



The Obligation is *Mutual*

New Directions for
Employment Assistance
in Australia



February 2002
ACOSS Paper 120



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This report is the third publication in the ACOSS Work Wages Welfare series. It was prepared by Peter Davidson, Senior Policy Officer at ACOSS. A draft of the report was presented at two seminars of employment assistance providers, Government officials, and others with an interest in employment policy in December 2001. Much helpful advice was received from David Thompson, Dan Finn, and Phil Tuckerman among others.

Work Wages Welfare is a research and policy development project that explores ideas and policies to achieve full employment in a fair society.

The first publication in this series was *Riding the roller-coaster: the use of fiscal policy to ease and avoid recessions*. This presents the papers delivered at a conference organised by ACOSS and the Committee for Economic Development of Australia on that topic in May 2001.

The second Work Wages Welfare publication was *Generating Jobs*, a short outline of 15 policies to reduce unemployment by increasing growth in employment, including in disadvantaged regions of Australia.

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The Obligation is *Mutual*: New Directions for Employment Assistance in Australia

Key Findings

This report examines employment assistance policies and services and their role in reducing long-term unemployment and joblessness. It is based on detailed research into Australian and international experience of employment assistance policies and practice. Following the release of the OECD Report on employment assistance in Australia¹ and the launch of the Productivity Commission's inquiry into the Job network, this report offers a constructive critique of the present Australian employment assistance system. It raises for discussion a set of five proposals to improve employment assistance for the most disadvantaged job-seekers.

Key findings of this report are:

- ◆ **Australia has failed to make substantial inroads into long-term unemployment over the 1990s.**

In December 2001, there were 385,000 people on unemployment payments for over 12 months, the same level as six years ago.

Also, sole parents, people with disabilities and Indigenous Australians suffer particularly high levels of involuntary joblessness.²

- ◆ **Sluggish employment growth and a lack of relevant work experience and skills are the main causes of the persistence of long-term unemployment.**

Over the 1990s there was a net loss of full-time permanent jobs. Further, the changing nature of the labour market has created a mismatch between the skills and experience of many unemployed people and the requirements of employers.

There is no convincing evidence to suggest that a "culture of welfare dependency" is the major cause of long-term unemployment and joblessness, as some suggest.

Although social security income tests still discourage people from taking up jobs, a lack of financial incentives to work is also unlikely to be the major reason. Work incentives in Australia are *relatively* strong. For example, a single unemployed adult doubles her disposable income by undertaking full-time work at the minimum wage.

¹ OECD (2001).

² "Joblessness" is a broader term than unemployment. In this report it includes people who want to work but are not actively seeking employment at present (hidden unemployment) and those with marginal jobs of a few hours a week who want more substantial employment.



◆ **Employment assistance policies are crucial to improving the job prospects of long-term unemployed and jobless people.**

These range from basic services such as job matching and job search training, to substantial help to overcome work barriers such as work experience and training.

Most long-term jobless people need "basic" and "intensive" forms of assistance.

◆ **In 1997, the Government dramatically restructured employment assistance for long-term jobless people at the same time as cutting 50% (\$1 billion a year) from these services.**

First, the Job Network replaced programs of assistance for long-term unemployed people, such as wage subsidy and training programs, with a more open-ended system of Intensive Assistance for disadvantaged job-seekers in which providers are funded to achieve employment outcomes. The previous Government's Job Compact — a guarantee of paid work experience for all long-term unemployed people — was abandoned.

Second, a new system of "mutual obligation", with 'Work for the Dole' as its centrepiece, was introduced to tighten activity requirements for unemployed people and boost compliance with social security rules. The underlying assumption was that unemployment is to a large extent a behavioural problem. Hundreds of thousands of unemployed people have since been penalised each year for failure to meet activity requirements.

◆ **The present system of Mutual Obligation is unbalanced.**

It imposes strict requirements on unemployed people to take a range of actions to improve their job prospects or to work in return for benefits, but does not obligate the Government to provide the employment assistance many need to get a job.

