

## In Debt and Out of Work

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## IN DEBT AND OUT OF WORK

by

Jan Carter



### Social Welfare Research Centre

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## FOREWORD

The research project on which this report is based was commissioned by the Social Welfare Research Centre to Jan Carter early in 1985. The aim of the project was to conduct an exploratory investigation of the extent of indebtedness among unemployed persons, as very little was known in Australia about this subject. It was to be expected that with the growth of unemployment, and particularly the entrenchment of long-term unemployment in certain sections of the labour force, indebtedness would be a serious problem for those whose income remained very low for a long time.

The findings reported in this study give some indication of the extent of indebtedness among the unemployed, but the report has to be regarded as a first step in the understanding of a problem which certainly calls for further and more extensive investigation. The data for the report was obtained from interviews with a sample of 160 unemployed persons who were in receipt of unemployment benefits. As the readers will see, close to one half of the sample (44%) was found to be in debt, and the amount of indebtedness varied considerably from one person to another. There were indications, however, that the amount of debt tended to increase with the length of unemployment.

Notwithstanding the limitations of this 'pilot' study, the report provides a considerable amount of data as well as indicating some directions which future investigations in this problem area might take. The explanation of the method used in the study may also be of value to other researchers who might want to pursue further investigations into this area of concern.

Adam Jamrozik  
Acting Director  
Social Welfare Research Centre

## INTRODUCTION

This project was commissioned as a preliminary exploration of the connection between unemployment and debt. Using recipients of unemployment benefits as an indicator of unemployment, the paper suggests that unemployment and debt are linked via the intervening variable of inadequate income, whilst employment and credit are associated through the mediator of adequate income. The line between credit and debt is a very fine one and today's credit can be tomorrow's debt.

Although in this preliminary study it has not been possible to elucidate the causal sequence relating unemployment to debt, there is some evidence that prolonged unemployment may exacerbate debt. From the preliminary screening study reported in this paper, it is possible to estimate that half the recipients of unemployment benefit at any one time are in debt, that their major debts are for debts of rental and transport, power and telephone. Those who are unemployed and who are not in debt may have more protective factors, such as part time work and savings to back them up.

It is not possible to review the question of unemployment and debt without drawing attention to the present national averages of consumer credit. In 1985 in Australia the estimated consumer credit net debt outstanding per head of population as a whole was \$1,315 (compared with \$290 in 1976). When one considers that the estimated average debt per respondent in the sample in this study of unemployment beneficiaries was said to be \$737 and that the consumer credit net debt figure applies to the population as a whole, not just to those within the age limits of recipients of unemployment benefits, an appreciation of the relative scales of debt and credit can be understood. Whilst the two figures are not strictly speaking comparable, they do give an appreciation of the modest scale of debts of those on unemployment benefits.

This paper introduces this complex subject and offers a series of hypotheses for other researchers to consider.

## 1. BACKGROUND

For years, some sociologists of deviance have said that any given category is meaningless without being defined by its apparent polar opposite. So for example, we recognise the presence of madness only by reference to the supposed norms of our community relating to 'good mental health'. We detect evil by lapses from the standards of respectability. We are aware of the presence of crime because we have law abiding citizens who illustrate the gulf between the law abiding and the criminal (Douglas 1970).

In the same way, much debt would not exist without the existence of credit. The dividing line between credit and debt is very fine and today's credit may become tomorrow's debt. Various rites de passage define the passing from the state of possessing a credit record to the state of possessing a debt record. In this paper the particular rite de passage with which we shall be concerned is unemployment.

The assumption of this paper is that very little is known about unemployment and debt. It is accepted that one of the major impacts of unemployment is that people are poor: those on unemployment benefits have a higher prevalence of poverty (along with those on sickness, supporting parents benefit, widows and invalid pension) than those on certain other pensions or benefits (age pension, service pension and war disability pension) (Gallagher 1985).

The brief of this paper is to examine the range and type of debt patterns, the duration of the debt and the unemployment, the personal, family and social consequences, and some of the broader political responses. Essentially, this paper is a preliminary attempt to define the territory by collecting some pilot data. It will not be possible to answer broad macro questions about debt and unemployment, as there are fewer social indicators bearing on the issue.

Does unemployment precipitate debt or does debt lead to unemployment? The implication of the work of the Australian Law Reform Commission is that unemployment is a causative factor in indebtedness (ALRC 1977) (Appendix A). Reports on unemployment from a social perspective also tend to regard debt as the consequence of unemployment (Brewer 1984). Brewer exemplifies this



when he says 'the current inadequate Social Security payments leave jobless people struggling to make ends meet and effectively denies access to a range of goods and services which for the rest of society constitutes necessities and rights ... public policy makers cling to a false notion that unemployment is a temporary problem ...' (p.65).

When a credit record becomes a debt record, an unemployed person needs to make an arrangement with his or her creditors. In some cases, some unemployed persons seek the help of mediators, either in the private sector (such as accountants, bankers or brokers) or in the public sector - government and non-government (social workers, financial counsellors or bankruptcy receivers). However practically no Australian information exists on the frequency with which these agents are consulted (FCA 1985).

Nor is there any Australian body of data about the number of unemployed persons who find themselves in difficulty with debts. A study performed for the Poverty Commission in 1974 examined a sample of 115 debtors in Adelaide who had been issued with court summonses. Of this group, 22 per cent had suffered 'some unemployment' in the 12 months prior to the summons, while 13 per cent had suffered 'considerable unemployment' (Sackville 1975). But this study took place ten years ago.

The current relationship between unemployment and debt is therefore problematic. There is a series of variables which would appear to be pertinent to both questions of unemployment and questions of debt and they shall be considered in turn.

The **increases in those unemployed** may be expected to have increased overall the number of debtors. In 1967 there were 86,800 unemployed persons in Australia, a number which had increased to 684,100 in 1983. This was a rate of 1.7 per cent in 1967 but a rate of 9.9 per cent in 1983 (ABS 1984).

