

UNEMPLOYMENT PAYMENTS

2022





ABOUT THIS PUBLICATION



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Andrew Barker joined CEDA in 2022 as a Senior Economist based in Brisbane. He was previously a Senior Economist and Head of Desk in the OECD economics department, focusing on climate, labour market, productivity and housing policy. As a Research Manager at the Productivity Commission he led quantitative work on water, gas and labour markets and contributed to public inquiries on infrastructure access, automotive manufacturing, service exports and the economic effects of migration. Andrew holds a Master of Commerce (economics) and First Class Honours degrees in economics and environmental engineering from the University of Melbourne.

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CEDA's submission to the Employment White Paper focuses on policy reforms to deliver a more dynamic labour market – breaking down barriers to workers moving across jobs and to more people participating fully in work. Looming structural adjustments including digital transformation, the energy transition and an ageing population will require an adaptive and agile labour market to deliver labour and skills where and when they are most needed. In preparation for these transitions, Australia needs to reverse long-term trends of declining dynamism and job mobility, while addressing entrenched barriers in the labour market. To this end, the submission will comprise five individual papers on skills recognition, housing market barriers, occupational gender segregation, training for the long-term unemployed, and the structure of unemployment benefits.

Relevant themes for Employment White Paper: Future of work and the implications of structural change; workforce adaptability.

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About CEDA

CEDA is Australia's leading member-driven think tank. Our purpose is to achieve sustainable long-term prosperity for all Australians.

Our trusted independence, and a deep and broad membership base that extends across all sectors, states and territories, enables us to bring diverse perspectives and insights to guide and advance policy debate and development in the national interest.

We aim to influence future economic, social and environmental outcomes by:

- Promoting public discussion of the challenges and opportunities facing Australia;
- Enabling members to shape future outcomes through policy and their own actions;
- Partnering and collaborating to tackle emerging opportunities and entrenched challenges; and
- Advocating for policy change based on our independent research insights.

Our work is overseen by our independent Board of Directors and our research is guided and approved by an independent Research and Policy Committee whose members are leading economists, researchers and policy experts.

SUMMARY



The absence of public unemployment insurance and low payment rates under JobSeeker mean that most Australians who lose a job face large income losses in the year after being made redundant, compared with other countries.



Australian unemployment benefits as a share of the average wage rank second lowest among 35 OECD countries for someone who has lost a job in the past two months.



Large income losses can contribute to Australia's low job mobility and poor skills matching.

- Combined with risk aversion, this can mean people are unwilling to move to a higher skilled but less secure job.
- Those who lose a job can face a financial imperative to take the first job, rather than the best job.



The cost, complexity and potential unintended consequences of unemployment insurance evident in other countries weaken the case for its introduction in Australia at present. Rather, policymakers should prioritise reforms that increase job mobility within the existing social welfare structure through:

- A higher rate of payment for JobSeeker benefits; and
- Making long-service leave portable across employers.

Recommendations

CEDA makes three recommendations to increase income security and support job mobility:



INCREASE JOBSEEKER PAYMENTS

Draw on the findings of the Economic Inclusion Advisory Panel to increase JobSeeker payments as part of future Budgets, while maintaining cyclically appropriate fiscal policy.



MAKE LONG-SERVICE LEAVE PORTABLE

Make long-service leave portable across all employers, with employers responsible for financing leave balances as they accrue.



BETTER ACCESS TO TRAINING

Increase access to mid-career training, particularly for those at risk of losing jobs due to structural adjustment.

"Unemployment benefits as a share of the average wage are very low in Australia for someone who has lost a job in the past two months, ranking second lowest among 35 OECD countries."

Australian unemployment benefits are paid at a constant rate of \$668.40 per fortnight (for a single person with no children), with no direct link to time in unemployment or previous wages. This is different to almost all other developed countries, where benefits are higher initially – usually a portion of the previous wage – and step down at some point to a lower rate.¹ The initial high rate cushions the temporary income shock and provides the opportunity to find new employment, while the subsequent lower rate is a disincentive to longer-term unemployment. The profile of unemployment payments in Australia is thus very different to the norm across other developed countries (Figure 1).

