

SUBMISSION TO THE SENATE INQUIRY INTO THE
ADEQUACY OF NEWSTART AND RELATED PAYMENTS
AND ALTERNATIVE MECHANISMS TO DETERMINE
THE LEVEL OF INCOME SUPPORT PAYMENTS IN
AUSTRALIA

Per Capita

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About Per Capita

Per Capita is an independent public policy think tank, dedicated to fighting inequality in Australia. We work to build a new vision for Australia based on fairness, shared prosperity, community and social justice. Our research is rigorous, evidence-based and long-term in its outlook.

We consider the national challenges of the next decade rather than the next election cycle. We ask original questions and offer fresh solutions, drawing on new thinking in social science, economics and public policy.

This submission was prepared by Emma Dawson, Shirley Jackson and Warwick Smith.

Executive Summary

The current state of the labour market in Australia is forcing more people to rely on unemployment benefits.

The income support payments to the unemployed, such as *Newstart* and related payments, are inadequate and do not allow people to maintain an acceptable standard of living.

Moreover, the current rates of *Newstart* and related payments are so low that they make it more difficult for recipients to search for work and to re-enter the workforce.

There is significant economic cost to continuing the payments at these insufficient rates, and significant economic benefits to increasing them.

Any increase in the rates of *Newstart* and related payments should not be tied to the cashless welfare card or any other form of involuntary income management.

The direct cost of increasing *Newstart* and related payments by \$75 per week is 0.66% of Australia's GDP and, in net terms, is revenue neutral, as modelled by Deloitte Access Economics.

An increase in *Newstart* and related payments would improve the bargaining power of labour, and likely lead to wage growth across the economy, estimated by Deloitte Access Economics at 0.5%.

In future, the approach to setting the rate of *Newstart* should be brought into line with that used for the Age Pension, IE: indexed to wages rather than the Consumer Price Index (CPI).

The Federal Government should implement policies to achieve full employment, at a similar rate (around two percent) as achieved in the three decades following World War II. This will involve direct government intervention to create jobs and invest in active labour market programs to support young people and those trapped in long term unemployment to find secure, meaningful jobs that provide a living wage.

NB: throughout this submission, where we refer solely to the rate of "Newstart", this should be read as inclusive of related payments unless specified otherwise.

Terms of Reference

To move – That the following matter be referred to the Community Affairs References Committee for inquiry and report by 27 March 2020:

The adequacy of Newstart and related payments and alternative mechanisms to determine the level of income support payments in Australia, with specific reference to:

- a) consideration of what constitutes an acceptable standard of living in Australia, including the cost of safe and secure housing;
- b) the labour market, unemployment and under-employment in Australia, including the structural causes of long-term unemployment and long-term reliance on Newstart;
- c) the changing nature of work and insecure work in Australia;
- d) the appropriateness of current arrangements for supporting those experiencing insecure employment, inconsistent employment and precarious hours in the workforce;
- e) the current approach to setting income support payments in Australia;
- f) the impact of the current approach to setting income support payments on older unemployed workers, families, single parents, people with disability, jobseekers, students, First Nations peoples, people from culturally and linguistically diverse backgrounds, people living in regional and remote areas, and any others affected by the process;
- g) the impact of geography, age and other characteristics on the number of people receiving payments, long term unemployment and poverty;
- h) the adequacy of income support payments in Australia and whether they allow people to maintain an acceptable standard of living in line with community expectations and fulfil job search activities (where relevant) and secure employment and training;
- i) the economic cost of long-term unemployment, underemployment, poverty, inequality and inadequate income support payments;
- j) the economic benefits – including job creation, locally and nationally – of increasing and improving income support payments and supports, and decreasing poverty and inequality;
- k) the relationship between income support payment levels, minimum wages and wage stagnation in Australia and other comparable economies;
- l) the interactions with other payments and services, including the loss of any increased payments through higher rents and costs;
- m) the cost and fiscal sustainability of any changes;
- n) the relative merits of alternative investments in health, education, housing and other programs to improve outcomes;
- o) other countries' approaches to setting income support payments, minimum wages and awards;
- p) other bodies that set payments, minimum wages and awards in Australia;
- q) the role of independent and expert decision-making in setting payments; and
- r) any other related matters.

- (a) Consideration of what constitutes an acceptable standard of living in Australia, including the cost of safe and secure housing.

In 2018 Per Capita produced a major report, *Working It Out*¹, assessing the state of support services for unemployed Australians. During our research, we spoke to unemployed workers around the country and heard numerous stories of deprivation and struggle. Skipping meals or living mostly on “two-minute noodles” were routine experiences, as was making use of charity drop in centres for food and clothes.

“You’ve heard of the Centrelink diet?”

[NO, WHAT’S THAT?]

“That’s when you’ve run out of food and you’ve still got a few days left before your next payment. [It’s] hard to apply for a job when you’re hungry.”

Phil, unemployed worker, Glenorchy, TAS. July 2018.

Newstart payments are so low that unemployed workers are unable to effectively search for jobs, with transport, internet access, phone credit and decent clothing, all of which are necessary to applying for work and attending job interviews, often outside their budget.

“I want to look for work but how can I do that with no money? I can’t even afford the transport.”

Barry, unemployed worker, Toowoomba, QLD. July 2018.

Newstart, even including associated payments such as Commonwealth Rent Assistance (CRA), is insufficient to support an acceptable standard of living for anyone living independently in Australia. The single rate of Newstart (\$277.85 per week) and associated payments were \$183 per week below the Henderson Poverty Line in March 2019² and were, on average about \$96 per week below the Minimum Income for Healthy Living (MIHL) standard³ in 2016.

Youth Allowance, the payment that is made to unemployed workers below the age of 22, is even lower than Newstart at \$227.60 per week (plus \$68.60 maximum CRA where applicable) for single independent individuals in 2019. At \$50 less per week than Newstart, Youth Allowance is \$233 per week below the Henderson poverty line and about \$146 per week below the MIHL.

The MIHL takes into account food, housing, transport, healthcare, and very basic social expenses necessary to live a healthy life in Australia. The budget standards approach taken by Saunders and Bedford (2017) to construct the MIHL standard is probably the most rigorous recent analysis that relates Newstart payments to the actual cost of living for unemployed Australians. See Table 1.

¹ Bennett, O., Dawson, E., Lewis, A., Halloran, D. O. & Smith, W. *Working it out: employment services in Australia*. Per Capita Australia and the Australian Unemployed Workers’ Union (2018).

² Melbourne Institute of Applied Economic and Social Research. *Poverty Lines : Australia March 2019*. (2019).

³ Saunders, P., & Bedford, M. (2017). *New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians: Summary Report*. Sydney: Social Policy Research Centre, UNSW Sydney. <http://doi.org/10.4225/53/5994e24f82386>

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Family Type	Low-Paid			Unemployed		
	Grossed-up Budget Standard (1)	Safety Net Income (2)	(2) minus (1)	Grossed-up Budget Standard (1)	Safety Net Income (2)	(2) minus (1)
Single adult	597.31	659.22	61.91	433.68	337.68	-96.00
Couple, no children	833.24	794.21	-39.03	660.25	552.84	-107.41
Couple, 1 child (G,6)	969.90	978.74	-8.84	766.74	708.28	-58.46
Couple, 2 children (G,6 & B,10)	1,173.38	1084.64	-88.74	940.37	814.13	-126.24
Sole parent, 1 child (G,6)	827.70	872.56	44.86	675.18	627.79	-47.39

Table 1. Comparison between grossed-up budget standards estimates and safety net incomes (\$ per week, June 2016). Reproduced from Saunders and Bedford (2017)⁴.

Using a conservative measure of housing stress, almost 50% of short-term unemployed workers are in housing stress, as are around 65% of long-term unemployed (see Figure 1).

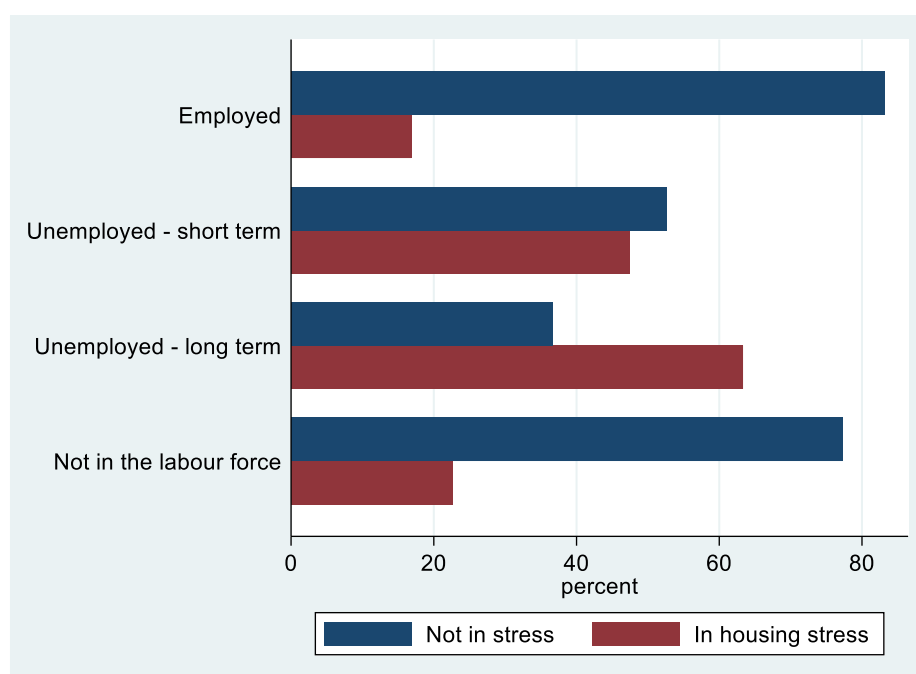


Figure 1. Housing stress by labour force status in 2017. Housing stress is defined as spending more than 30% of equivalised household income on housing. Data from HILDA. Note: housing stress is underestimated for homeowners due to the lack of data in HILDA on local government rates.

In March 2019, Anglicare Australia's *Rental Affordability Snapshot*⁵ surveyed almost 70,000 rental properties in Australia and found that only two of them, neither of which were in a capital city, were affordable for a single person living on Newstart plus CRA and associated payments.

The high cost of housing close to urban centres creates perverse incentives for people living on Newstart. In order to obtain affordable housing, many are forced move away from urban centres to places where there are few jobs and transport is expensive, creating a new barrier to job search.

⁴ Saunders, P., & Bedford, M. (2017). *New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians: Summary Report*. Sydney: Social Policy Research Centre, UNSW Sydney. <http://doi.org/10.4225/53/5994e24f82386>

⁵ https://www.anglicare.org.au/media/5073/4860_rasreport2019_apr19_digital.pdf

- (b) The labour market, unemployment and under-employment in Australia, including the structural causes of long-term unemployment and long-term reliance on Newstart.

The labour market, unemployment and under-employment in Australia

The unemployment rate in Australia currently sits at 5.3 per cent⁶. While this is widely considered to be relatively low by historical standards, and in line with the non-inflationary objectives of monetary policy settings, it is considerably higher than those in comparable international jurisdictions.

OECD data from the second quarter of 2019 shows unemployment at a rate of 3.1 per cent in Germany, 3.8 per cent in the UK and 3.6 per cent in the US⁷. Critically, these lower rates of unemployment internationally are not unleashing inflation or causing a wage breakout.

Moreover, in all three countries cited above, the unemployment rate has declined by around 0.7% over the last two years, compared to a drop in Australia of just 0.3%, while in 2018 Australia’s population growth, at 1.6%, was more than twice that of the UK and the US (both 0.6%), and more than five times that of Germany (0.3%)⁸. This is why, despite ongoing employment growth⁹, the rate of unemployment in Australia is stuck at well over 5%.

Importantly, the headline unemployment rate is a poor indication of the state of labour underutilisation in Australia, and therefore of the actual number of people competing for jobs.

In addition to those who formally qualify as unemployed (working less than one hour during the previous week, currently looking for work and able to begin work within four weeks) there are about 1.8 million Australians who are underemployed; that is, they don’t have as much work as they would like. When we add discouraged job seekers (those who are not actively looking for work because they’ve given up) and unemployed workers who do not formally qualify as unemployed to these numbers, we get an ‘extended underutilisation’ rate of 19.2% (See Figure 2).