Aside from the matter of the rate of unemployment other pertinent issues which bear on unemployment are first of all, the average **length of unemployment**. This rose from two months in 1973, to ten months in 1983 (ABS 1984). Brewer (1984) reported on a sample of 130 unemployed persons where the average duration of unemployment was 47 weeks. Thus, unemployment benefits are now offering social security to a group of people for whom they were

never designed. Second, the incidence of unemployment falls variously on **different groups** of people. To consider **age** for a start, the young (aged between 15 and 24 years) represent half the officially unemployed. It would also appear from small research samples (Brewer 1984, Birchall et al. 1983) that unemployment and poverty falls very hard on **families** with young children. There is also some evidence to suggest that unemployment falls harder on those who are either born outside Australia or born inside Australia, but Aboriginal. Women tend to suffer higher rates of unemployment than men and the unemployment rates are higher for those without post school qualifications (BLMR 1985).

To return to the issue of the length of unemployment, information is available from Department of Social Security data. It is probably the case that there have been changes in social attitudes, but in 1971 unemployment beneficiaries constituted only 27.4 per cent of ABS estimates of full time unemployed people. By 1981 however the proportion had risen to 96 per cent. The reason for this is not the concern of this paper. However it suggests considerable changes in the average duration of unemployment - in 1973 where the average duration was a matter of a few weeks, many people may have chosen not to apply for social security (BLMR 1985).

Long term unemployment and the implication that employment falls more heavily on certain groups than others suggests that length of unemployment and incidence of unemployment appear to be highly correlated. Broadly, lengthy unemployment seems to be highly related to considerable social and economic disadvantage (ABS 1984, Brewer 1984, Smith 1982).

Households with rent arrears are more likely to have an unemployed breadwinner than households without and the same is true for those with fuel or energy debts (Parker 1983). Brewer (1984) for example noted that half his unemployed sample had trouble keeping up with such payments.

The **source** of the debt is also an issue. Government utilities are often major creditors (housing, power and hospitals) (Brewer 1984). A study in Western Australia indicated that one major reason for seeking emergency relief in that State in 1983 was to pay energy bills (DCW 1983). A case by case analysis by the Welfare and Community Services Review in Western Australia of a small sample of clients referred to the Department for

Community Welfare for financial help, indicated that the major reason for application for discretionary payments other than for food was the need to clear debts with State instrumentalities, in particular power and housing (Carter 1984). In these circumstances, applications were typically from single parent or two parent families of children. In 13 cases analysed, because their request for emergency aid had been refused, it was found that the families were extremely impoverished. Four had no housing, three had no electricity, and five were about to have the electricity disconnected.

Parker (1983) suggests that the clustering of debts and their source differ for those on chronically low incomes compared with those whose incomes have fallen recently. She notes that when people in debt were asked what had caused their problems, that they referred to 'reduced' or to 'lost' income rather than to low income. This implies that a fall in income after stressful life events such as the loss of a job or illness may be responsible for debt. 'Primary debt' - (for housing and energy) is a feature of long term low income. 'Secondary debt' (for items less essential to maintaining survival, e.g. videos) is more often found amongst the commitments of those whose incomes had recently dropped, or those who had recently become unemployed (Parker 1983). In a UK study, examining differences between low income employed and unemployed groups, Parker found that the unemployed had taken on credit commitments to similar levels as the low income employed. 'Money borrowing was clearly and strongly associated with unemployment and moreover becomes more strongly associated as unemployment becomes long term, although the amounts borrowed were small' (Parker 1983).

Brewer's (1984) work in 'primary' debt suggests that for unemployed people in Australia, transport must be considered an essential item to searching for work. Without a car many unemployed people were restricted in their job search and in their capacity to take a job in an area not served by public transport. In Brewer's sample, about a third of the cases of unemployed people had a major outstanding financial commitment on a car.

Credit, or borrowing money, is therefore a matter for consideration in connection with debt and unemployment. For the poor, the 'real' cost of money is expensive. The Redfern Legal Centre, Sydney, undertook a survey on December 10th, 1984 on interest rates for unsecured loans of under \$2,000 (Woods 1985). The respondents were described as the 'recipients

of social security and the working poor'.

Effective interest rates were set out as follows

Credit Unions	16.5% - 20%
Banks	16% - 17%
Bankcard	18%
Finance Companies	20% - 36%
Department Stores	29% - 47.6%
Small Loan Companies	137% - 165.5%

Woods suggests that 'the class of credit-exploited are and will be constanly exploited by lenders of money unless an alternative to the existing lending criteria emerges. Persons defined as high risk defaulters attract high interest rates; whereas the lower the interest rate, the lower the weekly cost of the loan and the higher the likelihood of repayment'. The typical path of borrowing for some debtors has been tabulated as follows (Figure 1).

The increase in consumer credit over the past decade is an issue referred to in Appendix B. In 1985, the estimated consumer credit net debt outstanding per head of population (and minus loans for housing purchase) was \$1,315 (AFC 1986). (In 1976, the figure was \$290.) This suggests that consumer credit relates to consumer debt via the intervening variable of income, which in turn is affected by the variable, employment/unemployment. A loss of income or a reduction in income translates credit into debt. Therefore it could be hypothesised that adequate income, employment, and credit are associated whilst inadequate (or low income), unemployment and debt are associated.

FIGURE 1

THE PROGRESSION OF A DEBT

Economic	Financial and Legal	Social
Low wage	Cannot save for major consumer items Uses credit for car (Hire Purchase)	Worry about debts
Lose job	Miss credit payments (Hire Purchase)	More worry
Unemployment	Lower income Miss further payments Letter from Finance Company Notice under Hire Purchase Act - repossession Car removed  (Pay instalment and costs to retrieve car if client can borrow money) Car sold at auction (undervalued) Letter advising amount gained from sale and how much owing Debt for balance Default Summons Issues Court Proceedings Bailiff removes valuables	Increased family stress and anxiety     No transport i.e. isolated Lower employment prospects    Confusion and anger ( Fatalism anxiety and stress (

Source: Social Welfare Department, Victoria (1977) Financial Counselling Programme.

## 2. THE PROJECT

### Method of Enquiry

The project which follows is an attempt to estimate the frequency and size of debt in a sample of unemployed persons via a screening interview. With these issues in mind, it was necessary to consider where a sample of unemployed persons who were also indebted might be recruited. The pros and cons of selecting samples from any particular agency was considered carefully. This process is described in Appendix C.

A regional office of the Department of Social Security was singled out as the site for interviews with a sample of unemployment benefit beneficiaries. First an attempt was made to find a regional office with a mixed population - a population which represented a range of beneficiaries by age and by type of benefit (single or married). Second, access was important - a regional office was chosen where access to the city was possible since resources did not allow for travelling. Third, it was crucial to find a regional office where the staff would assist with the project. Although it was up to the project to recruit interviewees, it was critical that DSS staff, from the regional manager to the counter staff, facilitated the project.