◆ **The Job Network model has many strengths, but "Intensive Assistance" providers are not given enough incentives to invest in substantial help for job-seekers —only 36% get a job.**

The big strengths of the Job Network's Intensive Assistance stream for disadvantaged and long-term job-seekers are its flexibility and emphasis on employment outcomes. But Intensive Assistance has three main weaknesses:

- Around 25% of long-term unemployed people are denied immediate access to Intensive Assistance.
- There are structural flaws in how the Government funds Intensive Assistance which act as a disincentive for providers to invest in more costly, but potentially more effective, forms of assistance for disadvantaged job-seekers. In 2000 only 5% of participants received work experience and only 14% received vocational training.
- So in 2000, only 36% were in employment 3 months after participation in Intensive Assistance, compared with 59% for Jobstart (a previous wage subsidy scheme).



◆ **The effectiveness of 'Work for the Dole' is very limited - only 27% of participants get a job.**

'Work for the Dole' offers a limited form of work experience for people who have become detached from the labour market. Its effectiveness is greatly diminished by the fact that the work is not in mainstream jobs and participants are not treated as employees. There is no funding for mentoring, job search support or training while people work on a project. As a result, in 2000 only 27% of participants were in employment 3 months after their placement.

Neither Work for the Dole, nor the new arsenal of welfare compliance measures, seems to have appreciably reduced the number of people on benefits long-term.

◆ **The Government's *Australians Working Together* package offers only modest improvements in employment assistance - on its own, it is unlikely to have significant impact on long-term joblessness.**

The key aim of the Government's package is to raise labour force participation among social security recipients such as low-income parents and mature age jobless people rather seriously tackle long-term unemployment.

The package offers modest improvements in employment and other supports for these groups and requires them to undertake certain economic and social activities. There is a significant increase in employment assistance resources for people with disabilities and personal barriers to employment, and a new "working credit" to improve work incentives, and training credits for some target groups. There are welcome initiatives to improve access to mainstream employment for Indigenous Australians involved in the Community Development Employment Program.

However, the package offers no guarantees of employment assistance for these groups, nor does it resolve the flaws in the present employment assistance system for those on unemployment payments.

Proposals for reform

ACOSS advances for discussion five proposals to improve employment assistance for long-term jobless people. These build on the strengths of the Job Network and other employment assistance schemes while overcoming their main weaknesses.

1. Introduce an *Employment Assistance Guarantee* comprising:

- ◆ a place in the Job Network's *Intensive Assistance* for all long-term unemployment payment recipients³; and
- ◆ substantial extra help such as wage subsidies, training, or relocation assistance after three months in *Intensive Assistance*.
 - The services offered under the Guarantee would be determined jointly by each job-seeker and his or her employment adviser (consultant) within the Job Network provider — not by Government.
 - The cost of this additional help would be shared between Government and providers and be in addition to existing up-front and employment outcome payments. This funding would be conditional on the delivery of the services agreed between providers and each job-seeker.⁴
 - The system would be designed so that providers have the incentive and the capacity to invest in more expensive help that has the potential to significantly improve employment outcomes.

2. Replace the poorly performing *'Work for the Dole'* with a new *Transitional Jobs* scheme for very long-term unemployed people.

- Job-seekers likely to benefit from this kind of help would be referred by *Intensive Assistance* providers as part of the *Employment Assistance Guarantee*.
- Transitional jobs would give the most disadvantaged long-term unemployed people mainstream work experience and training. It would expand during recessions and contract during economic recoveries, but remain in place to assist very long-term unemployed people (those unemployed for over 2 years), especially in jobs-poor regions.
- Transitional jobs could take the form of 6 month traineeships in which job-seekers are placed in mainstream jobs, paid a training wage, and treated as employees. Training would be offered in conjunction with paid work experience, based on individual needs.
- Transitional jobs would be funded jointly by the Government and *Intensive Assistance* providers, who would continue to help participants search for ongoing employment. Providers would receive the usual outcome payments if successful.

³ Or to specialist employment assistance providers where appropriate.

⁴ Unspent funds could not be retained by providers.

3. Extend the *Employment Assistance Guarantee* to other long-term jobless people on social security payments — such as people with a disability or caring responsibilities — over time.

- This would be offered on a voluntary basis through specialised programs such as JET or disability employment programs, or Intensive Assistance where appropriate.
- Funding for specialised programs would ultimately be based on the same principles as the proposed new funding model for Intensive Assistance — a combination of up-front, service-based, and outcomes-based payments. However, outcome payments would take more account of *intermediate outcomes* (such as education and training or rehabilitation outcomes) and the need for ongoing support in employment.
- In the short-term, public investment in existing programs for people with disabilities, parents and carers would be boosted to reduce queues for assistance and intensify support for the most disadvantaged job-seekers.

