.6% respectively). For the first time since measurement began after the Henderson Poverty Inquiry in the late 1970s, Indigenous poverty rates in very remote Australia were above 50 per cent in 2016.

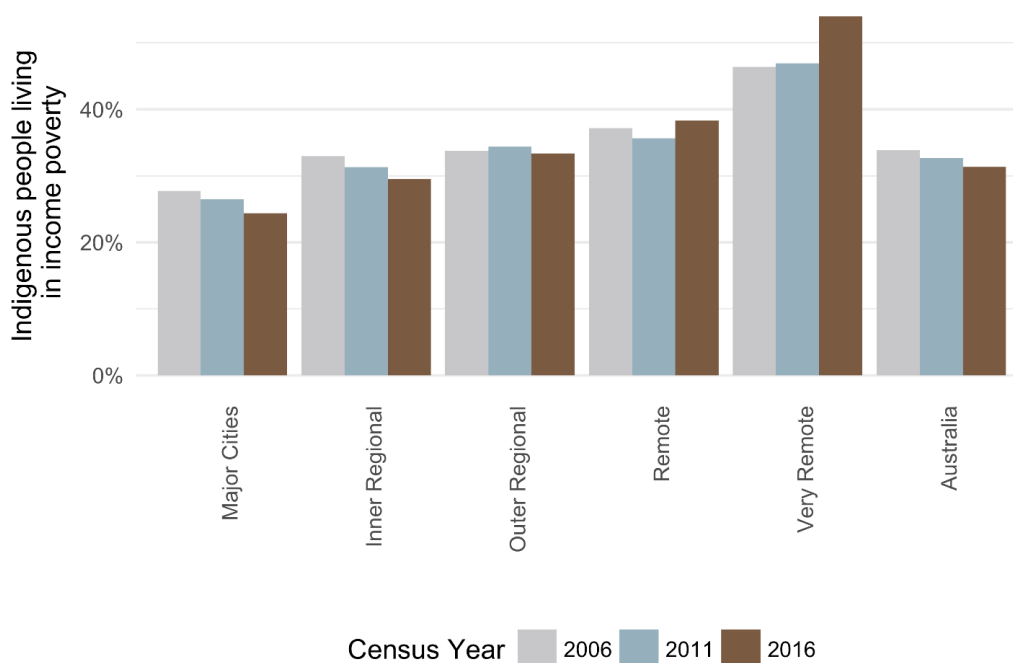


Figure 5: Indigenous poverty rates by remoteness, 2006, 2011 and 2016. Calculated on the basis of equivalised disposable household income, using a poverty line set at 50% of the median national equivalised disposable household income. Source: Markham and Biddle (2018).

Conclusion and recommendations

Newstart payments are clearly inadequate and ensure that the unemployed live in deep poverty while unemployed. The justification that Newstart is merely a transitional payment—a short-term safety net to tie people over till they find employment—can be challenged at times of rising unemployment and with respect to the long-term unemployed. But it makes absolutely no sense in community and regional contexts where there are either no or inadequate numbers of employment opportunities.

In such circumstances it is not only the level of Newstart payments that is the issue. It is likely that such payments will be impoverishing unless massively increased. Unfortunately, it is the fundamental architecture of this supposedly transitional institution that is the source of immense harm in situations where there are insufficient opportunities to transition to. While we strongly urge the government to substantially increase the rate of Newstart immediately as a stop-gap measure, we simultaneously make two other recommendations for more fundamental reform.

First, we recommend that the inequitable and more onerous work-for-the-dole requirements for CDP participants that see high rates of breaching and associated financial penalising stop immediately. We make this recommendation in large part on social justice and humanitarian grounds.

Second, we recommend that the institutions of income support are thoroughly transformed, either by revisiting old arrangements or creating new ones. There may be value in revisiting the CDEP scheme that delivered better economic, social and cultural outcomes for those who could not find standard mainstream employment. Alternatively, there is an emerging and urgent need for Australia to consider some form of universal basic income especially in situations of failing labour markets. We have made this recommendation for fundamental redesign of income support arrangements elsewhere (see Altman & Markham, 2018; Altman & Markham, 2019). We believe that a Universal Basic Income deserves serious consideration at a time when the Australian government is not only failing to Close the Gap, but where current policy settings might in fact be increasing socioeconomic disparities between Indigenous and other Australians.

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