In the end, a particular office, an inner suburban office serving a finger of metropolitan Perth was chosen. The assistance of the regional manager was obtained and meetings were held to determine the most effective way of undertaking the project. Procedures were adopted and discussed with DSS staff, interviewers were recruited and trained on a pilot study and finally interviewing took place for a one week period in early October 1985. The aim was to recruit a sample from a group of unemployment beneficiaries reporting to the DSS office during that period. It was hoped that this would provide a mix of unemployment beneficiaries from those newly commenced, to those providing their last income statement prior to returning to work. It should also demonstrate a range of beneficiaries from the short term to the long term.

In all, almost a thousand beneficiaries visited the office during the week of the survey. It cannot be regarded as a complete sample, as some

beneficiaries returned their income statement by post and others neither visited nor wrote to the office during the time of the survey. The procedure adopted was as follows:

1. When persons entered the DSS office it was necessary for the project to distinguish whether they had come on unemployment benefit or other DSS business. Inside the door to the office was a box to which unemployment benefit beneficiaries returned an income statement on an in-out, no-waiting basis. Numbers of those who approached the box were recorded.
2. The project co-ordinator then approached one in every five visitors to the box and asked them to take part in a survey. It was explained that an interview would collect opinions from people about difficulties they might be having with unemployment benefit, what their opinions were, and various suggestions they might make for change. Potential interviewees were told that they did not have to take part, although their help would be appreciated; that the survey had no connection with the Department for Social Security; that the project staff had not seen his or her file; that no information would be passed back to the Department; that all responses would be treated as confidential.
3. If the respondent agreed, the project co-ordinator then escorted the interviewee to an interviewer. This was difficult, because it involved taking the interviewee to a DSS interviewing room. It was therefore necessary at this point to reinforce the previous information; that the project was independent and had no connection with the Department.
4. If the respondent refused, the project co-ordinator approached the next visitor and those following in sequence, until a respondent agreed to participate. On obtaining an interview, the co-ordinator reverted to approaching one in every five visitors.
5. The purpose of the interview was to screen respondents by discriminating those who had debts from those who did not. A brief screening interview was administered (see Appendix D). If the

interviewee said he/she had no debts the interview normally lasted 7-10 minutes.

6. If the interviewee said he/she had debts, the interview time was usually doubled. Thus both respondents who claimed to be with and without debts were interviewed. A situational definition of debt, to discriminate the two groups of respondents, is reported on page 13. Despite the hurdles faced in recruiting the sample, (a difficult host environment; probing sensitive personal information whilst guaranteeing confidentiality) most interviewees seemed to appreciate the opportunity to report their experiences. At the end of the interview, when interviewees were asked if they would care to volunteer their first name and telephone number for possible follow up interview, almost all did.
7. During the week 999 visitors were recorded as visiting the office returning unemployment benefit income statements. This represented 33 per cent of the number of beneficiaires receiving unemployment benefits in this particular regional office. Overall, 286 of these were approached and asked to participate: 160 of these were interviewed, a 16 per cent sample of the visitors to the office; 126 persons were approached for interview, but declined to take part. Of these, 29 were not in the sample as they claimed to be returning the statement on behalf of a relative or a friend. This left 97 refusals, a rate of 10 per cent of those visiting the office and a third of those approached. The most frequent reasons for refusal of the interview were: in too much of a hurry (45); appointment to go to (14); car illegally parked (12); no wish to participate (10); English too poor (5).

## Results

In this sample, three quarters (120) of the sample of 160 were men, and three quarters of the sample were paid at single rates, the others being paid at a 'married' rate or 'married with children' rate. Six out of ten (59%) of the sample were Australian born (four only were Aboriginal) and of the rest, those born overseas, a quarter (25%) were born in the UK and had been here for longer than six years. Only a few (4%) had been in



Australia less than three years.

Only 19 (12%) of the sample had present part time work. In their past job, nearly four out of ten (38%) had been in unskilled manual occupations, with those from sales/retail/hospitality industry backgrounds next (18%). Skilled manual workers (15%) and clerical workers (8%) were other groups.

Two thirds of the sample (66%) had started on unemployment benefits during 1985; thus a third of the sample had been on benefits for more than nine months. 14 per cent had started on benefits in 1984; 13 per cent in 1983, and 7 per cent between 1980-1982.

Two thirds of the sample (107) were under 30 years and 15 per cent (23) over 40. Limited information was collected on the composition of the household. Nearly a third of the sample lived in a household with other unrelated adults; whilst nearly a quarter (23%) lived with parents. A fifth (19%) of the sample lived with a spouse without children and another fifth (19%) with siblings or other adult relatives. Only 12 per cent lived with a spouse and dependent children.

27 (17%) of the sample said they lived alone. Of the 133 members of the sample of 160 who lived with others, 38 (28%) lived in a household where all other members received benefits. Almost the same proportion (27%) lived in a house where some other members of the household received benefits. The largest group, however, (44%) lived in a house where no other members received benefits.

Members of the sample were asked questions about their attitudes to their financial situation. Fifty five per cent (88) of the group thought that unemployment benefit did not pay enough, although, surprisingly, a third thought it did and 10 per cent qualified their response by explaining that it depended entirely on one's commitments. (Owning a house and car was said to be a prerequisite to finding the benefit 'enough', as was paying board rather than rent.) Just over half (54%) estimated that the present level of benefits had led to hardship for them or the family, while two thirds thought their situation had got worse. A quarter (28%) thought it had stayed the same. Practically nobody except a few students

previously on TEAS and a few women with no previous income thought it had improved.

The average debt across the whole sample was calculated at \$737.00.

### **The Debt Group**

Our definition of debt had to be a subjective one, in that the perceptions of the respondent was accepted without validity checks against 'objective' data, e.g. bank statements, creditors' letters. (In this type of interviewing situation, of course, 'objective' data cannot really be measured. Further, without recourse to papers and without prior warning, respondents in this type of interview can only **estimate** the amount of money they owe.) We said: 'Most people have bills and money they owe. **What we are interested to find out are the bills people are behind in.** Could you tell me what type of bills you've got behind in right now so that you feel it's a debt? I'll read a list and you stop me when we get to a debt which applies to you.'