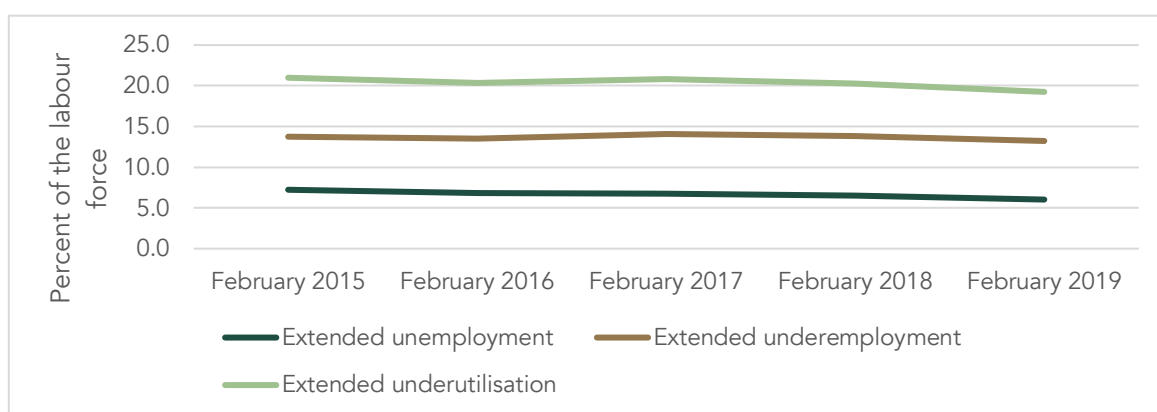


Figure 1. Extended Unemployment, underemployment and labour underutilisation in Australia. (ABS 6226)

⁶ <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6202.0>

⁷ <https://data.oecd.org/unemp/unemployment-rate.htm>

⁸ <https://data.worldbank.org/indicator/SP.POP.GROW?view=map>

⁹ <http://www.roymorgan.com/findings/7865-roy-morgan-australian-unemployment-january-2019-201902010422>

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This shows that almost one out of every five Australians who can work and want to work are either unemployed or underemployed.

Not only are there far more unemployed workers than there are available jobs, but those formally unemployed workers are also competing for those jobs with 1.8 million underemployed workers who have current work experience.

The number one reason given by unemployed workers for why they have had difficulty finding work is that there are too many applicants for the available jobs (see Table 2).

	AGE GROUP (YEARS)					Males	Females	Persons
	15–24	25–34	35–44	45–54	55+			
Too many applicants for available jobs	17.7	19.7	18.6	17.9	10.7	16.7	18.0	17.3
Lacked necessary skills or education	8.4	7.1	9.4	6.0	4.2	9.1	5.5	7.4
Considered too young by employers	4.1	0.4	0.0	0.0	0.0	7.1	7.6	1.6
Considered too old by employers	0.7	0.9	3.2	5.1	30.4	0.8	2.4	5.8
Insufficient work experience	23.8	12.9	6.7	2.3	4.1	6.3	5.3	13.1
No vacancies at all	5.2	6.2	4.7	3.7	3.9	13.5	12.7	4.9
No vacancies in line of work	4.6	8.6	8.2	17.7	11.5	6.2	3.6	8.7
Too far to travel/transport problems	7.1	1.4	8.2	6.3	2.7	9.2	8.3	5.4
Own ill health or disability	7.8	10.5	7.1	15.1	13.3	5.4	5.4	10.0
Language difficulties	1.2	1.9	3.0	3.2	2.3	10.6	9.2	2.1
Unsuitable hours	3.7	8.9	5.1	2.2	2.2	1.5	2.7	4.6
Difficulties with finding childcare and other family responsibilities	1.2	5.0	8.2	6.2	2.1	4.2	5.0	3.9
No feedback from employers	1.6	2.6	2.4	4.1	1.1	1.5	6.5	2.2
Other difficulties	13.0	13.9	15.3	10.4	11.5	1.7	2.8	13.0

Table 2. Main reason had difficulty finding work, percent by age group and gender. February 2019. (ABS 6226).

The structural causes of long-term unemployment and long-term reliance on Newstart

From the end of WWII to the early 1970s the category of “long-term unemployed” didn’t exist. During that period, unemployment averaged two percent and, if you were able to work and wanted to work, you could find a job. This was a direct result of an explicit government commitment to full employment as laid out in the Curtin government’s 1945 white paper *Full Employment in Australia*¹⁰.

In the 1970s, in response to business lobbying and through a misguided diagnosis of the stagflation caused by the 1970s oil shocks, the government abandoned its commitment to full employment and so began the modern era of the underemployed and the long-term unemployed¹¹ (see Figure 3).

¹⁰ Coombs, H. C. *From Curtin to Keating: The 1945 and 1994 White Papers on Employment. A Better Environment for Human and Economic Diversity?* Australian National University (1994).

¹¹ Smith, W. *Unemployment Policy in Australia: A Brief History*. Per Capita Australia (2017).

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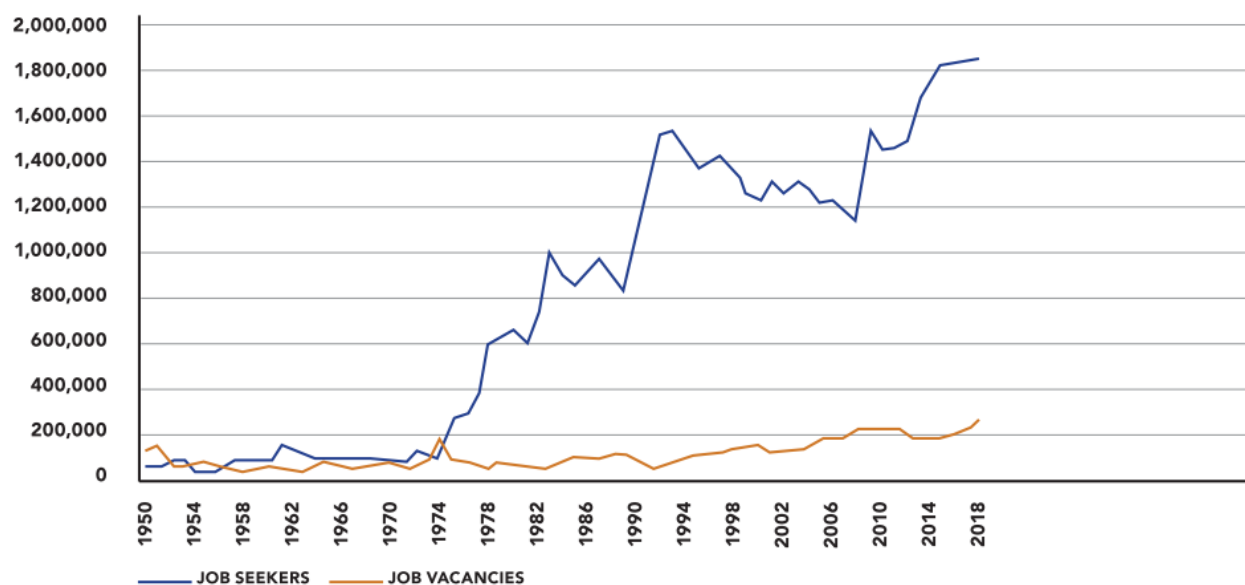


Figure 3. The number of job seekers and job vacancies (marginally attached not included) 1950-2018. Source: ABS and CES. Reproduced from Bennett et al. 2018¹².

The cause of long-term unemployment is relatively simple. We have an accepted macro-economic framework based on the non-accelerating inflation rate of unemployment (NAIRU) that prioritises price stability over full employment. The result is an accepted unemployment level that drifts between 4.5 and 5.5%. If we never aim to reduce unemployment below that level, there will always be a large pool of unemployed workers.

When employment conditions pick up, those who have been unemployed the longest will likely be the least qualified for the new jobs available, and so will remain unemployed. In other words, once someone reach the bottom of the “employability pile”, for whatever reason, they will find it difficult to get out.

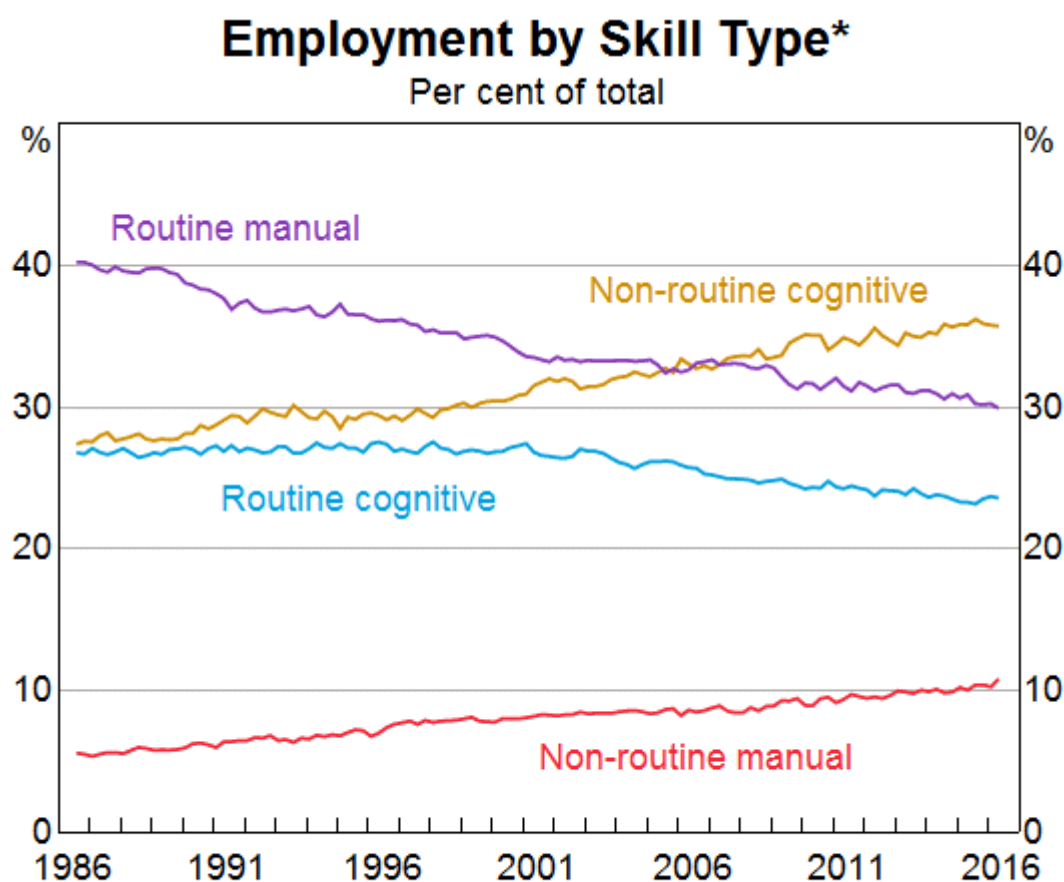
Our analysis of HILDA data show that the length of time unemployed between 2001 and 2017 is strongly correlated with the equivalised household income of your household in 2001. Similarly, the time someone’s father spent unemployed while they were growing up, the type of post-school education of a person’s father and the occupational status of their father are all strongly correlated with time spent unemployed.

In other words, the household that you grow up in has a very strong influence on your likelihood of spending extended periods unemployed: unemployment in Australia is often multi-generational, and impedes social mobility.

This is an indication of a society-wide failure, not individual failure. Our education, health and broader social security infrastructure should be providing more assistance to low income families and, in particular, children growing up in low income families, in order to provide them with the maximum opportunities in life. Life prospects should not be heavily reliant on what family you are born into or what kind of job your father had.

¹² Bennett, O., Dawson, E., Lewis, A., Halloran, D. O. & Smith, W. *Working it out: employment services in Australia*. Per Capita Australia and the Australian Unemployed Workers’ Union (2018).

The nature of employment is constantly changing but in recent decades there has been a clear trend in Australia of a decline in cognitive and manual routine jobs and an increase in non-routine jobs (see Figure 4).



* Non-seasonally adjusted

Sources: ABS; RBA

Figure 4. Routine jobs, both cognitive and manual, are in decline. This is partly a result of computerisation and robotics and partly offshoring of routine jobs. From RBA’s Alexandra Heath speech ‘The Changing Nature of the Australian Workforce. Reproduced from Smith (2017)¹³.

The skills needed for routine jobs can be readily picked up on the job; routine jobs are, therefore, often known as “entry-level positions”. By contrast, non-routine jobs are more likely to require extensive training.

Employers are less likely to take a chance on somebody who has been unemployed for an extended period of time for a non-routine job, as the unemployed worker’s skills are less likely to have kept pace with the requirements of a non-routine job. Therefore, the decline in routine jobs is directly correlated to the rise in the number of long-term unemployed people.

¹³ Smith, W. *Unemployment Policy in Australia: A Brief History*. Per Capita Australia (2017).

Targeted and region-specific education programs could assist with this problem but the overall level of unemployment is primarily determined by the number of jobs available, not the skills or job readiness of the unemployed.

While older Australians are less likely to be unemployed than young adults, when they do become unemployed, they are, on average, unemployed for much longer (see Figure 5).