4. Extend the *Indigenous Employment Strategy* to help Indigenous Australians (including participants in the CDEP) secure mainstream jobs.

- Deficiencies in Job Network referral and service delivery systems that discourage participation by Indigenous Australians would be rectified as proposed in *Australians Working Together*.
- Employment assistance for Indigenous Australians in remote communities would be part of a wider strategy to assist those communities achieve greater economic self-reliance and raise the level of physical and social infrastructure to national standards.

5. Extend the new Centrelink personal advisers to all long-term unemployment allowance recipients.

- Referrals to employment assistance services such as Intensive Assistance and Job Search Training would be made directly by Centrelink to the job-seeker's preferred provider following an interview, not by letter. This would improve the quality of assessment and referral and reduce the number of breaches and penalties applied.
- Long-term unemployed people and those most at risk would be assessed and referred to appropriate employment assistance services by Centrelink Personal Advisers.
- Providers of employment assistance for disadvantaged job-seekers would also assign an employment adviser/consultant to each job-seeker to advise them on return to work strategies, help with job search, and implement the Employment Assistance Guarantee.

Summary

1. Long-term joblessness - the problem and its causes

The problem

By the 1990s it was obvious that Australia faced two distinct unemployment problems: a high rate of overall unemployment and persistently high levels of long-term unemployment.⁵

Long-term unemployment is of special concern because it means poverty and despair for those affected, raises social security costs, and persists even as the economy grows strongly. Long-term unemployment is a hurdle that must be crossed if we are to make any real progress in reducing overall unemployment.

By the end of the present decade, the spotlight is likely to shift from long-term unemployment to *long-term joblessness*.⁶ This brings hidden unemployment into the picture, especially the large numbers of parents, older workers, people with disabilities and Indigenous Australians who are out of work, want a job, but aren't actively seeking one.

The McClure Report⁷ on welfare reform has already signalled a new policy focus on these jobless groups. One reason for this policy shift is that as the population ages, Governments will act to boost workforce participation as well as reduce unemployment. Otherwise, the workforce will shrink and the economy will slow. This raises difficult issues: how to strike a balance between employment and caring responsibilities, and between encouraging people with workforce barriers to participate in the workforce and leaving them on its margins.

Australia's failure to reduce long-term joblessness

Despite record economic growth over the 1990s, Australia failed to make substantial inroads into long-term joblessness. This outcome was not inevitable. Some OECD countries, including Denmark, the Netherlands, Ireland and the United States, have managed to either keep long-term joblessness low or reduce it dramatically.

The graph below compares the number of people on unemployment allowances with the number on these payments for more than 12 months. The overall number of recipients fell as the economy recovered from the recession of the early 1990s, but the number of long-term recipients remained high. This number stood at 385,000 people in December 2001- the same level as in 1995. More than half the recipients of these unemployment allowances are now unemployed long-term.

⁵ Those out of work for a year or more.

⁶ The difference between unemployment and joblessness is that the latter term includes people who are not officially classified as unemployed because, although they want employment, they are not actively seeking it at the present time. This is sometimes referred to as "hidden unemployment". We also include in our description of jobless people those who have only been able to obtain work for very short hours (e.g. less than 16 hours a week, although they want more substantial employment). We do not include in our discussion of "jobless" people those who are voluntarily jobless (those who do not want a job).