On this basis, just under half the sample (44%) said they were in debt. In the debt group alone, \$1,684.00 was the average debt (within a range of \$66 - \$33,000 - the top end of the range represented a business debt by a former funeral director who had undergone bankruptcy proceedings. (However, the percentage of respondents with business as opposed to personal debt was very small, just 4 per cent of the sample.) An attempt was made to review the debts of the most recent entrants to unemployment benefits, those 18 informants who had been on unemployment benefit for two months or less. The debts of the most recent entrants were less than those of the long term unemployed. On average, the group of recent entrants had debts of \$689 and a range of \$85 - \$2,000. The recent entrants were then contrasted with the 'long term' group, those 17 informants who had been on benefits for two years or more -starting in the period 1981-83. The total estimated debt in this period was \$61,721.00, an average of \$3,630.00, with a range of \$100 - \$3,000.

A comparison between these two groups has problems. The 1981-83 sample is incomplete, since the attrition rate from the 1981-83 group is likely to

be higher than from the recent group. However it does, at the very least, suggest that debts do not decrease, the longer people have been on benefits. From the data available, the implication is that indebtedness may increase, the longer people are on the dole although this would need to be explored more carefully. Certainly two thirds (67%) of the indebted group said their debts had increased since starting on unemployment benefits.

The examples which follow contrast the experience of those 'debtors' in the sample - those who have been longest on benefits with those who have just been recruited - the newest entrants to the social security system. The examples were randomly selected.

#### **Long Term Debts - Unemployment Benefits - Four Years or More**

1. George is a 45 year old man who began on benefits four years ago. He came from Singapore ten years ago, lives with his wife and three children. Formerly a dental technician, he said he and his family had suffered hardship and had \$500 worth of debt: he was in arrears on house payments, phone bills, dental bills, and council and water rates. He had been given gifts of money by his family, a grant for his wife's spectacles by the Department for Community Welfare and advice by the Department of Social Security Social Worker. He had no savings and expressed deep bitterness about his situation. 'We can't go out and we don't have enough to eat.'
2. Peter has been on unemployment benefits for four years. A 35 year old married man, he lives with his wife and four children. His parents, both pensioners, also live in the household. He has been in Australia from Burma for twelve years and his last job was as a process worker. He had no part time work or savings.

He has a car which doesn't work and which he can't afford to get repaired. He now owes \$670.00, on a fine in Victoria which he is paying off and for which he had been summoned. He had a previous tax bill which he has now paid.

He denied that the benefits had led to hardship although he felt the allowance was 'not enough'. The main personal problem was that

being unemployed was 'complex when meeting people'.

3. Hamish had been in Australia for twenty years and on benefits for four. He was paid at single rates. In 1981 he lost his job as a salesman. Aged 28 he had returned to live at home with his parents, pensioners; and because of this he said the rate of benefit was enough. His only outstanding current debt was \$1,000, borrowed from friends to buy a croupiers licence for the casino. Over the period he had borrowed considerably from friends but not from official agencies.

#### **Short Term Debts - Unemployment Benefits Less Than Two Weeks**

1. Jeannie is an 18 year old former shop assistant who has been on benefits for two weeks and was seeking reversal of her dismissal with the Industrial Tribunal. She was now living with her mother and younger sister: when she became unemployed, her flat broke up. She said she owed \$230.00; \$100.00 to her mother for board, \$70.00 for back dated power bills and \$60.00 for the phone. A friend had lent her \$40.00 but she said: 'I have no money at all and I owe such a lot.'
2. John has been on benefits a fortnight. He is a 25 year old single bricklayer. He shares a house with a friend who is working. He owes \$2,000 and his major debt is a hire purchase debt on paying off a car and a repair bill. He had not applied for benefits right away - he lost his job three months ago, but he had then expected to find a job quickly. All his savings had now gone. He had borrowed from his parents and made an arrangement with the credit company and said that sharing a house with a working friend made life tolerable. The major difference was that he said he had become lazy and depressed.
3. Mike had been on benefits for six months, was then employed for five months and retrenched one week previous to the interview. He had worked for a voluntary welfare organisation as a group worker. Aged 32, he lived alone. He had \$1,019.00 in debts: a car bill \$85.00, bankcard \$50.00, hire purchase \$64.00, dental bills \$50.00; overdraft (\$170.00) credit union loan \$200.00. He had planned his financial

life on the basis that he was paid \$200.00 per week and his credit was now debt. He would need to give up his psycho-therapy. He estimated that his basic costs per week (rent, SEC, phone, car, therapy) came to \$170.00 - double the unemployment benefit rate. A friend had lent him \$400.00 to tide him over.

Sixty two per cent of the informants owed less than \$1,000 - only 8 (11%) owed more than \$3,000. What about the nature of the debts of the group who owed money? A third of the sample (35%) said they were in debt on housing bills. Of these, the largest group owed money to private landlords. A similar sized group (34%) owed money on transport hire purchase; for car, truck or bike. Almost the same sized group (31%) were in debt to power and telephone authorities. Just over a quarter (27%) had credit card debts and the same sized group were in debt to relatives and friends. An eighth (23%) owed money on hire purchase, (15%) were in debt because of medical or dental bills and fived owed credit or tick to local shops. Bank loans or credit unions, tax bills, fines, money owed in Bankruptcy, and council rates were the nature of less numerically frequent bills.

What agencies did the debtors approach when trying to resolve debts? First and by far the most frequently mentioned source of help were informal sources - 80 per cent (56) had been to seek help from family or friends. Just under half the debtors had been to a welfare agency (usually for food assistance). A third had approached the State Department for Welfare, (although none reported having received specialised financial counselling). The pawnbroker was the next most common port of call - a fifth of the debtors had pawned something to reduce their arrears. Courts had intervened in debts in the case of 14 and a small number in this group had been to prison for non payment of debt. Seventeen per cent (12) had made arrangements with hire purchase companies, 9 (13%) with their bank or credit union and 6 per cent (4) were undischarged bankrupts.

As well as spending similar lengths of time on benefits, no differences were found between the 'debt' and 'non debt' group with respect to gender; type of benefit (single, married, etc.); place of birth; past occupation; most aspects of household structure with the exception of the factor of the frequency of those who were living with parents. However some differences were found between the debt and non debt groups when it came

to the following: age; household; frequency of social security beneficiaries in the household; part time work; savings; attitudes. These differences will now be discussed in turn.