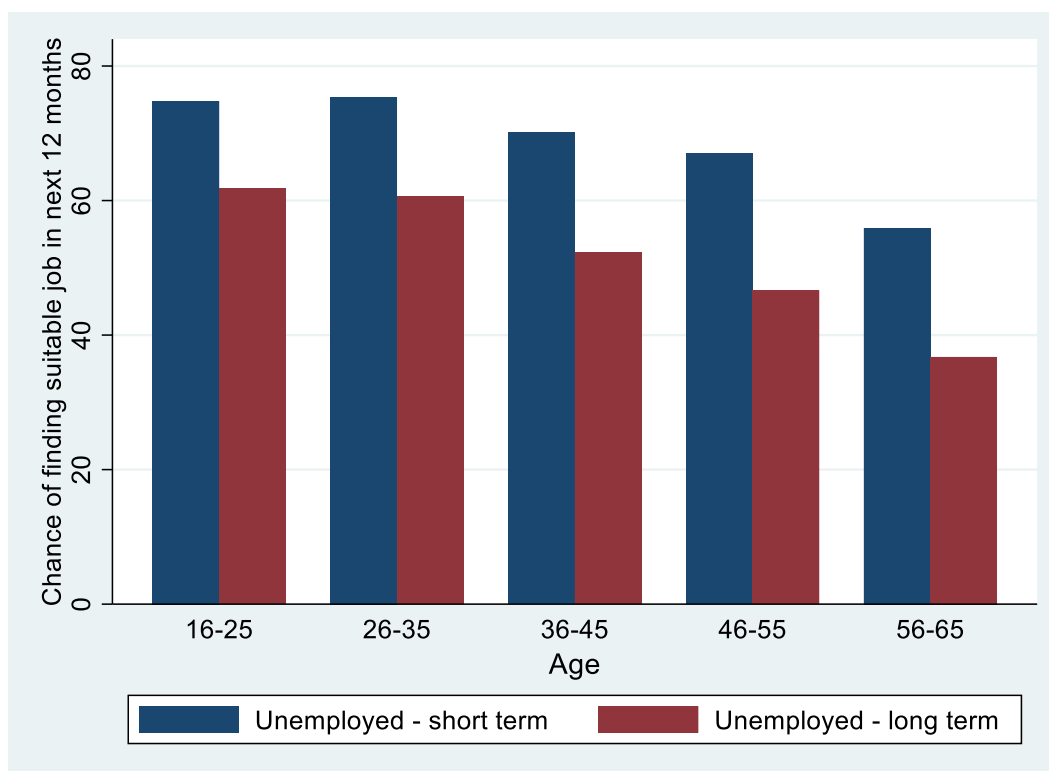


Figure 5. Self-reported chance of unemployed worker finding suitable work within 12 months. Data from HILDA.

This is reflected in their perception of their chance of finding work: thirty percent of unemployed workers over the age of 55 cite “Considered too old by employers” as the primary reason they have had trouble finding work (see Table 2).

As we found in our research for Working it Out¹⁴, many long-term unemployed workers have other complicating circumstances, like injuries that prevent them sitting for long periods or walking long distances or commitments to disabled relatives (see Table 2). These place restrictions on the hours that they can work or the type of work they can physically do, which means employers will often pass over them for candidates without such restrictions.

“She [my agency case worker] even said to me, ‘there are no jobs out there. I’m looking for another job and I can’t get one’, and she’s looking at the same jobs as what I was, probably the same level.”

Claire, unemployed worker, Geelong, VIC. July 2018.

In the absence of job creation programs and a return to the government commitment to full employment that existed in Australia between 1945 and the early 1970s, a substantial rate of long-term unemployment

¹⁴ Bennett, O., Dawson, E., Lewis, A., Halloran, D. O. & Smith, W. *Working it out: employment services in Australia*. Per Capita Australia and the Australian Unemployed Workers’ Union (2018).

is inevitable. That is, long-term unemployment is usually not the fault of the individual but is, instead, a consequence of our current approach to economic management.

Accepting this means understanding that *Newstart* is not always a short-term payment and, as such, that it should be set at a sufficient level to provide a dignified and healthy life for those seeking work in Australia, and combined with effective labour market programs to enable people who are able to work to find a secure job at a living wage.

(c) The changing nature of work and insecure work in Australia.

Headline unemployment rates, and even the statistics demonstrating our high rates of labour force underutilisation, present only part of the challenge presented by the changing nature of employment and insecure work in Australia. The fundamental problem is that a growing number of jobs are not providing secure livelihoods.

Work in Australia is increasingly insecure, and workers are losing long-fought for benefits while experiencing a run of wage stagnation that is unprecedented in the modern era.

For a full account of the factors underpinning the rise of insecure work and the stagnation of wages in Australia, we refer the inquiry to Per Capita's 2018 report, *The Future of the Fair Go: securing shared prosperity for Australian workers*¹⁵. We have summarised the report's findings below.

Insecure or precarious work can manifest in many ways beyond un- or under-employment. A worker can experience precarity as casual or temporary work, as variable or unpredictable hours, as the loss of benefits such as paid leave and overtime pay, high job turnover rates and as variable income. These are all features of the increasing precarity of our workforce.

A large part of the reason for the increasing insecurity of work in Australia is the loss of bargaining power for workers, due to declining union coverage, and successive attacks on workplace rights by governments since the 1990s.

Australians could once rely on a system in which workers and employers worked together to increase productivity and growth on the understanding that the spoils would be fairly shared. That system is broken, and the good faith negotiation between workers and their employers that was the hallmark of the Australian "fair go" is under extreme pressure.

One of the major factors contributing to the collapse of workers' power to negotiate is the breakdown of Australia's enterprise bargaining system. A decade ago, around one in five private sector workers was covered by a EBA: that figure has now fallen to around one in ten and, according to the latest data, it continues to fall¹⁶.

Another significant factor is the severe restriction under Australia's workplace relations system on workers' right to strike.

A recent example of the this was the decision of the FWA to block industrial action by train workers in Sydney on the 25th of January 2018. Jim Stanford at The Centre For Future Work [believes](#) this incident is part of "...a much larger trend" and that the "extraordinary discretionary ability of industrial authorities to restrict or prevent industrial action" is contributing to the near-complete loss of power for workers to exercise their right to strike¹⁷.

¹⁵ https://percapita.org.au/our_work/the-future-of-the-fair-go-securing-shared-prosperity-for-australian-workers/

¹⁶ <https://www.ag.gov.au/industrial-relations/industrial-relations-publications/Pages/trends-federal-enterprise-bargaining-report-december-2018.aspx>

¹⁷ https://www.futurework.org.au/decline_in_strike_frequency

Without the right to withhold labour, workers have little ammunition to use in the fight for higher wages and better conditions.

The collapse of the EBA system and the threat to the right to strike are perhaps the most obvious failings of the current operation and administration of Australia's Fair Work Act. But the Act itself is no longer fit-for-purpose in Australia's current labour market.

Increasingly, there are forms of work in Australia that aren't covered by the Fair Work Act at all. The obvious, and growing, example is workers in the "gig economy", or platform work.

The business model of platform work is often based on being able to operate outside traditional forms of regulation in relation to wages, safety, superannuation and other matters long deemed essential to the wellbeing of workers.

While the overall number of people engaged in the gig economy is low, such non-standard forms of work are a challenge to traditional forms of labour market regulation and Australia's regulatory system is so far failing to keep pace with the growth of platform work.

Labour law in a number of other advanced economies has adapted to platform employment. Tribunals and courts in the USA and the UK have extended at least some protections of traditional employment law to gig economy workers.

In Australia, attempts by a "deactivated" Uber driver to claim unfair dismissal based on a UK precedent was rejected by the Fair Work Commission on the grounds that no employment relationship existed¹⁸. Australian workers in platform businesses are, therefore, evidently being afforded less protection under our laws than in comparable international jurisdictions.

There is an urgent need for the structure of Australia's labour law to change to regulate all forms of work and not just employment as traditionally understood. The present situation, where workers in the gig economy can effectively be employed at hourly rates well below the minimum wage, is unconscionable. It represents a return to the widespread practice of "piece work" in the late 19th century, which was effectively stamped out by Australia's industrial bargaining system over 100 years ago.

While the return of this particular form of precarious work has arisen largely due to the advent of online platforms, the effective casualisation of Australia's workforce has been underway since before the advent of the world wide web.

The overall rate of casualisation has not risen substantially since the recession of the early 1990's, but too many workers are stuck in casual work when their work patterns clearly demonstrate their position should be made permanent, with the rights and protections that affords.

Casualisation provides two distinct advantages to employers: it transfers risk from downturns in business from the employer to the employee and it reduces the bargaining power of workers.

¹⁸ <https://www.fwc.gov.au/documents/decisionsigned/html/2017fwc6610.htm>

Almost all Modern Awards of the Fair Work Commission specify that casual employees should receive a 25% casual loading.¹⁹ This means that in exchange for giving up paid leave, predictable or regular hours, and the right to notice prior to termination, casual employees are supposed be paid 25% more than permanent employees doing the same job.²⁰

In fact, the latest research on casual loading indicates that the full 25% rate is very rarely applied.²¹ The Centre for Workplace Leadership at the University of Melbourne has used Australian Bureau of Statistics data to demonstrate that casual loading actually paid averages between 4% and 5%. Of the occupations examined, only school teachers came close to a 25% loading rate, at 22%.

Workers in some of Australia's lowest paid professions, including sales assistants, hospitality workers, personal carers, cleaners, laundry workers, food preparation assistants, and some labourers, received casual loading of 5% or less. Office clerks, packers, and sports and fitness workers were actually paid less than permanent workers, receiving no casual loading at all. These occupations account for more than half of all adult casual employees.

It is clear that casual employees in Australia are not being adequately compensated for sacrificing paid leave entitlements. In fact, a 2017 study found that, over the long term, casual work in Australia actually results in a wage penalty of 4% to 10%.²²

Exacerbating the insecurity caused by the casualization of work in Australia in recent years has been a changing industry composition in the economy. Simply put, employment in higher paying industry sectors with more permanent, full time jobs has been falling relative to that in lower paying sectors with more part-time, casualised and limited term contract jobs, including those offered through labour hire.

As noted in our recent report from April this year, *Flexible Ongoing Employment: solving a problem that doesn't exist*²³, industries with the greatest proportion of casual workers are also the lowest paid industries in Australia (see Table 3).

¹⁹ <https://www.fairwork.gov.au/how-we-will-help/templates-and-guides/fact-sheets/minimum-workplace-entitlements/minimum-wages>

²⁰ https://www.australianunions.org.au/casual_workers_factsheet

²¹ <https://theconversation.com/the-costs-of-a-casual-job-are-now-outweighing-any-pay-benefits-82207>

²² <https://journals.sagepub.com/doi/10.1177/0018726716686666>

²³ https://percapita.org.au/our_work/flexible-ongoing-employment-solving-a-problem-that-doesnt-exist/

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Industry	Casual part-time	Casual full-time	Permanent full-time	Permanent part-time	Median pay (\$/hour)
Accommodation and Food Services	57	10	22	11	21.25
Arts and Recreation Services	41	8	39	11	26.32
Retail Trade	35	4	39	22	22.84
Administrative and Support Service	24	9	55	12	25
Agriculture, Forestry and Fishing	21	31	41	6	23.18
Other Services	18	9	64	9	25.00
Education and Training	17	3	58	22	34
Health Care and Social Assistance	14	4	50	32	31.43
Transport, Postal and Warehousing	13	13	65	9	28.74
Information Media and Telecommunications	13	7	68	12	31.41
Manufacturing	9	10	75	6	28.11
Rental, Hiring and Real Estate Services	8	9	70	13	27.14
Construction	8	20	70	3	30.00
Wholesale Trade	8	6	80	6	27.10
Professional, Scientific and Technical	7	5	78	10	33.75
Public Administration and Safety	4	5	80	10	38.97
Financial and Insurance Services	3	3	78	16	36.84
Electricity, Gas, Water and Waste Services	2	9	86	2	38.45
Mining	2	16	79	3	49.76

Table 3. Percentage of workers in each industry by employment category, ranked by percentage of casuals (2017). Shading shows the five industries with the lowest median hourly pay rate (From HILDA Wave 17).

Industry composition has changed throughout history, and it is incumbent on policy makers to respond with appropriate regulation and economic settings to support the emergence of new industries.

This isn't about "picking winners", but rather identifying points of weakness in existing regulatory or financial structures, and removing barriers to innovation to allow new fields to thrive while ensuring the overarching principles of protecting workers from exploitation are not lost along the way.

Much recent discussion about the future of work has been consumed with doom-saying predictions about the potential for technology to displace human workers.