Among OECD countries, only Australia and New Zealand do not have unemployment insurance,² and in New Zealand the government, Business New Zealand and the NZ Council of Trade Unions have proposed a new income-insurance scheme.³ Voluntary private unemployment-insurance markets do exist in Australia, often as an option to income protection policies. However, very few workers are covered because those who opt-in do so in the knowledge that they are relatively likely to lose their job, pushing up average payouts and thus premiums.

Unemployment benefits as a share of the average wage are thus very low in Australia for someone who has lost a job in the past two months, ranking second lowest among 35 OECD countries.⁴ The rate of unemployment benefits in Australia is also below the OECD average for the long-term unemployed (Figure 1). Unemployment benefits are almost 30 per cent lower than the basic pension payment of \$936.80 per fortnight. Even after including rent assistance, unemployment benefits are still 36 per cent below the relative poverty line for a single adult.⁵ The adequacy of income support payments will be a focus for the Federal Government's new Economic Inclusion Advisory Panel.

Even after including rent assistance, unemployment benefits are still

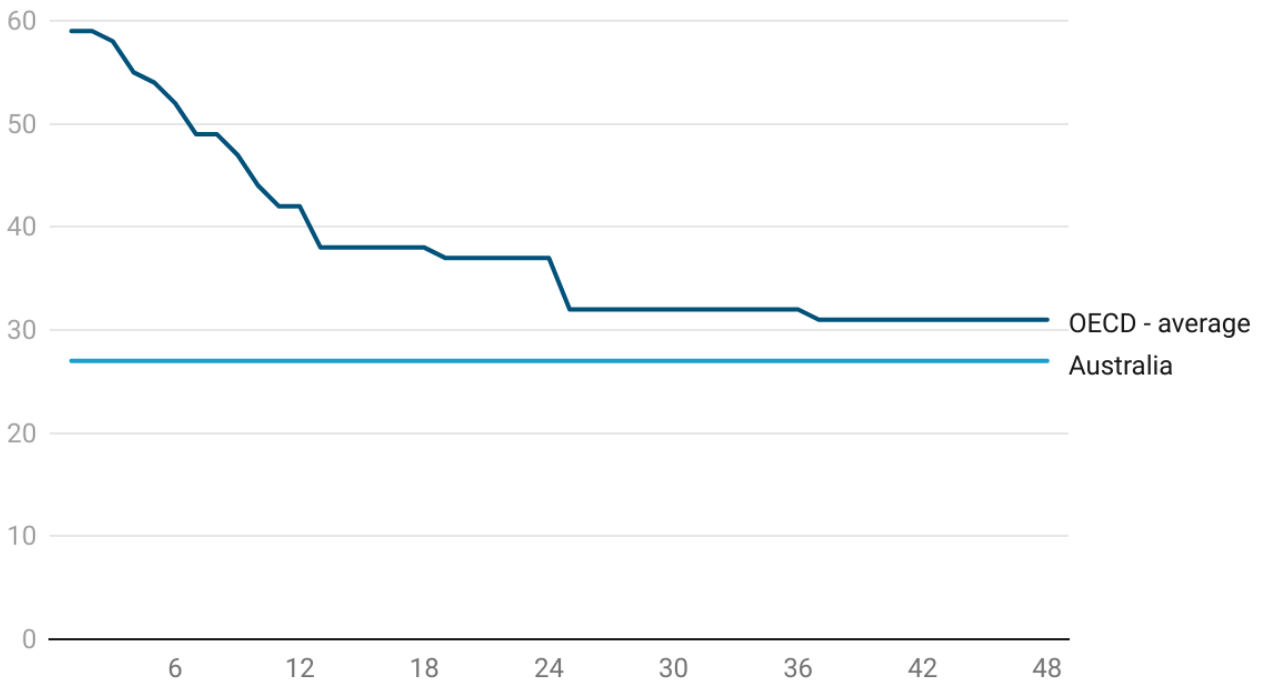
36% below

the relative poverty line for a single adult.