First, there were proportionately more young people and proportionately fewer older persons in the group of those with debts than in the non debt group. Eight out of ten (79%) of the debtors were under 30 but only six out of ten (58%) of the non debtors. Only two out of ten (19%) of the debtors were over 30, whereas double that proportion (44%) of the non debtors were aged over 40. Thus debtors are reflected in younger age groups.

Second, there seem to be differences according to the frequency of social security beneficiaries in the household. Whereas a third (34%) of the debt group lived in households where all other adults drew benefits (including pensions), this was the case for only 15 per cent of the group without debts. Put another way, only a quarter (27%) of the 'indebted' group said they lived in households where no-one else was on benefits whereas 44 per cent of the group without debts lived in households without other beneficiaries. This may suggest that more debtors live in poorer households.

Third, there was a difference in the type of household in which debtors and non debtors lived, only insofar as more of the non debt group lived with parents than those in the debt group. Whereas 18 per cent of the 'debt' group lived with parents, 26 per cent of the non debt group lived with parents.

Fourth, more of those not in debt had access to extra financial resources either by part time work or savings. Whereas only 3 per cent of those in debt said they had part time work, this applied to 20 per cent of those without debt. Similarly, whereas a third (37%) of those with debts said they had access to savings, this applied to over half (55%) of the non debt group.

Finally there were considerable differences in attitudes expressed between the debt/non debt group. For example, nearly half (48%) of the non debt group said that the rate of unemployment benefit was 'enough', whereas

this applied to few of those in debt (12%). And whereas only half the non debt group spoke of hardship, two thirds of the indebted group said that being on unemployment benefit had led to hardship for them or the family. Only five out of ten of the group without debts thought their financial situation had got worse since being on benefits; whereas eight out ten (80%) of the debt group said their financial situation had got worse since being on benefits.

What this information suggests is that being under 30, living communally with others on benefits, not having part time work or savings and negative attitudes to the adequacy of the benefits are associated with debt. On the other hand, being older, not living with others on benefits, having a part time job and savings and having more positive attitudes to the adequacy of benefits are associated with being out of debt.

### 3. DISCUSSION

This suggests that the unemployment benefit experience is highly differential; that the presence of certain key protective factors (e.g. part time work) might be identified, that a substantial group of people commence their time on unemployment benefits with debts, that the most common debts are those for basic necessities (housing, transport and fuel); that the most frequent creditors are public statutory bodies (power and phone); that informal networks of family and friends are used most frequently; that welfare agencies are approached for emergency assistance, but not financial counsellors.

It would also seem reasonable to have as a working hypothesis the assumption that almost half of those going on to unemployment benefit are indebted. One can never be sure of the dimensions of the persons who refused to be interviewed, but on the assumption that the characteristics of this group did not differ greatly from those who were interviewed, half the recruits to unemployment benefits needed to be targeted and provided with special information about dealing with debt.

The estimated average debt for the sample as a whole (\$737.00) was just over half the estimated consumers credit net debt outstanding per head of population (\$1,315.00) (uncorrected for age). Whilst it is not possible to do more than speculate that adequacy of income (which in turn relates to employment/and/or unemployment) is the intervening variable, between credit and debt, common sense suggests that this may be the case.

'Social Security for the unemployed was not designed to cope either with large scale or long term unemployment and recent developments in the structure of unemployment and in social security policy give rise to concern for the living standards of the unemployed, especially the long term unemployed' (Bradshaw et al. 1984). Although these comments were made in Britain, they could just as easily apply to Australia, with a third of this sample saying they had been on Unemployment Benefits for longer than nine months.

The average debt of those who have been longest on unemployment benefits is considerably larger than those who have just started. There is some



evidence to suggest that debts increase over the period of time on unemployment benefits, because the average debt of the long term group of persons on benefits is larger and because the subjective assessment is that the financial situation worsens over the length of time on benefits.

This information suggests that unemployment and unemployment benefits do not affect people equally. Some seem to survive the experience of unemployment from an economic and a psychological point of view less adversely. Originally the non debt group was included in the sample simply to define the debtors. However it appears that they are an interesting group to study in their own right. More of the group of people without debts view 'the system' as more benign than their peers with debts. However, this perception needs to be examined in more detail: comments such as 'We can't afford to get into debt' and 'We go without' suggest that non debt behaviour is complex, too. And both debt and non debt groups would need to be examined against their assets as well as their income.

The material of the survey gives some suggestion about the types of protective factors which may help people to cope on unemployment benefits more adequately. Having a part time job, access to family and friends for material help, savings, not living in a household with others on benefits are factors. However this information was a serendipitous discovery of this small survey: further work needs to clarify and explore this hypothesis more fully. For example, numbers of comments from respondents suggested that the asset of owning a house was also a protective factor in maintaining a position on unemployment benefits. However this was not really adequately researched.

It also appears that more young people on unemployment benefits have debts than others in older age groups. The stage of the life cycle of the debtor clearly affects the extent of indebtedness and the type of debt incurred. Nor is it clear from this data whether the younger respondents had different patterns of incidence of unemployment - which may have affected their debt patterns. However this matter needs further exploration.

Although the project took place in a district served by two non government agencies offering financial counselling services, none of the members of

the sample mention having received financial counselling. The data suggests high usage of welfare agencies for emergency relief, for either food or money. The question of more precise information about coping on the dole and about financial counselling needs discussion. The low takeup of financial counselling services is one aspect which highlights the lack of helpful information available about services during the transition from credit to debt. In the past 10 years there has been an ad hoc increase in financial counselling (CFCA 1985). Critical to the 1977 Law Reform Commission report was the recommendation of the Regular Payment of Debts Programme (RDP), recommending debt counselling, both at the time of operating bankruptcy procedures and during the currency of their repayment plans (Appendix A). Financial counsellors, however, do not regard themselves as debt counsellors, but as those who 'provide counselling, act as negotiators for those people who are in financial risk, and assists in the transfers of knowledge and skills in order to enable them to gain power over their economic lives' (FCA 1985). This is a much wider role than the restriction of the activities of financial counsellors to the casework connected with debtors. The Financial Counsellors Association of Australia has argued for a separate type of person to be established as a debt counsellor. The debt counsellor would need to be mindful of creditor interests, whereas financial counsellors argue the need to maintain their status separate from the administration of the RDP programme (FCA 1985).