Digital disruption, primarily understood as the impact of internet-based technologies and the automation of production, has been occurring in manual occupations for decades, but has more recently threatened white-collar activities such as accounting and paralegal services. Transport is also earmarked for considerable disruption, in anticipation of autonomous vehicles.

Industrial disruption is not new: the first industrial revolution changed forever the way humans lived and provided for themselves and their families, and many of our current labour laws resulted from hard-fought battles to protect citizens from the potentially devastating exploitation that emerged with the onset of new industries.

As former World Bank Chief Economist, Kaushik Basu, has cautioned we must not be complacent in the face of digital disruption:

People very often say: 'Why are you worried about today, we went through the industrial revolution and we came out fine, we are better off'. What they overlook is that it took dramatic changes in our thinking. That's why the industrial revolution did not cause catastrophe and realised its potential benefits.

During the industrial revolution it was common for workers to work 12 hours a day, 14 hours a day. Industrialists were patenting spinning machines that could be operated by children as young as five. Reformers who argued in Parliament for reduced hours and protections were told that poor conditions built character²⁴.

Fortunately, those 19th century reformers won; we must not shirk the challenge to meet today's industrial transformation with an equal commitment to ensuring the ongoing protection of workers and their right to a living wage and secure, safe employment. Guarding such protection of citizens is the fundamental role of government.

²⁴ <https://www.smh.com.au/business/the-economy/former-world-bank-chief-economist-kaushik-basu-sounds-warning-20161202-gt2hfj.html>

- (d) The appropriateness of current arrangements for supporting those experiencing insecure employment, inconsistent employment and precarious hours in the workforce.

The entirety of Per Capita's 2018 report, *Working it Out: Employment Services in Australia*²⁵, is relevant to addressing this section of the inquiry terms of reference and we recommend it to the inquiry. The below is largely extracted from the conclusion of that report.

It is clear, based on our research and that of many others, that employment services in Australia today are not fit for purpose. They fail in their primary task of helping people find secure, long-term work.

The structure of the contracted service between government and private providers is skewed towards incentivising job services staff to prioritise compliance measures over genuine assistance to job seekers - assistance that would see people move more quickly off unemployment benefits and into paid work, and reduce the rate at which people find themselves in long-term unemployment, or short-term, insecure work that ultimately sees them back in the system too quickly.

This is the only conclusion we can draw from our review of the research, and from the direct, first-hand accounts we were given by people who are using the services today.

We heard a wide range of stories as we travelled around the country to talk to unemployed Australians, but they were all united in a single message: the jobactive system isn't meeting their needs. Many participants in our focus groups believed that their employment agency offered them no useful services at all. Instead, they are apparently focussed on enforcing mutual obligations and pushing them into an "outcome" that results in payments for the agency, regardless of whether that outcome is in the interests of the unemployed worker.

"The job agency just doesn't get that I can't walk very far. It doesn't matter how many times I explain my situation to them, they keep showing me jobs that require standing all day. I just can't do that anymore. He's never talked to me about a single sit-down job."

Barry, unemployed worker, Toowoomba, QLD. July 2018.

Rarely did we hear reports of job agencies being able to genuinely take account of unemployed workers' specific circumstances. The capacity that was inherent in the old CES to understand and respond to the individual needs of job seekers has been almost entirely removed from the current system, due to the onerous requirements imposed on under-resourced providers in order for them to receive payment under their government contracts.

These problems are not the fault of front-line employment agency staff, who are doing what the contract requires of them, often on a low wage with no specific expertise in the local labour market, and with unsustainably high caseloads. A high turnover in employment services front line staff points to systemic problems within the system.

²⁵ Bennett, O., Dawson, E., Lewis, A., Halloran, D. O. & Smith, W. *Working it out: employment services in Australia*. Per Capita Australia and the Australian Unemployed Workers' Union (2018).

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The problems besetting the jobactive system are structural, and are primarily caused by the fundamental flaws in two assumptions that underpin the system: that unemployed people don't want to work, and that there is enough work available for those who want it. As we have seen, these assumptions are false.

The overwhelming majority of unemployed workers want a job. By treating them as if they don't want to work, the jobactive system demoralises and stigmatises them. It also wastes countless millions of dollars enforcing mutual obligations on people who do not need the threat of a stick in order to look for work.

That jobactive has no capacity to deal with the fact that there simply aren't enough jobs to go around is an elementary problem. Ever since the Australian government abandoned the policy of ensuring full employment in the 1970s we have had more unemployed workers than we have had jobs available (see Figure 6). The reality is that the unemployment rate is driven by the demand for labour, not by the behaviour of the unemployed.

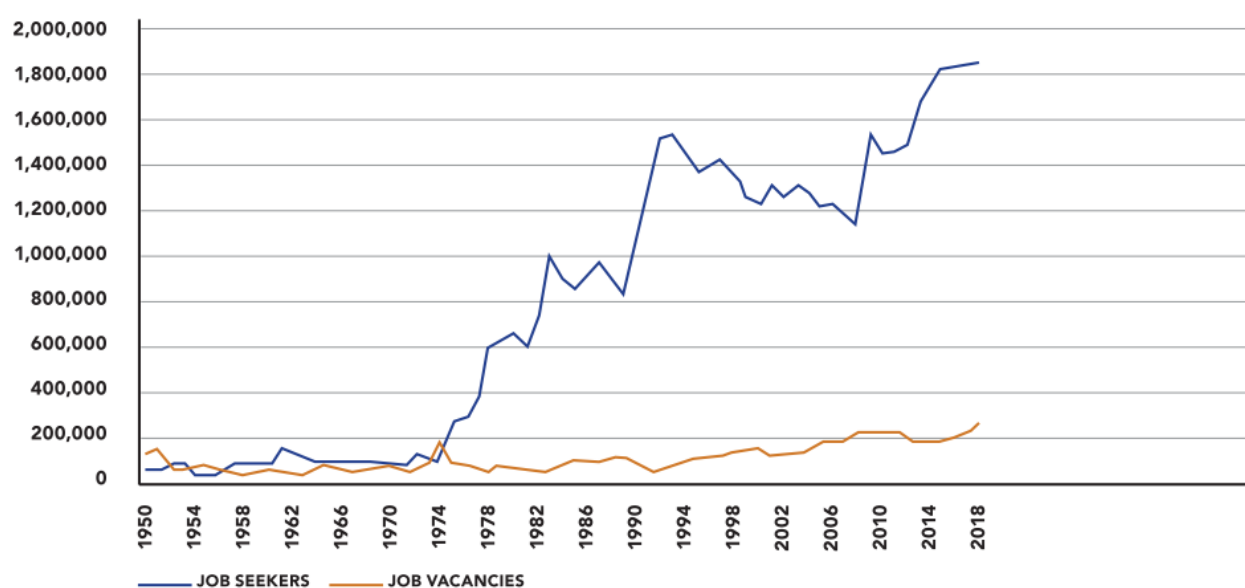


Figure 6: The number of job seekers and job vacancies (marginally attached not included) 1950-2018.

Source: ABS and CES. Reproduced from Bennett et al. 2018²⁶.

Nevertheless, there are measures that can be taken now to improve the operation of the system by which we are meant to help unemployed people to find work.

These begin with a recognition that government can and should actively pursue a policy of full employment. Changing our monetary policy settings to target an unemployment rate below 4 per cent over the forward estimates should not see a break out in inflation, and would bring Australia into line with comparable OECD economies.

Trialling a job guarantee in regional areas of stubbornly high unemployment would stimulate local economies at the same time as providing real jobs and skills development, at the minimum wage, thereby meeting objectives that the disastrous Work For the Dole and CDP programs have manifestly failed to achieve.

²⁶ Bennett, O., Dawson, E., Lewis, A., Halloran, D. O. & Smith, W. *Working it out: employment services in Australia*. Per Capita Australia and the Australian Unemployed Workers' Union (2018).

Improving the employment services structure itself requires a return to a “human capital” model of service delivery: one which restores some market share to public sector provision, and ensures the adequate, standardised training of staff in all agencies, in order to equip service providers to give real support to those job seekers who require additional help and skills development in order to find secure, long-term work.

This also requires that the sole focus within employment service agencies should be on job placement. It is imperative that this function is separated from the monitoring and enforcement of compliance provisions. In fact, compliance monitoring and evaluation must be returned to the relevant government agency, with appropriate public sector oversight. It is simply not appropriate or effective to give poorly trained, private sector workers the responsibility to decide whether a citizen should have their income support cut off based on a subjective assessment of their behaviour, and with no right of appeal to a government body.

Finally, we must recognise that as long as there is not enough work to provide a secure job with enough hours to everyone who wants one, the employment status of the vast majority of unemployed workers is simply not their fault. Treating these citizens with dignity and helping them find a job they can count on requires us to provide them with enough income to live a decent life in Australia, which is one of the richest countries on earth. We must immediately raise the rate of *Newstart*, and index Commonwealth Rent Assistance to the cost of housing, particularly to take account of the cost of living in our capital cities, where most of the jobs are.

These changes will not completely address the issues with the current operation of employment services in Australia, but they will make an immediate and meaningful difference to those unemployed workers we spoke to over the last six months, and materially improve their chances of finding secure, reliable work that will allow them to support themselves and their families with dignity and pride.

(e) The current approach to setting income support payments in Australia.

The process for setting of the rates of government income support, including the Age Pension, Service Pension, Disability Support Pension, Carer Payment and Unemployment Benefit, was the same until 1997.

Prior to a change of policy under Whitlam, who announced a commitment to maintain the rate of pension at 25% of Average Weekly Earnings (AWE), all pension rates were adjusted on an ad hoc basis, typically reflecting upward movements in the Consumer Price Index (CPI).

In 1976, the Fraser Government introduced automatic twice-yearly pension increases in line with the CPI.

The Hawke and Keating governments went further still, benchmarking single pension rates to 25% of Male Total Average Weekly Earnings (MTAWE). From 1983, on top of the twice-yearly CPI indexed increases introduced by Fraser, Labor governments made four ad hoc increases to pension rates to align them with MTAWE – one in 1984, two in 1990 and another in 1993).

Automatic benchmarking of the single rate of age pension to 25% of MTAWE was legislated by the Howard Government and took effect from September 1997. Critically, Howard did not include unemployment payments in this legislation, effectively removing unemployment payments from the definition of pensions, and “freezing” them at the old, Fraser Government twice-yearly CPI indexation rate of increase²⁷.

Even with the significant lift in the rate of the Age Pension following the Harmer Review of Pensions in 2009 under the Rudd Government, unemployment payments, being no longer part of the pension increase system, were not raised, and have not been since, beyond the twice-yearly rise in line with the CPI.

Because wages grow faster than the rate of CPI increase, and other income support payments are benchmarked to wages, the CPI-indexed rate of *Newstart* has seen the standard of living of those living on unemployment benefits fall far behind those not just of working Australians but of other recipients of income support over the last two decades.

As a result, in 2019, someone living on *Newstart* survives on approximately 36% of the average Australian take home wage, or just over half the full-time minimum wage. This compares to a single age pensioner on 54% of the average take home wage and 82% of the full-time minimum wage²⁸.

The real problem with pegging *Newstart* to CPI

Of critical importance when considering the appropriate approach to setting income support payments is understanding the relationship of CPI increases to income growth.

If the CPI reflected the change to *real cost of living* for low-income Australians, pegging the rate of *Newstart*, or any other income support payment, to changes in the CPI would not be problematic.

²⁷ Klapdor, Michael, *Pension Indexation: a brief history*, Parliamentary Library of Australia, April 2014.

²⁸ Deloitte Access Economics. *Analysis of the impact of raising benefit rates* Australian Council of Social Service. (2018)

However, over the past 20 years, while the rate of *Newstart* has been pegged to the CPI, a significant gap has emerged between the real cost of living compared to incomes in Australia.