FIGURE 1

The profile of unemployment payments is unusual

Per cent of average wage, by months spent unemployed



Source: OECD tax-benefit model • Created with Datawrapper

Dynamic markets can lead to job displacement

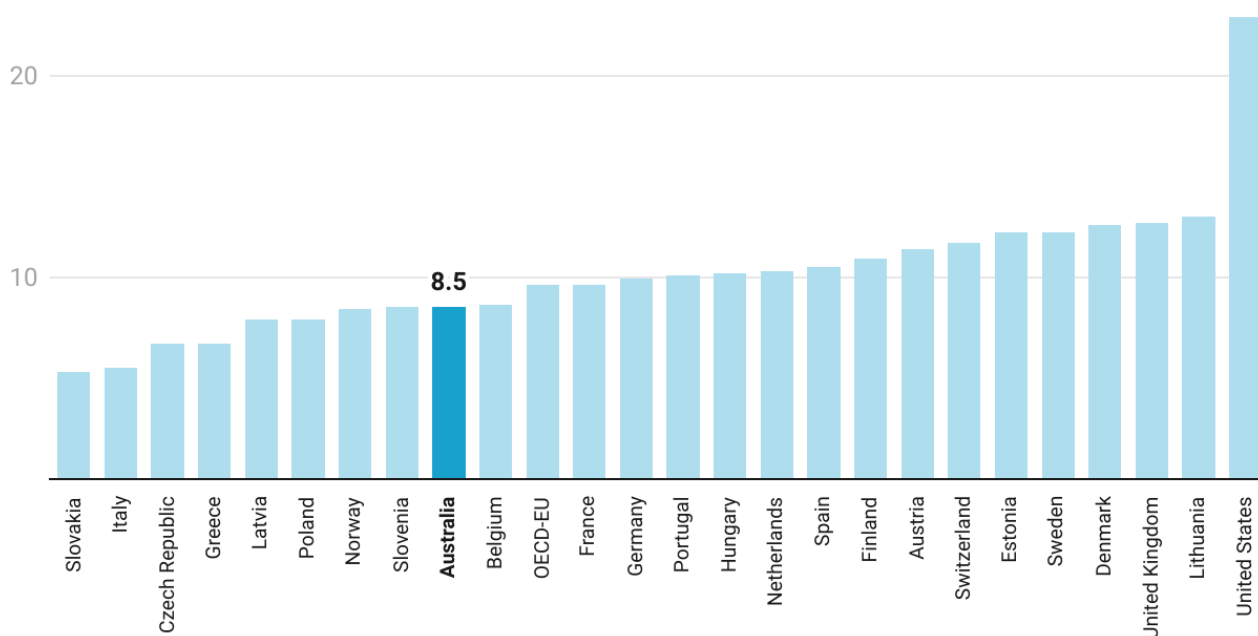
Looming structural adjustments including digital transformation, the energy transition and an ageing population will require an adaptive and agile labour market to deliver labour and skills where and when they are most needed. In the near term, rising interest rates and tighter funding conditions for start-ups mean that redundancies are set to increase. Previous experience, including during the global financial crisis, demonstrates that effectively navigating significant shocks to the labour market requires greater flexibility. However, job mobility in Australia has been on a declining trend over the past three decades⁶ and is low by international comparison (Figure 2). This is of concern because job mobility is associated with greater wage growth, both for those who move to a new job and those who stay where they are.⁷

"In the near term, rising interest rates and tighter funding conditions for start-ups mean that redundancies are set to increase."

FIGURE 2

Job mobility is low by international comparison

Proportion of employed people who changed jobs during the year (2019, %)



Job to job transitions for the United States are annualised from the quarterly rate of around 5%. The annual figure is thus an upper bound as it may count some workers twice where they change jobs in successive quarters. Labour market transitions for Australia are for all workers aged 15+, whereas for European countries they are for workers aged 15-74. OECD-EU is the average for OECD European Union economies.