The suggestion of low interest loans for persons on low income deserves further exploration. Federal and State public subsidies in other aspects of the lives of low income people, such as health and travel concessions, suggest that it may be helpful to set up low interest schemes. Whilst no calculation as to the cost to the community of bad debts in any one year has been undertaken, it would clearly be in the interests of all to have consumers fulfilling their financial contracts. Community credit co-operatives such as that established by Fitzroy and ARC Co-operative Credit Society (FCS) 'attempt to alter the traditional relationship between income groups to ensure greater equity to financially disadvantaged groups'.

The question of low interest loans for the poor has attracted favourable comment from within the financial counselling sector and low cost loans schemes based on unfixed terms and a percentage of the consumer's income

have been proposed (Kliger 1985). A Victorian Government Report on Income Security for Victorians (1982) recommended that the 'Victorian Government initiate discussions with the Federal Government towards developing alternatives to existing credit facilities. An example is how low interest loans are similar to the present system of subsidised home loans'. Another Victorian report (Spokes 1986) recommends that credit co-operatives be expanded within the context of the proposed Victorian Government Social Justice strategy, i.e. that social objectives rather than financial return be the dominant concern.

There are, of course, limits in such a small screening study - it simply gives a snapshot of people's current circumstances and leaves many questions over time unanswered. It would be necessary to develop a cohort of unemployed people, perhaps at the beginning of their career on unemployment benefit who could be followed up at prescribed points of time during the length of time on unemployment benefits. This prospective study could yield a great deal more than a retrospective account of this type.

TABLE 1

## AUSTRALIA : ESTIMATED CONSUMER CREDIT NET DEBT OUTSTANDING

(\$ MILLION)						
June 30	Banks	Finance Companies	Credit Unions	General Financiers	Building Societies	TOTAL
1976	831	2800	350	80	5	4066
1977	1249	3159	497	110	14	5029
1978	1698	3492	657	138	14	5999
1979	2240	3687	912	208	25	7072
1980	2785	3811	1265	209	34	8044
1981	3578	4347	1543	241	45	9754
1982	4501	4880	1842	276	57	11556
1983	5279	4796	2328	209	76	12688
1984	9007	4587	3114	297	253	17258
1985	10887	5077	4081	378	291	20714
\$ PER HEAD OF POPULATION						
1976	59	200	25	6	-	290
1977	88	223	35	8	1	354
1978	118	243	46	10	1	418
1979	154	254	63	14	2	487
1980	185	259	86	14	2	547
1981	240	291	103	16	3	654
1982	297	321	121	18	4	761
1983	343	312	151	14	5	825
1984	579	295	200	19	16	1110
1985	691	322	259	24	18	1315

Source: Australian Finance Conference 1986.

TABLE 2

## UNEMPLOYMENT BENEFIT : SELECTED CHARACTERISTICS

	This Project	This Regional Office	National Survey
	%	%	%
Single benefit rate	75	70	72.5
Male	75	69	75
Born in Australia	60	65	75
Aged under 25 years	56	58	45
1 year + on benefits	33	32	38

## Notes

Regional Office : Selected characteristics.  
From information supplied by Regional Office.

National Survey : Selected characteristics for November 1985.  
From Quarterly Survey of Unemployment Benefit  
Recipients, 8th November, 1985 (DSS).

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## APPENDIX A

### Australian Law Reform Commission and Insolvency

There have been, over the past decade, legal reviews of aspects of insolvency in Australia. In 1976 the Australian Law Reform Commission received a reference which required it to review the difficulties of small or consumer debtors. 'The law deals neither sensitively nor sensibly with creditor and debtor when the latter lacks sufficient funds to pay' (Tearle 1985).

The Australian Law Reform Commission examined the Bankruptcy Act of 1966, a matter covered by Commonwealth law. So in 1977 when the Commission reported (ALRC 1977) it recommended legislation to enable wage earners or non business debtors to take procedures outside bankruptcy (and falling short of bankruptcy), so that they might negotiate with their creditors. The mechanism that was suggested for this was known as Regular Payment of Debts (RDP). In essence RDP provides for the payment of non business debts up to \$15,000 over three years by the debtor submitting to creditors a plan for instalment payments of debts, after considering the necessity to maintain the debtor and the family. This legislation has been prepared but has not been introduced into the parliament yet (1986).

In addition, the 1977 Law Reform Commission proposed a general review of insolvency. One of the difficulties this faced was that insolvency is an issue which relates to a divided jurisdiction, between Commonwealth and State. (Bankruptcy has been a Commonwealth matter whereas corporate insolvency has been a matter for the States.) The Commission's review (the General Insolvency Inquiry) took place in 1985. The report is shortly to be released (mid 1986). Prior information has not been made available to this project but it is expected to report on the Bankruptcy Act (which is Federal legislation) and company insolvency (which is the responsibility of the States).

Some major policy issues relating to unemployment and debt can be summarised from the point of view of the law as follows:

- a) The role of punishment in debt. The law has treated the debtor harshly and consigned the debtor to prison. Imprisonment for debt is still a common reason for imprisonment. Should the law continue to punish the debtor, decide to rehabilitate the debtor, or to prevent the breakdown happening at all? Should safeguarding a debtor in continuing employment be a priority in outcomes?
- b) There are competing interests in the question of resolving debt. Should the creditor's interests always be regarded as paramount? What if this should mean, for example, disadvantaging the debtor's family? Rating the priorities of the creditors as opposed to the debtors cannot be achieved without a resolution of the previous issue; whether the philosophy of debt resolution should relate to punishment, rehabilitation or prevention. If the creditors' interests are paramount, it would appear also that the debtors continuing employment is a paramount consideration.

## APPENDIX B

### Consumer Credit Arrangements in Australia

The Australian Finance Conference represents the finance industry in economic, legislative, industrial relations and consumer education fields. It does not involve itself in matters relating to the rates, terms and condition on which members carry out their business. (This policy is said to recognise the competitive nature of the industry.)