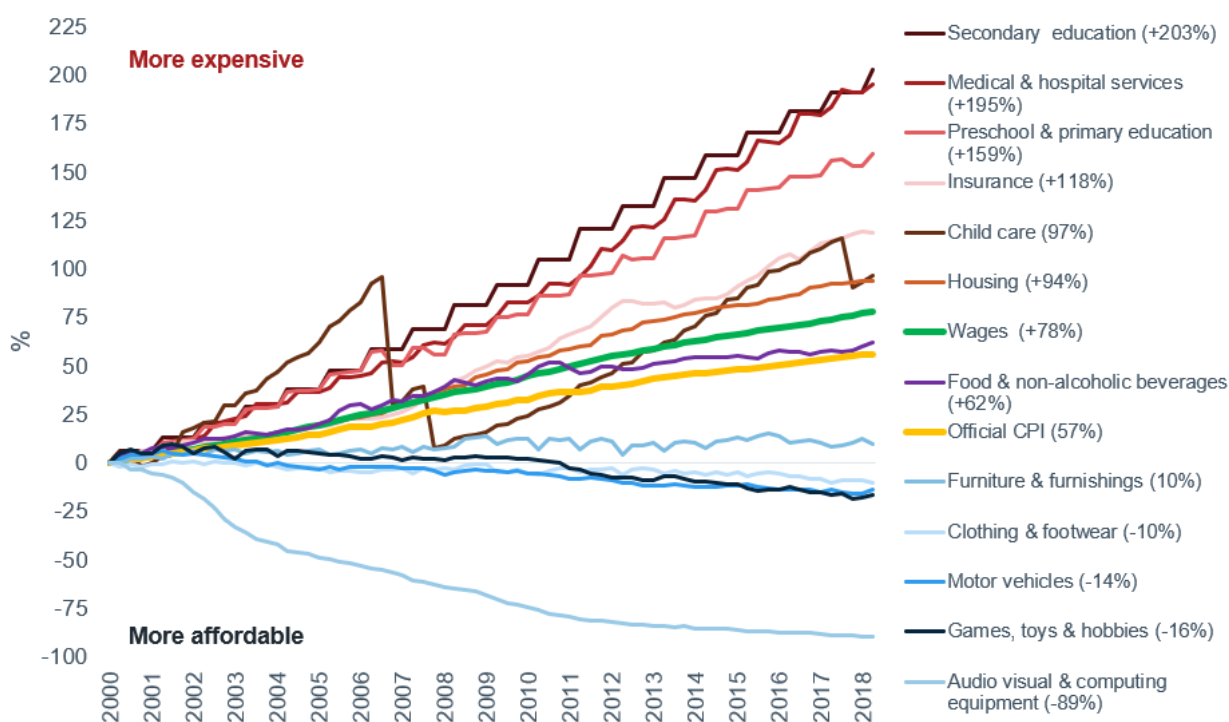
This is because the CPI is based on the changes in price of a “basket of goods” that includes both “wants” (discretionary spending) and “needs” (non-discretionary, or essential, spending) and while wage growth (and those pensions indexed to wage growth) has stayed slightly ahead of the official CPI, which has gone up 57% in the last two decades, the cost of “needs” has increased by approximately 200%.

That is, the cost of essentials such as housing, electricity and other utilities, health, education and child care have increased at rates far outstripping the official CPI. The CPI has remained in line with income growth due to reductions in the cost of “wants” – things like electronic goods, cars, clothing, games and toys.

Figure 7, reproduced from an analysis by Fidelity International in July 2019, shows the extraordinary rise in the cost of “needs” compared to that of “wants” since 2000.

The price of “needs” versus “wants”

Selected Australian goods and services, CPI, wages (Q4 2000 to Q1 2019)



Source: Fidelity, Australian Bureau of Statistics, July 2019. Rebased to 0 as at Dec-2000

Chart of the Week



Figure 7

Low-income Australians, especially those relying on income support, generally have little money to spend on “wants”; their income is eaten up by essential spending on housing, utilities and food.

Therefore, the “freezing” of *Newstart* in line with the CPI in 1997 has resulted in significant real falls in the standards of living of those relying on the payment. In real terms, *Newstart* recipients have much higher levels of poverty than they did 20 years ago.

It is critical that, following an immediate significant ad hoc increase, the approach to setting the rate of *Newstart* be brought into line with the approach for the setting of other income support payments and pensions, and indexed to MTAW.

We would note that, given the disproportionate increase in the cost of “needs” over the last two decades, even wage growth in Australia is manifestly failing to keep up with the rising cost of living for low- and middle-income households. Measures to increase real wages in Australia, to regulate price increases in essential services including health, education and utilities, and to address the crisis of housing affordability are urgently needed; however, these issues are outside the scope of this Inquiry.

- (f) The impact of the current approach to setting income support payments on older unemployed workers, families, single parents, people with disability, jobseekers, students, First Nations peoples, people from culturally and linguistically diverse backgrounds, people living in regional and remote areas, and any others affected by the process.

It is undeniable that living on income support payments affects people differently according to their individual circumstances.

For example, Per Capita's work with older women at risk of poverty and homelessness has revealed significant problems in the treatment of older unemployed people who are far more unlikely to obtain suitable employment and are, therefore, more likely to rely on *Newstart* for far longer than younger people. The same is true for people experiencing other issues that compromise their ability to secure work, such as living with disability or ill health, having caring responsibilities, experiencing language barriers or living in regions with high rates of long-term unemployment and fewer available jobs.

There is merit in considering different "mutual obligation" requirements for the recipients of *Newstart* based on individual circumstances: for example, reversing the recent cuts to the hours of volunteer activity older people can count towards their obligations, exempting carers from obligations altogether, or allowing people from CALD backgrounds to count English language classes towards their obligations.

There is also merit in considering earlier access to the age pension for older unemployed people who have been out of work for more than a year. This could be adopted in a staged, or tapered, way, depending on age and length of time out of the workforce, and could also give consideration to local labour market conditions (IE: the availability of jobs in the job seeker's area of residence).

Per Capita strongly believes that the changes to parenting payment introduced by the Howard Government, and extended through the removal of grandfathering provisions by the Gillard Government, that saw single parents moved onto *Newstart* when their youngest child turns eight, should be reversed. We also strongly support changes to the *ParentsNext* program to make it voluntary.

We further support a reversal of the tightening of eligibility requirements for Disability Support Payment that saw approval rates for the DSP fall from 63% to 30% in the 2017 – 2018 financial year alone²⁹.

Most urgently, the ineffective and racist Community Development Program (CDP) that is imposed on people in remote Indigenous communities must be abolished and replaced with a program that provides real jobs and training at a living wage, in consultation with elders and other community representatives.

However, there is no justification for taking different approaches to setting the rate of *Newstart*, or indeed for providing a different base rate of income support to people according to their age, location, ethnicity or any other individual trait. A dignified standard of living is due to all Australians in need of income support, regardless of their individual circumstances.

²⁹ <https://www.theguardian.com/australia-news/2018/jun/08/access-to-disability-pension-slashed-by-more-than-half-data-shows>

(g) The impact of geography, age and other characteristics on the number of people receiving payments, long term unemployment and poverty.

As noted above, there are various factors relating to age, location and other individual circumstances that affect the length of time people may be out of work and reliant on *Newstart*.

Certain regions of Australia, particularly in areas affected by the loss of jobs in manufacturing due to technological change, the disruption of primary industries due to climate change and drought, or the offshoring of jobs due to the globalization of supply chains, are experiencing high levels of long term unemployment.

Per Capita has addressed these issues, and the need for a suite of policies to underpin investment and the creation of new, secure and well-remunerated jobs in our submission to the Senate Select Committee Inquiry into Future Jobs in Regional Australia, and we refer the Committee to this Submission³⁰.

We have also noted above, in our response to item (f) some of the measures that we believe could be implemented to assist older people who are locked out of the labour market in the years before they are eligible to access their superannuation or the Age Pension.

Therefore, we simply note here the significant increase in the proportion of older Australians who have been forced to rely on *Newstart* over the last five years. Figure 8 clearly shows that, due to a marked increase since 2013, this cohort is now the largest single age group in receipt of *Newstart*.

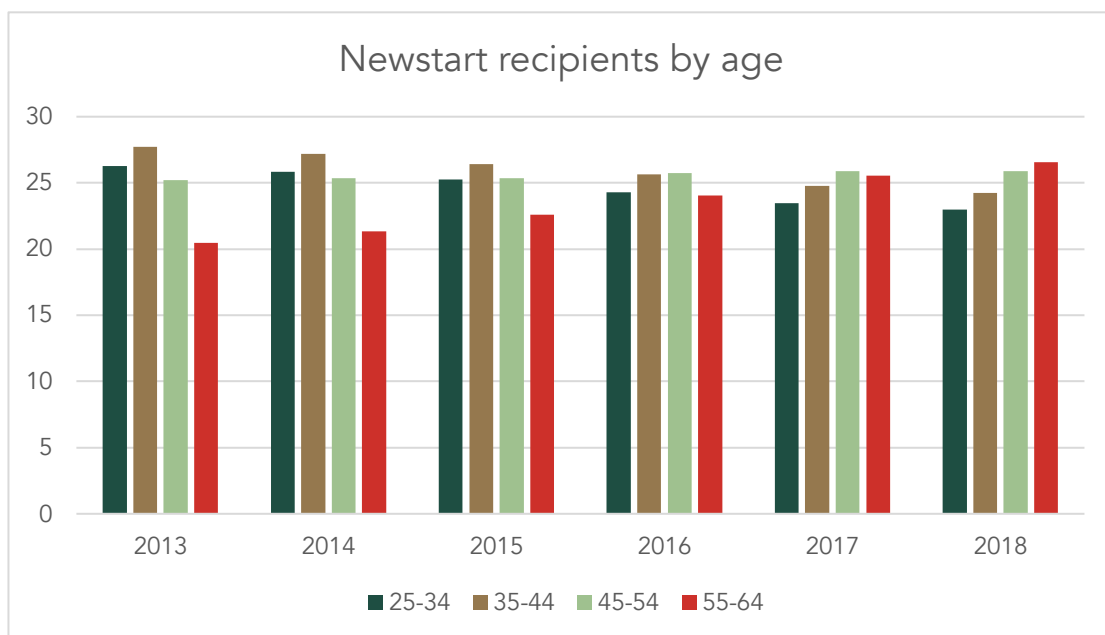


Figure 8: *Newstart* recipients by age category. From the Australian Department of Social Security.
 Note: Youth Allowance recipients not included.

³⁰ Submission No 143,

https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Jobs_for_the_Future_in_Regional_Areas/JobsRegionalAreas/Submissions

- (h) The adequacy of income support payments in Australia and whether they allow people to maintain an acceptable standard of living in line with community expectations and fulfil job search activities (where relevant) and secure employment and training.

Australia's society security payments to the unemployed are the second lowest in the OECD, and the rate of *Newstart* has not increased in real terms since 1994. By a number of different measures, the rate of *Newstart* is too low to allow people to maintain an acceptable standard of living in line with community expectations. A few of these measures are detailed below.

The figure most commonly discussed is that *Newstart* is \$183 per week below the Henderson poverty line. As a result, Australia has the second highest rate of poverty among the unemployed across the OECD.

Other approaches to measuring poverty have the same result: the 'rigorous budget standards' approach taken by researchers at the University of the New South Wales concludes that the current levels of income support for the unemployed are "woefully inadequate" and calculate that *Newstart* is \$96 per week below the Minimum Income for Healthy Living (MIHL).³¹

Using another poverty measurement approach, researchers at the University of Melbourne have found that unemployed Australians are almost five times as likely to experience severe material deprivation (deprived of three or more essential items) as those who work full time.³²

This, combined with the crisis in affordable housing, makes it very difficult to survive on *Newstart*. The Salvation Army found that after accommodation expenses, *Newstart* recipients must live on \$17 per day.³³ At \$222 per week, *Youth Allowance* is even further below these key indicators.

Moreover, given that each unemployed worker on average is penalised by their employment service provider through the suspension of payments 2.5 times per year, many are forced to survive on payments that are even further below the poverty line.³⁴

All of the unemployed workers who participated in our focus groups for *Working It Out* related stories of poverty. Many spoke about how the poverty they are in due to the low rate of income support actually acts as a barrier to them finding work because they can't afford travel, access to the Internet, phone credit, or decent clothes.

A few illustrative examples: all *Newstart* recipients must report to their jobactive provider on a regular basis and failure to do so without a 'reasonable excuse' results in the withholding of payments. This requirement to report your activity sounds simple but many of our focus group participants described challenges they faced in reporting, many of which related to their experience of poverty and assumptions made by their job service provider as the facilities they had available in order to report.

³¹ Saunders, P., & Bedford, M. (2017). *New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians: Summary Report*. Sydney: Social Policy Research Centre, UNSW Sydney. <http://doi.org/10.4225/53/5994e24f82386>

³² HILDA statistical report Waves 1-14, table 8.3

https://melbourneinstitute.unimelb.edu.au/data/assets/pdf_file/0007/2155507/hilda-statreport-2016.pdf

³³ <https://probonoaustralia.com.au/news/2018/05/newstart-recipients-living-17-day-accomodation-costs/>

³⁴ Bennett, O., Dawson, E., Lewis, A., Halloran, D. O. & Smith, W. *Working it out: employment services in Australia*. Per Capita Australia and the Australian Unemployed Workers' Union (2018)., Table 1, page 16

Gerry,³⁵ an unemployed worker in Geelong VIC, told us:

"I just found out the other day that you cannot submit your report without a phone [because a necessary confirmation code must be sent to a phone number]. So I had to go up to Centrelink and somehow I was able to. My point is that they, it seems like they expect you to have a staffed legal office. You need a printer, you need a computer, you need to keep your records for seven years."