Source: Causa, Luu and Abendschein 2021, Labour Market Transitions Across OECD Countries: Stylised Facts, OECD Economics Department Working Paper No. 1692; and ABS 2022, Job Mobility. • Created with Datawrapper

Greater productivity and thus incomes can be achieved by adopting new technologies and supporting those negatively affected as adjustments such as automation and the energy transition occur. For example, Fortescue Metals Group has embraced automated technology in its vehicles and drills, contributing to a 75 per cent cut in costs per unit of production in the six years after it first deployed autonomous haulage technology in 2012.⁸ While this resulted in some driving jobs becoming redundant it also created new opportunities in remote operations from Perth, offering greater flexibility around location and working hours as greater cost competitiveness contributed to an expansion of operations. In the Australian mining industry as a whole, labour fell by seven per cent as a share of costs between 1995-96 and 2019-20 (the biggest decline of any industry), but employment still increased strongly as new investment and strong external demand drove greater output.⁹ Another relevant example is in agriculture, where precision broadacre farming has reduced labour intensity while reducing water and chemical inputs, thus increasing productivity.

People fired or made redundant face an average income loss of over

30%

in the following year and their incomes continue to lag for several years.

Where demand and external competitiveness are less favourable, adopting new technology and shifting production techniques can lead to job loss. Supporting the incomes and (re)training of those who lose jobs can smooth the transition and is far better than seeking to provide greater job security by resisting adjustment, which would hold back the productivity and international competitiveness of Australian firms. For example, decades of transitional assistance to automotive manufacturing firms (estimated at \$30 billion between 1997 and 2012) slowed but did not prevent job losses.¹⁰ Rather, protecting selected industries or firms from adjustment places greater pressure elsewhere.

Big income losses can impede skill matching

A consequence of a low constant rate of unemployment benefits is that Australians face big income losses when they lose a job. People fired or made redundant face an average income loss of over 30 per cent in the following year and their incomes continue to lag for several years (Figure 3).ⁱ This compares with an average income loss of 12 per cent or less in the United States¹¹ and in Nordic¹² countries, which are characterised by dynamic labour markets with high job mobility. Analysis by the Reserve Bank indicates that even after accounting for differences in characteristics between those who lose jobs and those who stay on, job loss causes a 20 per cent decline in net earnings after taxes and government benefits.¹³ Most people who lose a job do not qualify for unemployment benefits due to ownership of assets or spousal income, and the value of benefits has fallen significantly relative to average earnings.¹⁴

Redundancy pay cushions income losses for some Australian workers, but most people who are fired or made redundant do not get redundancy pay (Figure 4). Even fewer workers received redundancy pay during the COVID-19 pandemic as job losses were concentrated in the hospitality industry, among the young, for casual workers and in small businesses¹⁵ – all of which make redundancy pay less likely.

ⁱ This estimate matches that from OECD (2016) *Back to Work Australia: Improving the Re-employment Prospects of Displaced Workers* using the same methodology applied to an earlier release of the HILDA survey. HILDA data for 2020 suggest that people who lost jobs during the early stages of the COVID-19 pandemic suffered a greater income loss (over 40%) even after accounting for more generous government benefits, but this may be distorted by the 2020 survey being undertaken during lockdowns and longer term conclusions cannot be drawn until more data are available.

Some displaced workers get very large payments, averaging around \$200,000 for the top five per cent of payouts. As it accrues with years of service, redundancy pay (along with long service leave) can work against labour market dynamism and job mobility,¹⁶ as employees are incentivised not to leave a job voluntarily and give up these benefits.