In 1983, finance companies in Australia had total net receivables of 20,000 million dollars and were the largest group of non bank financial institutions (AFC 1983). In terms of size of financial services they ranked second only to the trading banks. The member companies of the Australian Finance Conference, the umbrella body, had aggregate assets exceeding 85% of the total for all finance companies. Finance companies provide consumer credit, loans for real estate purposes (development of land, bridging finance, second mortgage loans) lease and other commercial finance for vehicles, wholesale funds for motor trade stocks, factoring and other business finance. Some finance companies specialise in consumer credit, others concentrate on real estate, others have more diversified portfolios.

Traditionally, finance companies obtain their funds by the issue of debentures and unsecured notes, usually on fixed terms and at fixed interest rates, usually to the public, and generally by the issue of shares (AFC 1983). Finance companies also issue promissory notes, raise funds for letters of credit and raise overseas funds. Most advances made by finance companies are at interest rates which are fixed for the duration of the contract. However the Australian Finance Conference says that more volatile financial markets means that variable rate lending is more common than it was in the past. Each domestic trading bank has a substantial investment in a finance company. Other major shareholders in finance companies include pastoral houses, local and overseas insurance companies, and large overseas banks.

In 1985 the consumer credit indebtedness by Australians to finance companies was estimated by the Australian Finance Conference to be \$322 per capita (see Table 1). Using bankcard, personal loans and credit union credit balances, total per capita consumer indebtedness was said to be \$1,315 (AFC 1986). A year by year comparison of estimated consumer debt from 1976-85 is outlined in Table 1.

## APPENDIX C

### Method of Sample Selection

In considering how to recruit a sample of those in debt, the following issues were pertinent.

1. Financial counsellors. Agencies exist specialising in financial counselling to debtors. What is less clear is what types of bias such services recruit. Are those who approach such a service those with the largest debts? The longest periods of unemployment? Largely because the nature of the bias of such a sample was not clear - and also because not necessarily all clients seeking help from such a service were unemployed, this was eventually discounted as a source of recruitment for a study.
2. Emergency assistance. In Western Australia there are two sources for application for emergency assistance: the non government welfare sector and the government's Department for Community Services both disburse emergency relief. The non government welfare sector distributes about half that amount distributed annually by the State Department for Community Welfare. Most of the persons applying for emergency relief within the non government sector are beneficiaries of the Department of Social Security. The most frequent contacts are the single parents receiving supporting parents benefit, couples with children receiving unemployment benefit, and lone males receiving unemployment benefit (Choo and Kidston 1982). Likewise those receiving emergency relief from the State Department for Community Welfare were mostly single women with children and couples with children (DCW 1983).

85% of applicants for emergency relief came from Department for Social Security beneficiaries. However in a sample of this type it would not be possible to control for the type of bias that applications for emergency relief might bring. For example many persons consider that there is a stigma in visiting a state Department for Community Welfare for financial assistance. Therefore this source was rejected as a possible sampling base.

3. Pawnbrokers. Commercial operators who lend small amounts of money on security have increased in the past decade. The WA Law Reform Commission (WA LRC 1984-1985) reports that business doubled for pawnbrokers in 1984. Numbers of brokers licensed in Western Australia has increased from three a few years ago to a present total of 21. Those affected needed money in an emergency and some were not unemployed - some clients were tradesmen or small traders with cash flow problems.

A Review of the evidence of 35 customers of a pawnbroker's business was undertaken (with the assistance of the Law Reform Commission of Western Australia). Most of those using the 'services' of the pawnbroker were unemployed and in receipt of a Commonwealth benefit. The items pawned ranged from jewellery to electrical goods. The stated necessity for which items were pawned ranged from payments for food and petrol to payments preventing or consolidating debts, in

particular for rent and power bills.

Access to the clients of pawnbrokers was considered. Some submissions to the WA Law Reform Commission indicate that some clients of pawnbrokers preferred to use them ahead of welfare agencies such as the State Department for Community Welfare. This may infer that pawnbroking offers a parallel form of credit to the welfare system. For the purposes of this study then, pawnbrokers clients were thought to be a selective source.

4. Department of Social Security. Although Department of Social Security rolls do not reflect the total unemployment situation, they do so more closely than a decade ago. For this reason it was decided that a sample of Department of Social Security unemployment beneficiaries may be the most appropriate way of obtaining a sample of unemployed persons.

It was decided that a regional office of the Department of Social Security would be singled out as the site for interviews with a sample of unemployment benefit beneficiaries.

APPENDIX D

Interview Schedule  
Unemployment Benefits and Debt

Interview Number .....

My name is ..... and I'm part of an independent team doing a survey on Unemployment Benefits. Thanks for sparing time to give your opinions on benefits, how adequate they are or whether people fall behind.

INTERVIEWER PLEASE RECORD GENDER

1. Male .....
2. Female .....

1. First, can I ask, are you receiving unemployment benefits at present?

1. Yes .....
2. No ..... (If NO, close interview)
3. Currently making application .....
4. Just come off benefits .....
5. Others (write in) .....  
.....  
(If OTHER, close interview)

2. a) Thinking back, how long have you been on unemployment benefits this time?

..... (Record answer in years/months)

b) Can you remember exactly when you started?

..... (month) ..... (Year) (Record exactly)

3. Is your unemployment benefit paid at - (READ OUT LIST)

1. Single rates? .....  
or
2. Married rates? .....  
or
3. Married plus  
children? .....

4. We are trying to find concerns for people on unemployment benefits.  
In particular, we need to know whether it pays enough.
- a) Speaking for yourself, would you say the present rate of unemployment benefits is enough?
1. Yes, enough .....
  2. No, not enough .....
  3. Yes and no .....
  4. Other .....
- b) Have you had savings to back you up?
1. Yes .....
  2. No .....
  3. Other .....
- c) Have you had to dip into them?
1. Yes, all of them .....
  2. Yes, some of them .....
  3. No .....
  4. Other .....
- d) Taking your situation as an example, has the present level of benefits led to hardship for you or your family?
1. Yes .....
  2. No .....
  3. Don't Know .....
  4. Other .....
  5. No answer .....
- e) So what is the one main difference that being on unemployment benefit has made to your standard of living?
1. No difference .....
  2. Expands standard of living .....
  3. Restricts social life .....
  4. Restricts recreation .....
  5. Restricts transport - if no car .....
  6. Restricts clothing .....

7. Other restrictions - write in .....

5. a) Has being on unemployment benefits meant financial difficulties for you? For example, do you owe money now, or do you have arrears you have not been able to pay?

