

**Commentary:**

**Unemployment and the Newstart Allowance**

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**1. Introduction**

This paper shows that keeping the Newstart Allowance constant in real terms at a poverty level does not lead to the unemployed finding jobs more rapidly. Although Prime Minister Morrison has boasted about the job-creation record of the Coalition government (creating over one million net new jobs since coming to office in 2013),<sup>1</sup> and the unemployment rate seems to be at a relatively low level, Australia continues to experience significant problems of long-term unemployment (and broader forms of labour underutilisation, such as underemployment).

According to traditional economic theory, when unemployed workers search for work, they would reject job offers that offer a lower wage than their “reservation wage”. If they have access to unemployment benefits, they can set a higher reservation wage: the higher the unemployment benefits, the higher the reservation wage, and hence a longer period of unemployment until they find a job with acceptable pay.<sup>2</sup>

This view that unemployment benefits “cause” unemployment seems to provide the Australian government justification for keeping unemployment benefits (Newstart Allowance) at very low levels, as well as requiring a so-called “activity test”. At present to be eligible to receive the Newstart Allowance, unemployed people are required to apply for at least twenty jobs each month<sup>3</sup>. There are significant penalties involved if an unemployed person fails to attend a job interview, or if they reject any “reasonable” job offer. A breach can lead to the loss of all or a substantial part of their Newstart Allowance for a period of time. According to this theory, these policies will provide the unemployed with the “appropriate” incentives to make a significant attempt to find a

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<sup>1</sup> For a critical review of those claims, see Stanford, Henderson and Grudnoff (2019).

<sup>2</sup> See Phelps et al. (1970), Diamond (2011), Mortensen (2011), and Pissarides (2011).

<sup>3</sup> See <http://guides.dss.gov.au/guide-social-security-law>

job; the very low level of unemployment benefits is also intended to ensure that the unemployed would accept almost any job offer that resulted from that search.

Given these harsh penalties to compel unemployed workers to actively seek and accept employment (even in undesirable positions), one would expect that in the presence of reasonable job vacancies the unemployment queue would be very small, and there would be very few people experiencing long durations of unemployment. However, the official data show that long term unemployment (especially for both younger and older workers) is substantial, and has been getting worse over the years.

## 2. Newstart Allowance and Average Weekly Earnings

Research by Deloitte Access Economics (2018), conducted for the Australian Council of Social Service (ACOSS), shows that although average weekly earnings have increased in real terms, the Newstart Allowance has remained almost constant since the year 2000.

A single person’s Newstart Allowance was \$224.65 per week in September 2008. By the time the Coalition Government was elected in September 2013 under the leadership of Prime Minister Tony Abbot, Newstart was \$250.50 per week. In June of 2019 it was \$277.85 per week. However, in real terms (using September 2008 as the base year) the real value of the Newstart Allowance was essentially constant since 2008 (see Table 1). This is because Newstart benefits are indexed (twice per year) to CPI inflation.

However, given that average weekly full-time ordinary time earnings increased more rapidly over the same period, the relative size of Newstart benefits compared to wages has continued to fall. Therefore, if unemployed workers compare Newstart with their expected average earnings, they should conclude that the net benefits of accepting a job offer should be more compelling – and thus unemployment would fall. The level of Newstart benefits relative to earnings fell from 19.6 per cent to just 17.0 per cent over the same period.

**Table 1: Newstart Allowance (NSA) and Average Weekly Ordinary-Time Earnings**

Quarter	Nominal NSA	Real NSA, 21+	Adult Nominal Earnings	NSA/ Earnings (%)
Sept 2008	\$224.65	\$224.65	\$1,143.30	19.6%
Sept 2013	\$250.50	\$223.28	\$1,437.00	17.4%
June 2019	\$277.85	\$224.36	\$1,634.80	17.0%

*Source:* Author’s calculations from Department of Social Services (2019a) and ABS Catalogues 6302.0 (Table 2) and 6401.0 (Table 1). Earnings refer to average full-time ordinary time weekly earnings, seasonally adjusted data.