Jill,³⁶ an unemployed worker in Toowoomba QLD, also spoke to the difficulty of keeping a mobile phone running while on Newstart:

"I only have \$5 per month that I use for my phone and I have to try really hard to hang on to my credit to call Centrelink because if I can't call them, then I risk having my payments cut for some reason or other and nothing I can do about it."

Many unemployed workers we spoke to said they could not afford to run a car. Barry,³⁷ an unemployed worker in Toowoomba QLD, only made it to our focus group meeting because he had worked all morning to repair his motorcycle, something he cannot afford to pay a mechanic to do. He described how he moved further out of town because it was the only place he could afford to rent. His job service provider then accused him of moving away from work opportunities.

"I had to move further out to afford to rent. I know there's fewer jobs out there, but otherwise I'd be homeless. It's a catch-22...I want to look for work but how can I do that with no money? I can't even afford the transport."

³⁵ Not his real name.

³⁶ Not her real name.

³⁷ Not his real name.

- (i) The economic cost of long-term unemployment, underemployment, poverty, inequality and inadequate income support payments.

Economic costs of long-term unemployment and underemployment

Perhaps surprisingly, the economic costs of unemployment are not well studied³⁸. While a few attempts have been made to estimate the fiscal impact of unemployment³⁹ and the output loss created by the underutilisation of labour⁴⁰, few attempts have been made to quantify the broader economic costs.

Output loss

We have estimated the economic output that is lost through labour underutilisation in Australia in 2019 to be \$49.35 billion. That's about three percent of GDP in lost output due to labour underutilisation.

This was calculated by multiplying the number of full-time equivalent jobs needed to achieve full employment by an estimate of output per worker.

For the below calculations we use 3% unemployment as full employment. While historically Australia has had unemployment levels well below 3%, there are good reasons to believe that frictional unemployment has increased with more people moving jobs at higher frequencies.

The method below is based on and adapted from Watts and Mitchell (2000)⁴¹.

Data inputs, assumptions and calculations

Labour force total in February 2019: 13,450,600 (ABS 6202).

Frictional unemployment estimated at 3%. The number of frictionally unemployed estimated at 403,500.

Underemployed part-time workers in HILDA 2017 were seeking, on average 11 hours per week extra work (10.9 for ABS 6226).

Number of underemployed (extended) in February 2019 (ABS 6226 Table 22.1): 1,809,000. At 11 hours each underemployed that's equivalent to 523,000 FTE.

HILDA 2017 found that unemployed workers looking for part-time work were, on average, looking for 19 hours (0.5EFT).

Unemployed looking for full-time work: 508,000. Looking for part-time only: 206,000, Feb 2019 (ABS 6202).

Hidden unemployed roughly 120,000. Using same ratios as above, that's 103,000 FTE.

³⁸ Mohanty, I., Tanton, R., Vidyattama, Y. & Thurecht, L. Estimating the fiscal costs of long-term jobless families in Australia. *Aust. J. Soc. Issues* **51**, 89–108 (2016).

³⁹ Ibid.

⁴⁰ Watts, M. J. & Mitchell, W. F. The Costs of Unemployment in Australia. *Econ. Labour Relations Rev.* **11**, (2000).

⁴¹ Ibid

Minimum wage is \$38,521. We assume a modest additional economic output per worker at \$60,000 p.a. to account for their relatively low skill base compared to the average currently employed worker.

Using the above to estimate total full-time equivalent labour underutilisation.

600,000 FTE officially unemployed

Plus

103,000 FTE Hidden unemployed

Plus

523,000 FTE underemployed

1,226,000 FTE labour underutilisation.

Minus frictional unemployment of 403,500

822,500 FTE structural underutilisation.

The approximate cost of labour underutilisation in Australia is, therefore: $822,500 \times \$60,000 =$ **\$49.35B in lost output in 2019, more than 2.5% of GDP.** Not only does this have a significant impact on our economic output, but **it also costs the government approximately \$3.35bn in potential tax revenue** using the above estimates.

Homelessness

The long-term unemployed are more likely than any other group to experience housing stress (see Figure). As a result, they are at very high risk of homelessness. The fastest growing demographic of homeless people in Australia is women over the age of 55.

The wellbeing cost

The *Fairfax Lateral Economics Wellbeing Index* put the wellbeing cost to the community of long-term unemployment at \$3.3 billion in 2014⁴² when there were 170,000 long-term unemployed. The number of long-term unemployment remains close to that level today.

Skill atrophy cost

The *Fairfax Lateral Economics Wellbeing Index* calculated the economic cost of skill atrophy amongst the long-term unemployed at \$8.8 billion in 2010⁴³.

Superannuation

A year unemployed in your twenties would result in around \$30,000 less superannuation at retirement compared to a year earning the minimum wage (calculated by the authors). Long-term unemployment increases reliance not only on income support during working age but also in retirement.

Economic cost of poverty, inequality and inadequate income support

The actual economic cost of poverty is difficult to directly calculate but one of the known costs is the continuation of poverty. Those who grow up in poor households are likely to remain in poor households for the rest of their lives (

⁴² <https://www.smh.com.au/national/wellbeing-index-shows-impact-of-jobless-on-society-20140606-39okt.html>

⁴³ <https://lateraleconomics.com.au/wp-content/uploads/2014/02/Fairfax-Lateral-Economics-Index-of-Australias-Wellbeing-Final-Report.pdf>

Figure 2).

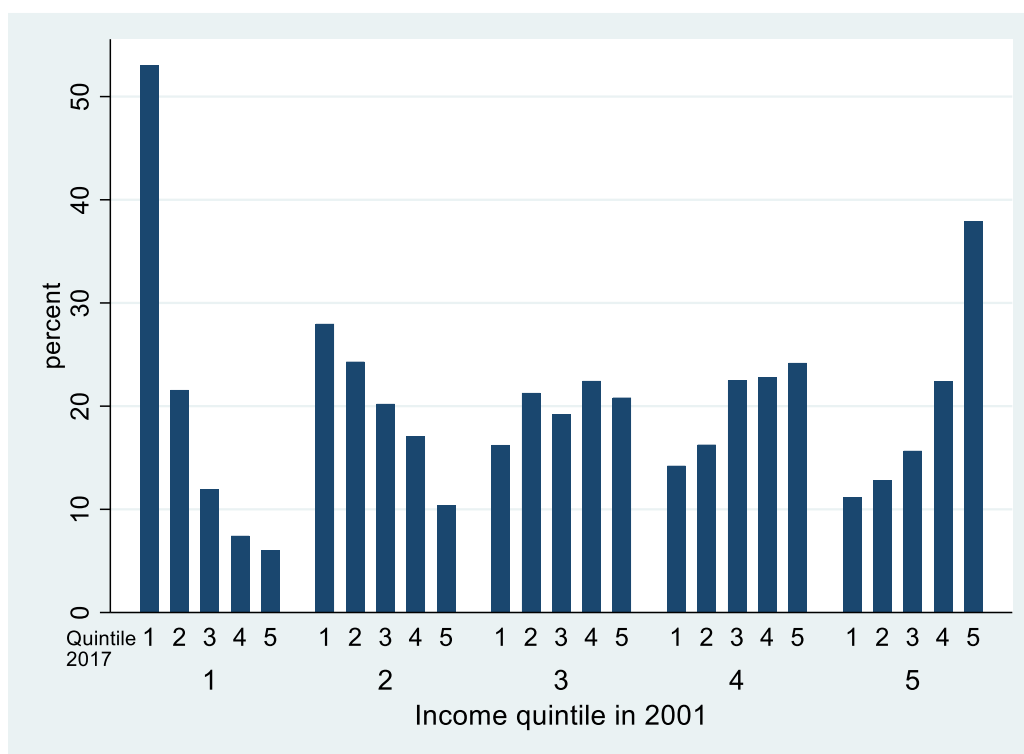


Figure 2. Equivalised household income quintile in 2001 is a strong predictor of equivalised household income in 2017. Those in the lowest quintile households are highly likely to still be in the lowest quintile 16 years later. Household income is, in turn, a strong predictor of time spent unemployed. Data from HILDA.

Poverty leads to poor mental and physical health outcomes, particularly later in life. HILDA data reveal that the occupational status of a person’s father is strongly related to general health and employment status throughout life (see Table 4). This results in greater reliance on public health systems and incurs associated public costs. Prevention, in the form of poverty relief that provides for good nutrition and lower stress, is more cost effective than treatment⁴⁴.

	General health				
	Excellent	Very good	Good	Fair	Poor
Labour force					
Employed	50.8	47.3	43.9	42.8	43.2
Unemployed - short term	48.1	45.3	41.2	39.6	40.5
Unemployed - long term	41.9	43.3	40.6	38.6	39.2
Not in the labour force	48.9	44.0	39.8	37.0	38.1

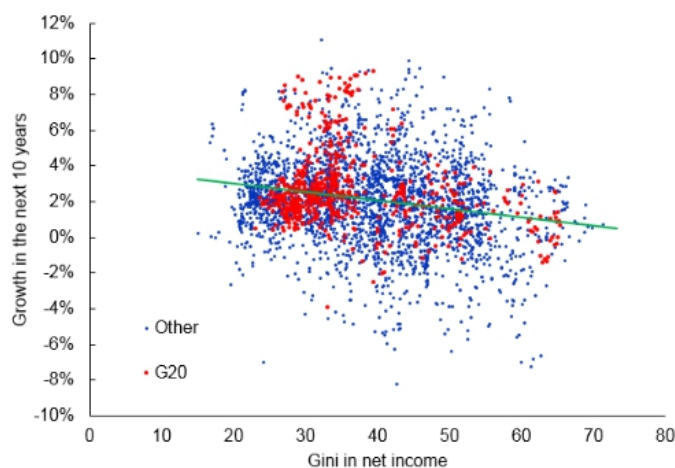
⁴⁴ Fox, S. et al. *Better Chances: A Review of Research and Practice for Prevention and Early Intervention*. Australian Research Alliance for Children and Youth (2015).

Table 4. Mean of father's occupational status scale by labour force status and general health. Occupational status scale is a good indicator of socio-economic status. The lower the occupational status of a person's father, the poorer their health and labour force outcomes are likely to be. Data from HILDA.

Inequality

Inequality within a society has an impact on a vast array of social and economic outcomes including life expectancy, teenage pregnancy, economic mobility, mental and physical health, crime, drug use and imprisonment rate⁴⁵. The fact that *Newstart* has been growing at a slower rate than wages has exacerbated inequality in Australia. The total economic cost of all of these impacts is impossible to calculate but would certainly tally in the tens of billions of dollars per year in Australia.

Higher inequality also leads to lower economic growth, among other negative consequences⁴⁶ (Figure 10). Lower growth, in turn, means fewer jobs and reduced government revenue.



Sources: Ostry, Berg, and Tsangarides (2014), using data from Penn World Tables version 7.1; and authors' calculations.

Note: Dots represent counties. The Gini index measures inequality: 0 is no inequality, 100 is full inequality. The green line shows the correlation of growth and inequality.

Figure 3. *Inequality and economic growth. Countries with higher levels of inequality, measured by the Gini index, tend to have lower growth over time. (Percent of GDP and net income inequality), 1960-2000. Reproduced from Deloitte Access Economics (2018).*

Job search

One of the consequences of inadequate income support payments for unemployed workers is that many cannot afford to effectively search for jobs. The costs of regular transport and presentable clothing are beyond many *Newstart* recipients. Transport costs are exacerbated by housing costs because unemployed workers can only afford to live in places far from employment opportunities. Maintaining credit on mobile phones is also a challenge, meaning that communicating with potential employers and job agencies can be a difficult⁴⁷.

⁴⁵ Wilkinson, R. & Pickett, K. *The Spirit Level: why greater equality makes societies stronger*. (Penguin Press, 2011).

⁴⁶ Deloitte Access Economics. *Analysis of the impact of raising benefit rates Australian Council of Social Service*. (2018).

⁴⁷ Bennett, O., Dawson, E., Lewis, A., Halloran, D. O. & Smith, W. *Working it out: employment services in Australia*. Per Capita Australia and the Australian Unemployed Workers' Union (2018).

"I only have \$5 per month that I use for my phone and I have to try really hard to hang onto my credit to call Centrelink because if I can't call them, then I risk having my payments cut for some reason or other and nothing I can do about it."

Jill, unemployed worker, Toowoomba, QLD. July 2018.

This can mean that unemployed workers are under-equipped to take advantage of employment opportunities when they arise, potentially maintaining higher unemployment levels than could be achieved if they were properly resourced to search for work and remain job ready.