1. Yes ..... Go to Q6
2. Don't know ..... NB Go to Q5B
3. No ..... NB Go to Q5B
4. No answer .....

INTERVIEWER: IMPORTANT: IF DON'T KNOW OR NO, GO TO Q5B

b) IF REPOSE TO PREVIOUS QUESTION 5A IS NO OR DON'T KNOW ASK:  
No arrears at all? No mortgage, rent, energy or hire purchase arrears?

1. Yes ..... If yes, go to Q6
2. No ..... If no, go to Q9

6. a) Most people have bills and money they owe. What we are interested to find out are the bills people are behind in. Could you tell me what type of bills you've got behind on right now, so that you feel it's become a debt? I'll read a list and you stop me when we get to a bill which applies to you.

INTERVIEWER: PLEASE CIRCLE RESPONSE.

IF YES, ASK 'DO YOU MIND SAYING "HOW MUCH"?' AND LIST AMOUNT.

- |   |           |          |
|---|-----------|----------|
| a) Housing Bills?                       | YES/NO    | \$ ..... |
| Mortgage?                               | 1. YES/NO | \$ ..... |
| Private rental?                         | 2. YES/NO | \$ ..... |
| State House?                            | 3. YES/NO | \$ ..... |
| Board or lodging?                       | 4. YES/NO | \$ ..... |
| b) Power or Fuel Bills (eg SEC)         | 5. YES/NO | \$ ..... |
| c) Phone Bills?                         | 6. YES/NO | \$ ..... |
| d) Car, bike, truck or transport bills? | 7. YES/NO | \$ ..... |
| e) Bankcard?                            | 8. YES/NO | \$ ..... |
| f) Other credit cards?                  | 9. YES/NO | \$ ..... |
| g) Hire Purchase?                       | X. YES/NO | \$ ..... |
| (Write in) .....                        |           |          |

- h) Medical/Dental bills? Y. YES/NO \$ .....
- i) Credit or tick for local shops? Z. YES/NO \$ .....
- j) Any other bills we haven't mentioned? (Write in) XX. YES/NO \$ .....  
 .....

(INTERVIEWER: ADD UP)

- k) So just to check overall, do you have about \$ .....  
 worth of arrears that you'd call debts?

7. Thinking back to (date) ....., when you started on unemployment benefit, did you have the same amount of arrears then?

1. Yes, same amount .....
2. No, arrears have increased .....
3. No, arrears have decreased .....
4. Don't know .....

8. I have a list of people here who you can go to see to sort out arrears and debts. I'll read you a list and perhaps you could say whether or not you've been to see them and whether they've lent you money or given you any assistance. By assistance I mean money, food, clothes or furniture. Some won't apply to you, but I'll go through them all anyway.

(INTERVIEWER: PLEASE CIRCLE APPROPRIATE RESPONSE: WRITE IN WHETHER LOAN OR GIFT.)

- |  | BEEN TO<br>SEE? | LOAN OR<br>GIFT? |
|--|-----------------|------------------|
| a) First, family or friends?   | 1. YES/NO       | .....            |
| b) Social Security Social Worker   | 2. YES/NO       | .....            |
| c) Department for Community Welfare<br>Services Social Workers/Welfare<br>Officer                  | 3. YES/NO       | .....            |
| d) Other social worker or welfare<br>worker from Communicare, or another<br>non-government agency? | 4. YES/NO       | .....            |
| e) Other type of financial counsellor?   | 5. YES/NO       | .....            |
| f) Pawn broker?  | 6. YES/NO       | .....            |
| g) Bank/building society/credit union?   | 7. YES/NO       | .....            |
| h) Hire purchase company?  | 8. YES/NO       | .....            |
| i) Solicitor?  | 9. YES/NO       | .....            |



		BEEN TO SEE?	LOAN OR GIFT?
j) Registrar in bankruptcy?	X.	YES/NO	.....
k) Court? (If YES, ask: did that result in prison?)	Y.	YES/NO	.....
l) Anybody I haven't mentioned? (Write in name) .....	XX.	YES/NO	.....

9. Looking back on the time you've been on unemployment benefits, would you say your financial situation has got worse, stayed about the same or improved?

1. Situation got worse .....
2. Stayed about the same .....
3. Improved .....
4. Other .....

10. a) Now just a couple of questions to finish off. How many people live in the same household as you, adults and children?

(INTERVIEWER WRITE IN NUMBERS)

1. Adults? .....
  2. Children? .....
- So just to check, that's ..... people  
altogether (WRITE IN TOTAL)

b) (IF OTHER ADULTS ARE IN THE HOUSEHOLD)

Are you related to the other adults? Are the others

1. Your spouse? (or defacto) .....
2. Your parents .....
3. Your children? .....
4. Siblings? .....
5. Other relatives? .....
6. Not related? .....
7. Other .....

11. Are the other adults on unemployment benefits (or other types of benefits) too?

1. All on benefits .....
2. Some on benefits .....
3. None on benefits .....
4. Don't know .....

12. a) Can you please tell me what was the last fulltime paid job you had? (WRITE IN)  
.....
- b) And do you have any part-time work at present?
1. Yes .....
2. No .....
- (WRITE IN TYPE) .....
13. Can you please tell me what age group you fit into? I'll read you a list: please stop me when I get to your age group.
- Under 21 .....
- 21 - 30 .....
- 31 - 40 .....
- 41 - 50 .....
- 51 - 60 .....
- 60 & over .....
14. a) Were you born inside Australia or outside Australia?
1. Inside Australia (non-Aboriginal) .....
2. Inside Australia (Aboriginal) .....
3. Outside Australia .....
- b) If outside, where? .....
- c) How many years have you been in Australia? .....
- (INTERVIEWER: IF 'NO DEBTS' GO TO Q16. IF 'DEBTS' GO TO Q15)
15. a) Thanks very much. By the way, if I need to find people to talk to us in more detail would you mind if I got back to you? It's only a slim chance, but I may need to talk to some people again.
- Yes ..... (IF YES, GO TO Q15b)
- No .....
- b) If I'm to get back to you, I'd need your first name and phone number, or your address. Is it okay to give that to me?
- First name .....
- Phone number .....
- or
- Address .....
- .....

16. Thanks very much for your help. Now is there a question you'd like to ask me?

.....  
.....

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