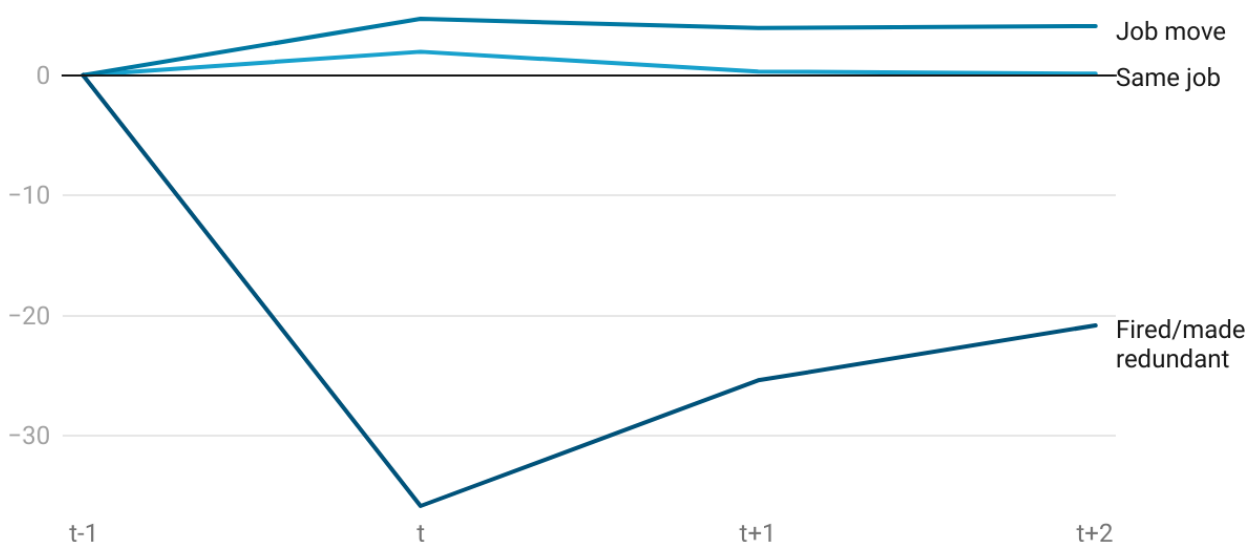
Large income losses are one explanation for low job mobility in Australia. Income insecurity has been identified as an important driver of subdued job transitions, as risk aversion deters workers from moving to reach higher rungs on the job ladder.¹⁷ In particular, workers may be reticent to move to a new job if they are concerned that this will make them more exposed to layoffs under a 'last in, first out' approach.

Income insecurity can further impede skill matching through poorer job matches after job loss. In Australia, faced with substantial income loss, people who lose a job often have little capacity to search for a better matched job but rather may be forced to take a new job quickly. This also restricts financial capacity to undertake further training to meet the skill needs of better job opportunities. As shown in CEDA's skills recognition submission to the Employment White Paper, skill matching in Australia is relatively poor, and the financial imperative to take a new job quickly may be one explanation for this. The requirement to take the first job, rather than the best job, is particularly important for individuals with low savings¹⁸ or with large mortgages that they must service. It has also been found to be important for migrants, with skill matching worsening when restrictions on access to welfare for recent immigrants were tightened.¹⁹

FIGURE 3

Earnings fall significantly for those who lose their job

Real gross earnings, % change from year t-1, average 2001-2020



Job move: moved to a new job between year t-1 and year t for reasons other than being fired or made redundant. Earnings include wages and salaries as well as government transfer payments. Redundancy pay is excluded except to the extent that it is included in weekly gross wages at time of interview.