Automatic stabilisers

Income support payments are part of the broader economy's automatic stabilisers. When there is a downturn in the business cycle and unemployment rises, the income support provided by government to unemployed workers acts as a kind of a brake on the economic downturn. Not only do such payments support the individuals who are unemployed, but they support the entire economy by underpinning expenditure.

Unemployed workers tend to spend all or almost all of their income each fortnight in local businesses and on housing. In this way, *Newstart* and related payments prevent further job losses in the broader economy as they rise and fall counter cyclically with the business cycle. The higher these payments are the more effectively they flatten the business cycle and help to prevent serious downturns and recessions.

- (j) The economic benefits – including job creation, locally and nationally – of increasing and improving income support payments and supports, and decreasing poverty and inequality.

Broadly, the economic benefits of increasing payments to unemployed workers are the flipside of the costs of the current inadequate payments outlined in section (i) above. These include the reduced social and economic costs of homelessness, increased capacity for unemployed workers to effectively search for jobs, economic stimulus and associated job creation, and all of the benefits that go along with reduced inequality.

Job creation

Increasing income support payments to unemployed workers will act as a well targeted employment creation stimulus because those living in poverty are not only likely to spend almost all of the additional income but are will also disproportionately spend that money in their local communities⁴⁸, particularly on food and clothing. This increase in local expenditure will increase turnover in local businesses and, in many instances, will result in the creation of new employment opportunities, particularly in places of high unemployment where the increase in spending will be greatest. Deloitte Access Economics modelling found that a \$75 per week increase in *Newstart* would result in a roughly \$4 billion increase in Australian GDP and an additional 12,000 jobs⁴⁹.

Relieving pressure on charity organisations

Many unemployed workers are reliant on charity organisations for food, clothing, emergency housing and other goods and services⁵⁰. If payments were increased to a level that allows the unemployed to afford the basics of life, these charity organisations could provide more support to other disadvantaged groups, including the homeless, domestic violence victims and those with mental illness. This redistribution of support services would likely reduce demand on the healthcare system, law enforcement and emergency services.

Income support as automatic economic stabilisers

As noted in (i) above, income support payments are part of the broader economy’s automatic stabilisers.

⁴⁸ Deloitte Access Economics. *Analysis of the impact of raising benefit rates*. Australian Council of Social Services. (2018).

⁴⁹ Ibid.

⁵⁰ Bennett, O., Dawson, E., Lewis, A., Halloran, D. O. & Smith, W. *Working it out: employment services in Australia*. Per Capita Australia and the Australian Unemployed Workers’ Union (2018).

- (k) The relationship between income support payment levels, minimum wages and wage stagnation in Australia and other comparable economies.

The non-accelerating inflation rate of unemployment (NAIRU) is a measure of the level of unemployment, below which, in theory, labour will gain sufficient bargaining power to demand wage increases above productivity increases. The explicit goal of keeping unemployment at or above the NAIRU is to limit the power of labour to demand higher wages. The justification for this is that higher wages both create greater demand for goods and services and increase the costs of production, and these forces work together to drive inflation.

Conversely, the larger the pool of unemployed workers, the greater the risk faced by employees demanding higher wages because they are readily replaced and will find it harder to get alternative work. In conditions of full employment – when there are jobs for all who want one - employees can walk away from unsatisfactory pay or conditions with confidence that they will not remain unemployed for long.

While the NAIRU framework is built into orthodox economic management, it is not universally accepted by economists. It is also evident that the NAIRU itself can be influenced by public policy. For more than 25 years following WWII unemployment in Australia averaged two percent, a direct result of policies implemented to create full employment and to control resulting inflation. While much has changed in the years since the commitment to full employment was abandoned in the 1970s, there is no reason to believe that we could not push unemployment substantially below where it is now if it was taken on as a priority.

The disciplinary effect of unemployment on wage demands is also driven by the conditions faced by unemployed workers⁵¹. The more miserable life is for unemployed workers the less likely they are to risk their employment by pushing for better wages and conditions. Current income support payments are far below the poverty line and unemployed workers are forced to complete sometimes degrading and often pointless 'mutual obligation' activities in order to receive the payments. These conditions, combined with punitive approaches to breaches of mutual obligations, and the demonization of the unemployed, makes the prospect of unemployment very dire indeed for those in low-skilled occupations and routine jobs.

Increasing income support payments for unemployed workers would increase worker bargaining power and wages because it would make the threat of unemployment less severe⁵². In a low-wage growth, low-inflation era such as currently exists in Australia in 2019, a raise in *Newstart* would be a positive move in the rebalancing of power between employer and employee.

This would almost certainly see an increase in wages for all Australian workers, after six years of stagnant wage growth. Indeed, Deloitte Access Economics modelled the impact of a \$75 per week increase in *Newstart* and estimated a 0.5% increase in wages as a result⁵³.

⁵¹ Lewis, M. A. A Time Series Analysis of the Effect of Welfare Benefits on Earnings. *J. Sociol. Soc. Welf.* **28**, 161–171 (2001).

⁵² Lewis, M. A. A Time Series Analysis of the Effect of Welfare Benefits on Earnings. *J. Sociol. Soc. Welf.* **28**, 161–171 (2001).

⁵³ Deloitte Access Economics. *Analysis of the impact of raising benefit rates*. Australian Council of Social Services. (2018).

- (l) The interactions with other payments and services, including the loss of any increased payments through higher rents and costs.

Commonwealth Rent Assistance (CRA) is a critical part of the welfare system as it relates to unemployed workers. The maximum CRA payment is \$137.20 per fortnight and is indexed to inflation. Rental costs have risen faster than inflation for many years, leaving CRA inadequate, particularly for those renting in capital cities. As a result, more than 80% of CRA recipients are currently receiving the maximum rate.

Per Capita believes that the current rate and calculation of CRA is inadequate to bridge the gap between the incomes of those on income support payments, especially *Newstart*, and the real cost of housing, especially in capital cities.

The Government should consider indexing CRA to median rental costs in the local government area (LGA) in which any income support recipient resides, rather than to inflation. As demonstrated in our response to item (e), the cost of housing has increased at more than twice the rate of inflation over the last two decades.

At the same time, measures to increase rental security and tenure should be implemented by state governments.

The most effective investment by government to reduce the risk of increased income support payments being lost to higher rents and related costs is a significant investment in building new social housing, especially in urban centres and within an easy commute of available jobs.

(m) The cost and fiscal sustainability of any changes.

Newstart and its replacement, *JobSeeker Payment*, are forecast to cost the Australian government almost exactly ten billion dollars in 2019/20⁵⁴.

In 2018, Deloitte Access Economics modelled the impact of increasing *Newstart* by \$75 per week for the Australian Council of Social Services (ACOSS), and found that the direct cost to the federal budget would be \$3.3billion per annum⁵⁵.

Deloitte also found that such an increase would result in a “prosperity dividend” of some \$4.0billion per annum; that is, due to increased spending by *Newstart* recipients and, the Australian economy would grow by \$4.0billion per annum. In other words, lifting *Newstart* by \$75 per week would more than pay for itself.

Of total federal government expenditure of almost \$500 billion in 2018/19, an increase to *Newstart* and *Youth Allowance* of at least \$75 per week, at total cost of \$3.3billion, is 0.66%.

This is well within the government’s capacity to sustainably fund, even in the absence of the stimulatory impact. Given the likelihood that lifting *Newstart* would more than pay for itself when the impacts on the economy are taken into account, the government could also invest in job creation and still achieve a revenue neutral result.

There is no budgetary reason not to immediately increase *Newstart* and *Youth Allowance* by at least \$75 per week.

⁵⁴ The Australian Government Department of Social Services. *Portfolio Budget Statements 2019-20 Budget Related Paper No. 1.15A Social Services Portfolio*. (2019).

⁵⁵ Deloitte Access Economics. *Analysis of the impact of raising benefit rates Australian Council of Social Service*. (2018).

- (n) The relative merits of alternative investments in health, education, housing and other programs to improve outcomes.

Many recipients of *Newstart*, particularly those trapped on the payment for many months or years, would benefit from the provision of secure, low-rent social housing and free medical and dental care.

As part of a comprehensive approach to supporting the employment prospects of unemployed people, education and skills training is an important element, particularly for young people and those who have become unemployed due to the loss of long-term jobs due to automation and skills atrophy.

As a wealthy nation, Australia can and should be investing meaningfully in social housing, improved health care and publicly-funded vocational education and training. Such investments would be of benefit not only to unemployed workers, but to all Australian, especially those on low-incomes and in insecure work.

Most pressingly, however, Per Capita believes the government should invest urgently in an overhaul of the Employment Services System, with a particular focus on young people, people living with disabilities, First Nations people, single parents and other carers, people over 55 and those trapped in long-term unemployment.

Our recommended policy changes to improve the operation of the Employment Services Sector can be found in our 2018 report, *Working It Out*, as referenced earlier in this submission.

While we believe an overhaul of *JobActive* and related employment services is urgent and overdue, we do not suggest that this is a substitute, or would obviate the need, for an immediate increase in the rate of *Newstart* and related payments. It is imperative that people receive adequate income support to live a dignified, safe and healthy life while engaged in the search for employment.

(p) other bodies that set payments, minimum wages and awards in Australia;

There are various bodies that set payments, wages and awards in Australia.

The **Fair Work Commission** (FWC) is responsible for reviewing, and determining any changes to, the minimum wage within the national workplace relations system. The wage review process is undertaken annually between March and June, with decisions coming into effect from the 1st of July in the following financial year.

According to the governing legislation, “[t]he annual wage review directly affects employees in the national system who are:

- covered by a modern award or a transitional instrument, or
- not covered by either an award or an agreement.⁵⁶”

The role of the FWC is to arbitrate between the wage claims of private sector employees and employers.

The **Remuneration Tribunal** is an independent statutory body that reviews, and determines any changes to, the remuneration of key commonwealth offices, including the pay of federal Members of Parliament, senior public servants, and the directors of Commonwealth agencies.

There are, similarly, remuneration tribunals in each state and territory, variously responsible for the setting of the salaries of MPs and senior public officials.

The role of such tribunals is to ensure that the remuneration of public sector officials and parliamentary representatives is set independently of politicians and reflects the public value of the work performed by officials elected or appointed to public office.

For reasons outlined below in our response to item (q), Per Capita does not believe a similar body, independent of the Parliament of Australia, is an appropriate intermediary in which to vest the responsibility of setting the rate of income support payments by the Commonwealth.

⁵⁶ <https://www.fwc.gov.au/awards-and-agreements/minimum-wages-conditions/annual-wage-reviews#field-content-1-heading>

- (q) the role of independent and expert decision-making in setting payments; and

Some advocates for welfare reform favour an approach that would see an independent panel or tribunal set the rate of *Newstart* and other income support payments.

Per Capita does not support this approach.

Sections 81 and 83 of the Australian Constitution provide that the spending of Commonwealth funds can only be effected by an appropriation made by the Parliament. Further, appropriations made by law can only result from legislation introduced by a Minister of the Government, in the House of Representatives⁵⁷.

It is, therefore, right and proper that any changes to spending on social security be determined by the Parliament of Australia under the provisions of the Constitution.

Social security spending is the largest area of government appropriation. While it is arguably* possible for the Parliament to pass legislation requiring the Government to abide by the decision of an independent tribunal, relinquishing control of this spending would fundamentally undermine the ability of an elected Government to control the federal budget, including in times of national emergency.

While an independent tribunal or panel might take an *advisory* but non-binding role in determining the appropriate rate at which to set income support payments, such an approach arguably would be less protective of an appropriate rate of income support than would our preferred option of indexing payments to wages.

**It is arguable that legislation requiring the Government to abide by the decision of an independent tribunal in relation to the spending of Commonwealth funds would constitute an unreasonable restriction on the power of a future government to determine budget expenditure under the Constitution.*

⁵⁷ <https://www.finance.gov.au/resource-management/appropriations/rmg-100-guide-to-appropriations/appropriations-constitutional-background/>

(r) Any other related matters.

Towards Full employment

We believe that, in addition to raising *Newstart* and *Youth Allowance*, the government should commit to full employment in Australia as it did in the 25 years following WWII. Per Capita is currently developing a suite of policy recommendations that could underpin a full employment strategy for Australia.

The only way to reduce the unemployment rate in Australia, and, as a result, those relying on *Newstart* and *Youth Allowance*, is to increase the number of jobs. The government can and should play an active role in achieving full employment. The Australian government has done this successfully in the past and can do it again.

“The policy outlined in this paper is that governments should accept the responsibility for stimulating spending on goods and services to the extent necessary to sustain full employment. To prevent the waste of resources which results from unemployment is the first and greatest step to higher living standards. But if our living standards are to increase to the greatest extent possible, we must produce as efficiently as possible goods that are wanted.”