## 3. Newstart Allowance Recipients under Coalition Government

If we consider the period since the Coalition Government was elected in September 2013, we find that the number of long term unemployed (defined as duration greater

than 52 weeks) increased substantially (see Table 2). The percentage of all unemployed who had been unemployed for one year or longer also increased from 18.9 per cent to 22.1 per cent.

**Table 2: Long Term Unemployment**

	<b>Long-Term Unemployed (over 1 year)</b>	<b>Share of All Unemployed (%)</b>
<b>Sept. 2013</b>	131,177	18.9
<b>March 2019</b>	150,488	22.1

Source: Author's calculations from ABS Catalogue 6291.0.55.001.

Long-term unemployment has also grown notably among two categories of especially vulnerable workers: younger workers (aged 15-24) and older workers (aged over 55). Within these groups, the number of workers unemployed for one year or longer also increased over the period of the Coalition government, despite the fact that total unemployment and the unemployment rate declined over this period (see Table 3).

**Table 3: Duration of Unemployment (youths and older unemployed)**

	<b>Unemployed by Duration</b>			<b>All Unemployment</b>	<b>Share Long-Term</b>
	<b>1-2 yrs</b>	<b>Over 2 yrs</b>	<b>Total long term</b>		
<b>Young Workers (15-24)</b>					
Sept.2013	23,600	15,800	39,400	259,500	15.2%
June 2019	30,100	19,600	49,700	252,000	19.7%
<b>Older Workers (over 55)</b>					
Sept.2013	12,400	15,400	27,800	74,000	37.6%
June 2019	10,500	20,900	31,400	91,200	34.4%

Source: Author's calculations from ABS Catalogue 6291.0.55.001, Data Cube UM3.

The number of people registered for the Newstart Allowance also increased significantly over the period since the Coalition was elected in 2013, despite recent declines in the unemployment rate (see Table 4).

**Table 4: Newstart Allowance Recipients**

	<b>Newstart Allowance, Long Term</b>	<b>Newstart Allowance, Total</b>	<b>Share on Long-Term (%)</b>
<b>Sept. 2013</b>	453,405	693,589	65.37
<b>March 2019</b>	542,028	713,529	75.96

Source: Author's calculations from Department of Social Services (2019b).

Table 5 depicts the distribution of the Newstart Allowance recipients by the duration they have been receiving benefits. Over two-thirds of recipients have been receiving benefits for more than one year; about one fifth have been receiving them for more than 5 years. The average duration of benefits is over 3 years (156 weeks). It is hard to believe that there are people living on poverty-level benefits for many years at a time, just because they were waiting for a job offer with sufficiently attractive wages (relative to their “reservation wages”). Clearly there are deeper problems contributing to long-term unemployment, including most importantly a shortage of work. And workers who experience long-term joblessness find it increasingly hard to compete for the scarce jobs that are available, creating a vicious cycle which keeps them out of work even longer.

**Table 5: Duration on Newstart Allowance, December 2018**

	<b>Under 1 year</b>	<b>1&lt;2 years</b>	<b>2&lt;5 years</b>	<b>5&lt; 10 years</b>	<b>10 years+</b>	<b>Average duration (weeks)</b>	<b>Total</b>
<b>Receiving Newstart</b>	241,415	128,139	200,196	125,408	27,765	156	722,923
<b>Percentage of all Newstart Recipients</b>	33	18	28	17	4		100

Source: Author’s calculations from DSS Payment demographics dataset Dec 2018.

#### **4. Conclusions**

In this paper we have argued that the poverty level Newstart Allowance is not somehow preventing or discouraging unemployed workers from finding work: even though their reservation wage must be very low, they do not find job offers that they find acceptable (or may not receive job offers at all). Under these circumstances it is imperative that the Newstart Allowance be increased to a level that is sufficient for a person to live in ordinary circumstances above the poverty level. Besides the ACTU and ACOSS, it is interesting that even the Business Council of Australia is recommending an increase in the Newstart Allowance.

## References

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