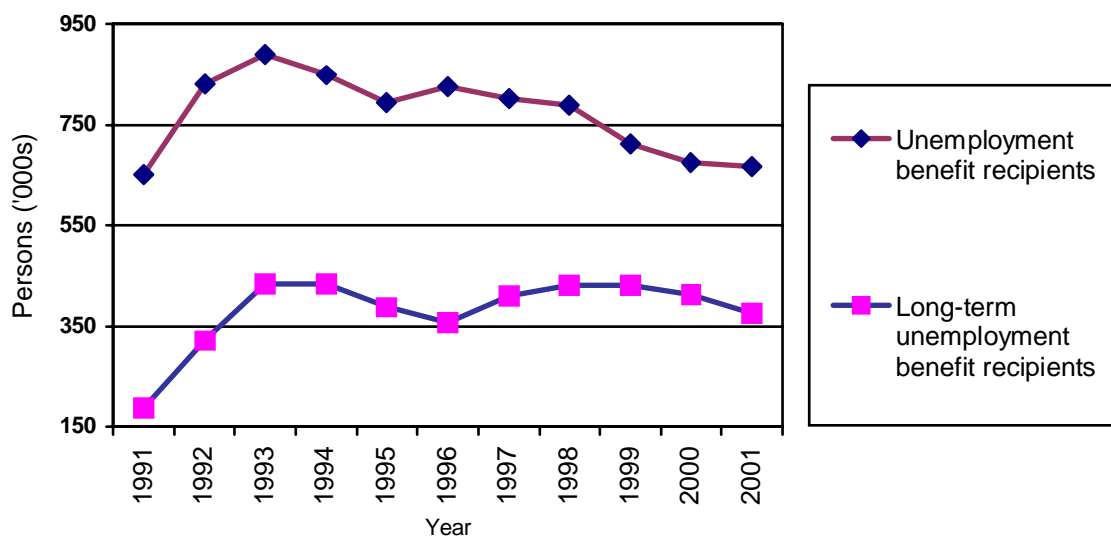
⁷ Reference group on welfare reform (2000).



Over the same period:

- ◆ sole parents had unemployment rates twice as high as the workforce as a whole;
- ◆ approximately 40% of people with disabilities⁸ wanted to work but were either unemployed or not actively seeking a job; and
- ◆ a similar proportion of Indigenous Australians (40%) would have been counted as unemployed if participants in the CDEP (the Indigenous 'Work for the Dole' scheme) were included in the figures.

Unemployment benefit recipients



Sources: Centrelink (various years); Warburton, Opoku & Vuong (1999):

Note: "Unemployment benefits" refers to people on Newstart Allowance, the former Job Search Allowance, and Youth Allowance (other) for over 12 months.

The causes of long-term joblessness

The recession of the 1990s triggered the latest steep rise in long-term unemployment. But this does not explain why it is taking so long to fall during the economic recovery. One reason for this is that despite a booming economy, Australia's rate of employment growth in the mid-to late 1990s was poor compared with the previous decade.⁹ Growth in full-time permanent jobs was especially sluggish. Over the 1990s we failed to even restore the number of these jobs lost in the last recession.¹⁰

⁸ People of workforce age with a core activity restriction.

⁹ See Gregory R (1999). Job creation is not, however, the main topic of this paper. For a fuller discussion of employment trends over the 1990s and policies to generate jobs, see ACOSS (2001).

¹⁰ Borland, Sheehan & Gregory (2001).



Moreover, experience shows that employment growth alone is not sufficient to reduce long-term joblessness. Long-term joblessness has a structural aspect that is immune to improvements in economic conditions.

For example, when record jobs growth failed to seriously dent welfare rolls in the United States, policy makers there concluded that long-term joblessness was a *behavioural* problem. That is, most people on welfare benefits either lacked the motivation or the financial incentive to move from benefits to work. This was the basis for a tough welfare regime of time limits on payments and strict work requirements for sole parents, announced in 1996.

This notion that high levels of joblessness are caused by "welfare dependency" gained currency in Australia in the late 1990s and triggered a major review of the welfare system. The central thrust of that review's report (the McClure Report) is that paying social security benefits is not enough to reduce poverty and social exclusion and welfare recipients should be encouraged to participate more fully in the economic and social life of the community. The report steered clear of "welfare dependency" arguments but did not pin down the main causes of long-term joblessness.¹¹

No convincing evidence has been presented to show that "welfare dependency" is a major cause of long-term joblessness here. The economic and social environment in which *most* social security recipients live here is different to that in the United States, with its large inner city and rural ghettos where (according to welfare dependency theorists) chronic joblessness extends from one generation to the next. Despite rhetorical claims to the contrary, Australia does not have a large "underclass" like the US.

Financial incentives to work are also stronger here than in most other OECD countries. Although social security income tests do act to discourage employment (especially part-time and casual employment), full-time minimum wages are relatively high here and benefits are relatively low. This means, for example, that a single adult on unemployment allowances will double his or her disposable income by undertaking full-time work at the minimum wage.