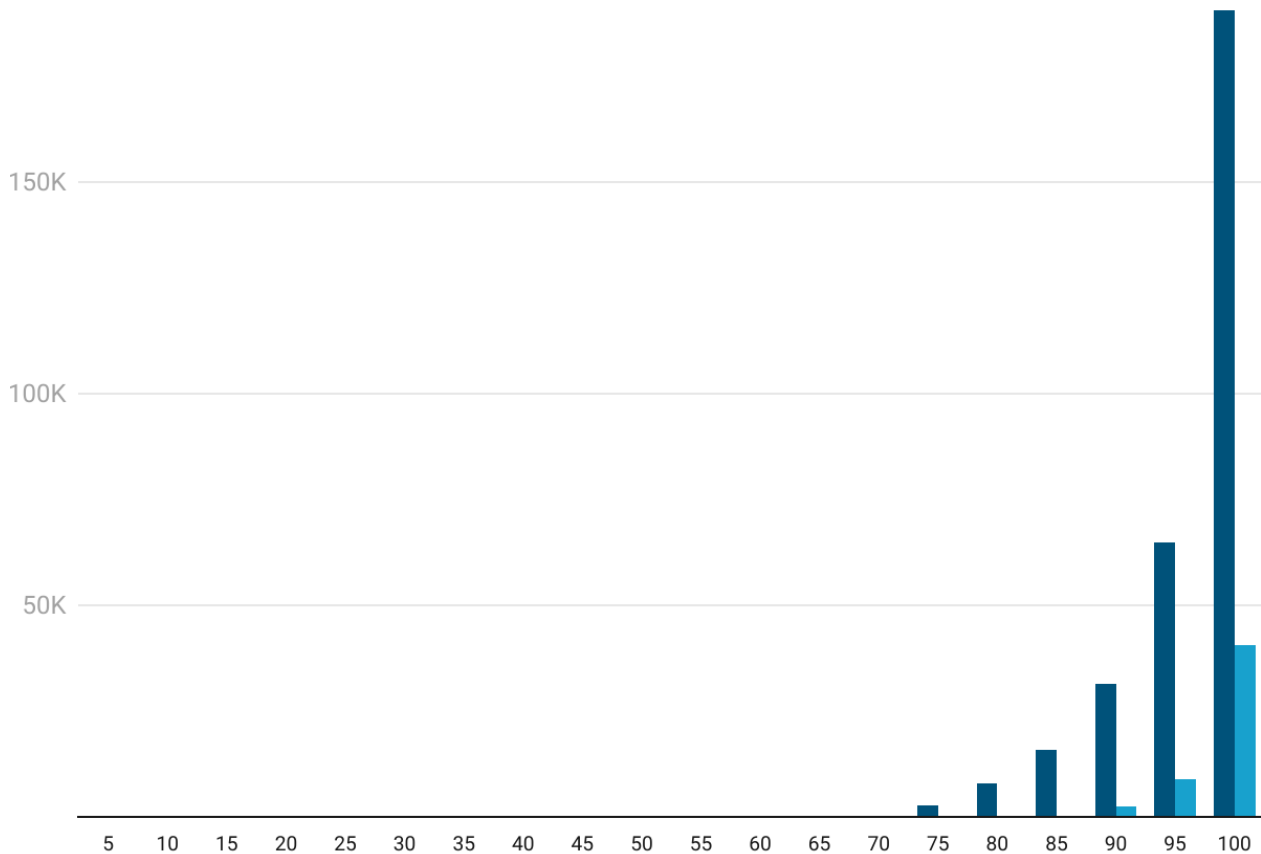
Source: HILDA waves 1-20 • Created with Datawrapper

FIGURE 4

Redundancy pay was less generous during the pandemic

Average redundancy payout, \$ real (2020)

■ 2001-2020 ■ Lost job due to covid



This chart shows the distribution of redundancy payments for people fired or made redundant. Each column is the average payment up to that percentile of redundancy pay e.g. the far right columns are the average payment for redundancy pay between the 95th and 100th percentiles.

Source: HILDA waves 1-20 • Created with Datawrapper

Unemployment insurance has limitations

The common use of public unemployment insurance in other countries provides valuable lessons on potential pitfalls. For example, in France the socialisation of the costs of dismissal through social insurance provides an incentive to present voluntary departures as dismissals – indeed there is a specific mechanism to do so via ‘termination by mutual consent’, which can contribute to bringing forward effective retirement dates financed by the unemployment-insurance system.²⁰ Another cautionary example comes from Canada, where income from unemployment insurance is regularly used to support incomes of seasonal workers in Atlantic provinces during the off season, reducing the incentive to take a year-round job.²¹ Unemployment insurance systems thus need rules to prevent overuse of higher benefits.

