



Payment Levels and Unemployment – The Facts

What leads to reduced unemployment?

Arguments to support the current Welfare to Work Bill (2005) include the view that putting people onto lower payments with increased activity requirements will result in more people finding work. While ACOSS is supportive of the Government's goal of moving people from welfare to work, there is no evidence lowering payment levels decreases unemployment. Instead, countries that have invested heavily in employment assistance have been most successful in reducing unemployment and reliance on payments over the long term.

Is there evidence that reducing payments gets people into work?

Europe

Most European countries have social insurance payments. When a person loses their job, they receive in social insurance payments a percentage of what they used to earn. After a period of time (usually 1 or 2 years) they are no longer entitled to social insurance payments and receive a lower social assistance payment. The fact that people get jobs just before they are due to go onto the lower payment is sometimes used to argue that lower payments increase work incentives. Differences between the European system and Australia include:

- Typically in Denmark payments are 90% of the previous wage.
- In France payments are 60-75% of the previous wage.
- In Australia, unemployment payments are around 50% of a typical low income wage in Australia.

US

The US has low rates of payment and a low rate of unemployment at 5%. These facts have been used to argue that low payments results in increased employment and reliance on social security payments.

The reality is that:

- Because wages are so low, the Government pays an Earned Income Tax Credit to people who are working in low paid jobs and a higher rate of credit is paid to parents. Expenditure on the Earned Income Tax Credit now far exceeds spending on payments to jobless parents.
- People cycle between low paid jobs and payments – a study of unemployed people by the Urban Institute found one third of people who went from welfare to work were back on payments in a two year period.
- Income support payment levels have reduced slowly over time and cannot be linked to reductions in unemployment which has only been reduced from 6.9% in 1993 to 5.5% in 2004.
- Low payment levels have been linked to increased rates of child poverty – currently 22% of children live in poverty.

What has been successful in lowering unemployment?

Countries that have had dramatic successes in lowering unemployment tend to be those who have invested heavily and strategically in employment assistance for unemployed people. For example:

- Denmark reduced unemployment from 9.6% in 1993 to 5.4% in 2004 by spending 3 times more on employment, training and employment counselling than Australia.
- Denmark spends 1.6% of Gross Domestic Product on active labour market programs, among the highest in the OECD. Australia spends just 0.5% of GDP on such employment programs.
- Ireland devised a National Anti-Poverty Strategy in the late 1990s that helped reduce unemployment from 11.3% in 1996 to 6% in 2004. It reduced long term unemployment from 4% to 1.2% from 1997-2001.
- The Irish National Anti-Poverty Strategy resulted in increased numbers of people moving from welfare to work by boosting spending. In 2001 it was spending 1.14% of GDP on active labour market programs and it also raised levels of unemployment payments to reduce poverty.

ACOSS has been calling on the Government to create and implement a National Anti-Poverty Plan in Australia to tackle the combined issues of unemployment, poverty, homelessness and housing, education and services.

How do payment rates and unemployment interact in Australia?

In Australia there are still many people who are jobless and have been for some time despite relatively good economic times. The facts are:

- 330,000 people are on long term unemployment payments.
- 800,000 children in Australia are growing up in households where no one has a job.
- 700,000 people are on disability support pensions, many of whom want to work.
- 600,000 parents are on parenting pensions, many of whom want to work.

Payment levels are not a significant factor in determining incentives to work:

- If a single person on unemployment payments gets a full time job at the minimum wage, their income goes from approximately \$200 a week to \$400 a week.
- A Reserve Bank study of jobless people over time found few people refused job offers and concluded that the lack of job offers was the main reason people were still unemployed. Payment levels were not a causal factor in continuing unemployment.

Effective marginal tax rates & the move in the Welfare to Work Bill to put more people on unemployment payments will act as a disincentive to work:

- The taper rate at which payments cut out as people gain work varies for people on pension payments (Disability Support Pension & Parenting Payment) compared to unemployment payments (Newstart and Youth Allowance). People on unemployment payments lose 60 cents in every dollar they earn when they work compared to 40 cents for people on pension level payments.
- A jobless single parent who gets 15 hours of minimum-wage work a week gets a 19% increase in income if they are on unemployment payments compared to a 32% increase if they are on pension payments.
- A jobless person with a disability who gets 15 hours of minimum-wage work a week gets a 38% increase in income if they are on unemployment payments compared to a 52% increase if they are on pension payments.

Sources: ACOSS 2005, Submission to Senate Community Affairs Committee Inquiry into the Welfare to Work Bill, DEWR, 2005. OECD, *Employment Outlook*, 2005. ACOSS, *International Comparisons of Anti-Poverty Plans – Lessons for Australia*, October 2004. ACOSS, *The Bare Necessities – Poverty and Deprivation in Australia Today*, June 2003. RBA Research paper No 1999/01. RBA Research paper No 1999/2. Loprest, *Families who left welfare: who are they and how are they doing?* Urban Institute, 2003. Brookings Institution Policy Brief 13, 2002.