The "welfare dependency" debate shows that we cannot simply rely on overseas prescriptions for reducing long-term joblessness. Instead, we must study its causes here in Australia. Structural shifts in the labour market are the most likely culprit. Demand for low-skilled labour has fallen here, as it has in most OECD countries. At the same time, many people with limited education, skills and work experience, or personal and social barriers to employment such as a disability, have been left behind in the tide of structural change that has swept through the labour market. There is a lack of jobs suitable for them, and they in turn are not suited to the jobs on offer in growth sectors such as business services. Also, the experience of long-term unemployment itself erodes the skills, confidence, and connections people need to secure employment.

These problems are neatly summarised in the following statement from a recent OECD report on labour market assistance in Australia:

"Open vacancies suitable for long-term unemployed people are in short supply."¹²

¹¹ Background papers released with the Interim Report suggested that growth in the number of welfare recipients of workforce age was mainly due to structural factors including changes in the labour market and family arrangements. See Reference Group on Welfare Reform (2000).

¹² OECD (2001), p31.

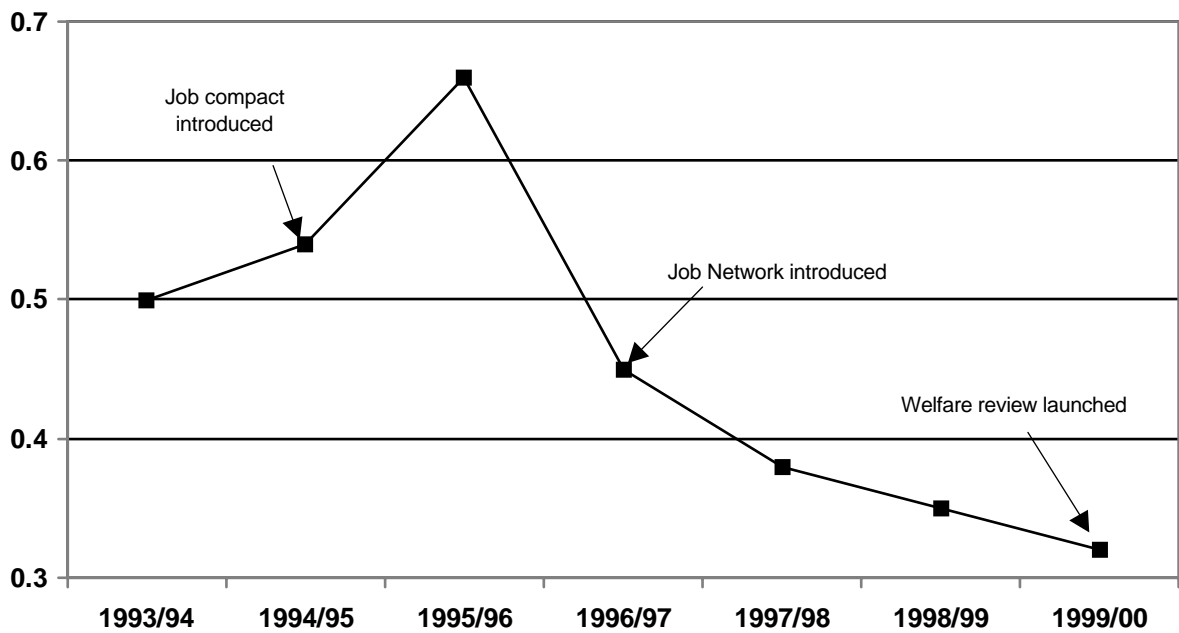


The crucial role of employment assistance policies

Clearly, no real progress can be made in reducing long-term joblessness without solid employment growth over an extended period.¹³ At the same time, prosperity will still leave many people behind unless they renew their connection with the mainstream workforce, their skills, their capacities and their confidence. This is the crucial role of *employment assistance* services. These range from job matching services and job search training to work experience and training programs and other practical help to overcome workforce barriers such as a disability or a lack of affordable child care.

In 1997 the Government cut these programs by 50%, or \$1 billion a year, just three years before the present round of welfare reform was triggered by Government concerns about rising "welfare dependency." There is nothing new in this. Australian Governments vacillate between cutting employment programs when the economy is recovering and heightened concern about long-term unemployment by the time the recovery comes to an end.