On its own, unemployment insurance is insufficient to deliver greater job mobility. For example, Italy and France have low job mobility despite relatively generous unemployment insurance for the first year of unemployment. Other policies are important to enable job mobility, including flexible labour market policies that do not create substantial barriers to hiring and firing,²² and housing policies that do not create barriers to moving for work (see CEDA submission on “Housing affordability and labour mobility”).

Unemployment insurance carries substantial costs that need to be funded, typically by social-insurance contributions from employers and/or employees. This reduces take-home incomes for people in work and hence also reduces incentives to work. These costs need to be set against the benefits from income protection and better job matches when people lose jobs. Under one proposal, the Blueprint Institute has estimated that unemployment insurance paying 70 per cent of prior wages (capped at \$2692 per fortnight, equivalent to 70 per cent of a \$100,000 annual salary) for up to six months could be funded by a one per cent levy on income above \$22,800/year.²³

Increase JobSeeker payments and remove barriers to mobility

There are measures that can be taken to ease the income shortfall after job loss within the existing structure of unemployment benefits. Increasing the generosity of JobSeeker payments would maintain a targeted social safety net while providing greater support for those who need it. This should be a priority for future budgets, with the magnitude and timing of increases informed by the advice of the new Economic Inclusion Advisory Panel. While unemployment payments in most other developed countries are higher for someone who has recently become unemployed, matching this would require a more substantive shift to an unemployment insurance system that is not justified at present (see below), as funding higher initial payments through the budget would undermine targeting to those most in need.

The Parliamentary Budget Office has estimated that a \$95/week increase in allowances (a 28 per cent increase for a single adult) would cost the federal budget about \$5 billion per year.²⁴ An increase of just over \$170/week (50 per cent) would bring JobSeeker payments in line with the relative poverty line and cost the budget around \$8 billion per year.²⁵ Operating through the budget process will enable funding decisions to be made consistent with the overall fiscal policy stance. For example, if unemployment remains low and capacity constraints tight, then funding should come from cutting expenditure elsewhere or increasing taxes to avoid expanding the structural deficit.

Making long-service leave portable across employers would reduce a barrier to mobility and increase the income available to people who lose a job after changing employers. Portable long-service leave schemes exist already in specific

sectors, such as construction in Queensland and community services in Victoria. Broadening this to cover all employers and sectors would require clearly allocating the responsibility to pay for accrued long-service leave to the current employer, with accrued leave transferred to a new employer or paid out when an employee leaves a job.

A complementary response to career disruption from structural economic change is to increase access to mid-career training. As Federal MP Daniel Mulino has set out, this could use “live, granular data to provide post-school training authorities with the capability to change course structures quickly to match skills requirements of emerging jobs.”²⁶ Intensive training targeted at the long-term unemployed is thus one way to assist those affected by structural change and bring more people into the labour market (see CEDA submission on “Training for disadvantaged workers”). Higher payment rates under JobSeeker could complement this, providing greater capacity for people who have lost jobs to choose to undertake some training rather than being forced into a new job immediately. A further possibility is government support for short university courses, as offered during the pandemic in key skill areas.

The case for pursuing unemployment insurance in Australia appears weak, due to its risks and complexities, coupled with the need for substantial funding. An insurance approach may have merit in future if widespread structural adjustments are leading to job losses and if self-insurance through savings, leave balances and redundancy pay proves insufficient to underpin good job matches. Progress with the income-insurance scheme proposed in New Zealand should be watched carefully to see how this works in a labour market with similar institutions to Australia. As of late 2022, 60 per cent of New Zealanders surveyed were opposed to the scheme.²⁷ Welfare groups in particular have been opposed, with the Child Poverty Action Group arguing that unemployment insurance would bake-in existing inequities by linking eligibility to prior employment and wages.²⁸

Note: This paper uses unit record data from Household, Income and Labour Dynamics in Australia Survey (HILDA) conducted by the Australian Government Department of Social Services (DSS). The findings and views reported in this paper, however, are those of the author and should not be attributed to the Australian Government, DSS, or any of DSS's contractors or partners.

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