Curtin Government’s 1945 white paper Full Employment in Australia

A first step in approaching full employment for Australia would be to design active labour market programs to support people trapped in long term unemployment to find work, and particularly to assist young people to establish themselves in secure, meaningful jobs at a living wage.

A Youth Guarantee

For the latest generation of young Australians, the deregulatory reforms of the 1980s and 1990s have contributed to a labour market that has locked many into insecure employment for much longer periods than their forebears. This generation has also experienced an increasing disconnect between education and labour market outcomes, which is the result of a significant growth in post-compulsory education and an underutilisation of that growing knowledge-based skill set.⁵⁸

A recent report from the Foundation for Young Australians indicates that this is due to a range of factors. The Foundation argues that an underinvestment in entry-level positions by business has created insufficient opportunities for young workers to gain experience in their desired careers, contributing to a mismatch between work and education.⁵⁹ However, this report erroneously proposes solutions that increase the supply of skills to young people, without tackling the deeper problems created by a lack of demand within the labour market.⁶⁰

⁵⁸ Andy Furlong, John Goodwin, Henrietta O'Connor, Sarah Hadfield, Stuart Hall, Kevin Lowden, Réka Plugor, *Young People in the Labour Market: Past, Present, Future*, Routledge, London, 2017; Johanna Wyn and Dan Woodman, 'Generation, Youth and Social Change in Australia', *Journal of Youth Studies*, Vol. 9, No. 5, 2006, pp. 495-514.

⁵⁹ Foundation for Young Australians, *The New Work Reality*, Foundation for Young Australians, Melbourne, 2018.

⁶⁰ Shirley Jackson, "Why We Don't Need to Prepare Young People for the 'Future of Work'", *The Conversation*, 21 June, 2018.

To overcome the problems associated with an underutilisation of young workers and their skill sets, policy makers must respond to both supply-side and demand-side problems through a suite of active labour market policies. Lessons can be learned from the Finnish example which will improve policies and outcomes for young workers in Australia.

The transition from study to work in contemporary Australia

For young people in Australia, the transition from school to work is increasingly defined by insecurity. In some sense, school-to-work transitions have always been characterised by periods of instability. New entrants to the labour market have always been expected to learn skills, earn respect and prove their value before achieving stability. However, the labour market deregulation policies of the 1980s and 1990s have contributed to young people in the 21st century remaining in precarious positions well into their late 20s and even their 30s.⁶¹

Since the opening up of higher education under the Whitlam Government, university level education has been held up as the best protection against unemployment. However, recent research finds that the causal relationship between education and employment has been eroded.⁶²

Detailed data from the Graduate Outcomes Survey, which canvasses graduates four months after they finish their studies, offers some insight. Apart from providing essential employment information, this survey covers more complex issues, like skills utilisation, demographic inequalities and how well study prepares graduates for work. While the overall number of undergraduates in full-time employment in 2018 rose to 72.9% from 68.1% in 2014, this is still well below the pre-Global Financial Crisis employment level of 85.2% in 2008.⁶³

Worse still, the latest Household, Income and Labour Dynamics in Australia (HILDA) survey data shows graduate wages are shrinking over time. For those who graduated between 2006 and 2009, the average weekly wage was A\$947.31 in their first year of graduate employment. For those who finished university between 2012 and 2013, that figure had shrunk to A\$791.58.⁶⁴

There are also uneven rates of employment, as some areas of study provide better employment prospects than others. Some of this is to be expected. Medicine continues to provide full-time employment, while creative arts offers less in the way of traditional employment outcomes. However, despite the emphasis on science, technology, engineering and mathematics (STEM) graduates in the current government's innovation agenda, businesses are failing to fully utilise the existing scientific workforce.

⁶¹ Maarten Goos and Alan Manning, 'Lousy and Lovely Jobs: The Rising Polarisation of Work in Britain', *Review of Economics and Statistics*, Vol. 89, No. 1, 2007, pp. 118-133; Guy Standing, *The Precariat: The New Dangerous Class*, Bloomsbury, London, 2011; Wyn and Woodman 2006.

⁶² Hernan Cuervo and Johanna Wyn, "An Unspoken Crisis: The 'Scarring Effects' of the Complex Nexus between Education and Work on Two Generations of Young Australians", *The International Journal of Lifelong Education*, Vol. 35, No. 2, 2016, pp. 122-135.

⁶³ Graham Challice, Shane Compton, Lisa Bolton, Natasha Vickers, Rastko Antic, Cynthia Kim, Alistair Wilcox, Gimwah Sng, Evie Eker and Sebastian Misson, 2018 Graduate Outcomes Survey National Report, Australian Government Department of Education and Training, January 2019, pp. 2, iii, 8; <https://www.qilt.edu.au>

⁶⁴ Roger Wilkins, *The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 15*, Melbourne Institute of Applied Economic and Social Research, Melbourne, 2017, p. 58.

More than 60 per cent of graduates with full-time work report that they have taken a job unrelated to their study area due to external labour market factors. These factors include employment relevant to their study not being available and employers wanting graduates to have more work experience, as well as graduates only being able to find part-time or casual work.⁶⁵

Unsurprisingly, part-time work is becoming a more likely employment pathway for graduates. Given that over a third of graduates are working part-time, it might be tempting to assume this shift away from full time work reflects a choice made by young people. However, contrary to frequent claims by business leaders for example that young people want or need “flexibility”, recent research shows that the latest generations of young workers continue to desire full-time, secure employment just like previous generations.

Smoothing the transition

Active labour market policy involves a cluster of measures designed to get unemployed people back into work, preferably into industries experiencing labour shortages, and usually contains some mix of reforms centred on education (secondary and tertiary, including vocational), income support and employment services. As young people are more likely to be employed in insecure work arrangements, active labour market policies have the potential to significantly alter the school-to-work transition.

While conservative analysis often highlights the economically liberalising reforms of centre-right governments,⁶⁶ the ‘Nordic model’ remains a comprehensive yet also surprisingly fluid style of welfare state. In particular, Finnish education approaches are frequently held up as offering answers to key labour market policy questions for other developed economies such as Australia. The Finnish education is sophisticated and in terms of vocational learning offers many insights for interested policy makers such as:

1. The publicly funded nature of the system. Because national and regional governments invest substantial funds into the system, students face no financial barriers to entry, and are able to access additional subsidies for transport and meals whilst studying;⁶⁷
2. Skill competencies are heavily regulated to national standards which ensure, for example, proficiency of problem solving in technology-rich environments, producing graduates with dependable skill sets attractive to employers;⁶⁸
3. Whilst studying, Finnish young workers are paid the full unemployment benefit of €32.40 per day.⁶⁹ This works out to approximately A\$732.34 per fortnight, which is significantly higher than Australia’s Youth Allowance of A\$455.20.⁷⁰ That is important because it reduces reliance on paid employment in noncareer industries and occupations, like hospitality, retail and fast food. This in turn helps to reduce underutilisation and ‘skills mismatching’;

⁶⁵ Challice et al, 2018 Graduate Outcomes Survey National Report, pp. iii, 3, 29.

⁶⁶ ‘Nordic Countries: The Next Supermodel?’, The Economist, 2 February 2013.

⁶⁷ Finnish VET in a Nutshell, Ministry of Education and Culture, Helsinki, 2018, p. 7.

⁶⁸ Jessica Crofts, Hernán Cuervo, Johanna Wyn, Graeme Smith and Dan Woodman, Life Patterns: Ten Years Following Generation Y, Youth Research Centre, Melbourne Graduate School of Education, The University of Melbourne, 2015.

⁶⁹ Source: <https://www.kela.fi/web/en/amount-and-payment-basic-unemployment-allowance>

⁷⁰ Source: <https://www.humanservices.gov.au/individuals/services/centrelink/youth-allowancestudents-and-australian-apprentices/how-much-you-can-get>

4. Debt-free study. By providing the world class system without a cost to the consumer, financial barriers to entry are reduced. Also, if students who go through this system complete their studies and are unable to find work, they are not forced to take work in non-career industries or occupations to pay off student debt, but are instead offered a place in another training opportunity or workplace.

These four pillars of the Finnish VET system provide for a much smoother transition than young workers in Australia are currently experiencing. Finland’s provision of basic financial support for students engaged in the system also gives them security currently missing from the Australian system and reduces their reliance on work in industries where their skills are not useful. Further, when considering youth unemployment, its extent in Australia is similar to Finland in the short-term (IE: less than one-month category: but long-term youth unemployment is much higher in Australia than in Finland). However, the incidence of long-term unemployment (IE: those out of work for a duration of one year or more) as a percentage of total unemployment among 15-24-year-olds in Finland is little more than one third what it is in Australia, as shown in Figure 4, which is from the latest available data.

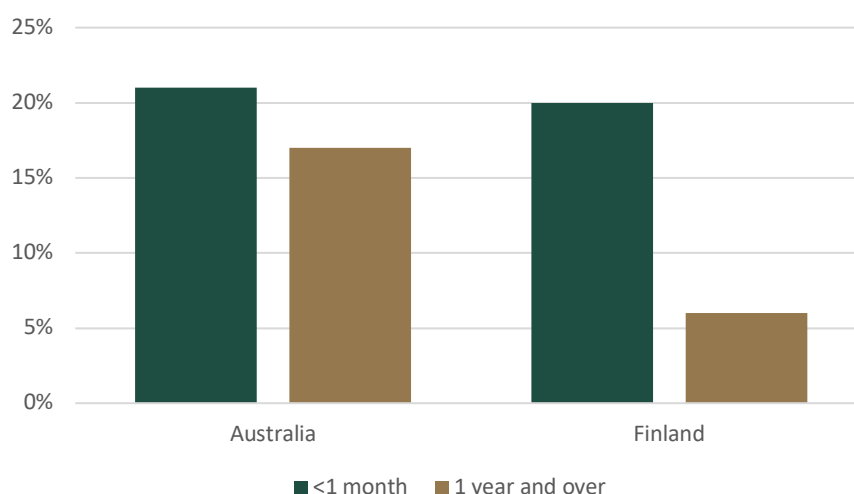


Figure 4. Australia and Finland, proportion of total unemployment among 15–24- year-olds by selected durations unemployed. Source: Unemployment by duration: incidence, OECD Employment and Labour Market Statistics (database), <https://doi.org/10.1787/data-00322-en>

However, there is a fifth pillar that is currently in development, which Australian policy makers should consider: the Youth Guarantee.

Learning from the Finnish Example

Established on 1 January 2013 under then Prime Minister Jyrki Katainen, the Youth Guarantee is a broad suite of policies designed to ensure that every young person under 25 is either in employment or education.⁷¹ Importantly, the program is tailored to each individual, involving a variety of skills training, employment services and educational qualifications customised for each young person, based on her or his aptitude, experience and capacity. Crucially, every young person under the age of 25, and every

⁷¹ Henna Keränen, Young People within Services: Best Practices for the Promotion of the Youth Guarantee, (Finnish) Ministry of Employment and The Economy, Department of Employment and Entrepreneurship, 2012.

recently graduated person under the age of 30, is offered either a place for work, a work try-out, a study place, a place at a workshop, or 'rehabilitation' placement no later than three months after registering as unemployed.

Stakeholders and participants in the Finnish Youth Guarantee include not only the national economic, employment, finance, social affairs, education and health Ministries and the key institutional actors in the labour market. The stakeholders and participants also include local authorities, educational institutions, social and health care organisations, cultural entities, youth outreach services, the national network of Työ- ja Elinkeinministeriö (TE) employment services offices, as well as church parishes and various 'Third Sector' community groups. Co-operation of a similar kind, and on a similar scale as occurs in Finland, is needed to overcome the deep problems of precariousness and uncertainty now confronting young people in Australia.

Key Priorities for Young Workers

Among the lessons that Australian policy makers can learn from the Finnish VET and employment services systems which might improve policies and outcomes for young workers in Australia, the idea of a Youth Guarantee in particular has the possibility to greatly improve the school-to-work transition.

By investing in debt-free, competence based skills training, combined with on-the-job experience and financial support, the Australian government can reduce the long-term unemployment rate of young people. However, this decision requires the political will to engage in these significant reforms. It requires buy-in not just from policy makers, but from trade unions, business leaders and community groups. While the Finnish example provides some insights into how a future Australian system might be structured, there is also some local evidence to support the validity of these reforms.

The Victorian Government is strongly investing in VET as a key pillar of its policy agenda. Although there has been little academic study of that investment yet, the initial reports are positive. In January 2019 over 3 000 Victorians had enrolled in 'Free TAFE' priority courses since they were announced.⁷² This preliminary outcome holds promise that positive Finnish-style vocational education changes could be implemented more widely in Australia.

⁷² See: <https://www.premier.vic.gov.au/victorians-rush-to-start-free-tafe/>