Expenditure on employment assistance (% of GDP)



Source: Federal Budget Papers

¹³ This demand side of the unemployment equation is addressed in other ACOSS publications in our Work Wages Welfare series. See ACOSS (2000) and (2001).



2. Strengths and weaknesses of the present employment assistance system for long-term jobless people

Intensive Assistance in the Job Network

The centrepiece of the previous Government's *Working Nation* strategy was a *Job Compact*, where the Government guaranteed all people unemployed for over 18 months a subsidised job for 6 months to restore their contact with the labour market and improve their future employment prospects. The Job Compact was delivered by case managers who assessed the needs of each long-term unemployed person and referred them to an appropriate employment "program". Places within programs were funded by Government.

In 1997 the Job Network replaced programs delivering specified services with a much more open-ended funding regime centred on *employment outcomes*. Service providers now bid for tenders to achieve employment outcomes for job-seekers, based on the degree of difficulty in placing each job-seeker in employment as assessed by Centrelink. *Intensive Assistance* is the highest level of assistance available in the Job Network. It is targeted towards those with the greatest barriers to employment.

Intensive Assistance providers receive a combination of up-front payments and payments for employment outcomes. They are not guided by the funding body as to how to achieve these outcomes. On the other hand, they have no access to "program" funding or places to assist their most disadvantaged clients, so any substantial investment in employment assistance (such as training) is made at their own risk.

The main strengths of the Intensive Assistance funding model are its flexibility and emphasis on employment outcomes. It has two main weaknesses.

First, many long-term unemployed people are denied access to Intensive Assistance. The duration of unemployment is only one of several factors taken into account when Centrelink assesses eligibility for Intensive Assistance. So 25% of long-term unemployed people were assessed last year as "not needing" Intensive Assistance.

Second, it offers Job network providers too little resources and too little incentive to invest in substantial help to overcome employment barriers for the most disadvantaged job-seekers. For example, only 14% of a sample of Intensive Assistance clients surveyed by the funding department received vocational training and only 5% received work experience. Most providers concentrate instead on low-cost assistance such as job search training and "coaching".

The result is lower employment outcomes for long-term unemployed people than those achieved by the most effective *Working Nation* programs: Jobstart and Jobskills. These programs offered 6 months of paid work experience in mainstream jobs to re-connect people with the workforce and renew skills. The average employment outcomes achieved three months after completion of participation in these programs, at comparable points in the business cycle, are listed in the table below.¹⁴ We make these comparisons in order to benchmark the performance current programs against the best of the previous ones, not to compare the overall performance of the present system and that of the "Working Nation", a pointless exercise at this stage.

¹⁴ These results should be interpreted with caution since we have limited information on the characteristics of people assisted by these programs (see detailed discussion below) and the programs operated at different times.



Outcomes of employment programs		
Program	Employment outcomes (% employed 3 months afterwards)	Client profile (% of clients unemployed long-term)
Jobstart (1994-95)	59%	83%
Jobskills (1994-95)	41%	93%
Intensive Assistance (2000)	36%	65%
'Work for the Dole' (2000)	27%	75%

Sources: DEETYA: "Annual Reports" (1994-95 and 1995-96), DEWRB: "Labour Market Assistance Outcomes" (December quarter 2000)

The main reason that Job Network providers under-invest in long-term unemployed people is that the funding system shifted all of the risk of such investment from Government to them. Risk management is an essential feature of any flexible, outcomes-based funding system. However in this case the financial risks are substantial because the nature of employment assistance is such that providers cannot accurately predict whether a given investment will improve employment outcomes for a given individual. In addition, a provider who wishes to invest in assistance such as wage subsidies or meaningful vocational training must bid for an Intensive Assistance tender at a level well above the average. From the point of view of most providers, this would be tempting fate. They could lose all of their public funding.

These problems cannot be resolved within a "pure" outcomes-based funding system, without major wastage of public funds. Instead, Government should share with providers the risks associated with investments in help for the most disadvantaged job-seekers. This would enable the Government to *guarantee* employment assistance of a substantial kind for long-term unemployed people.

However, the Government should not determine the nature of the help provided, nor the level of funding for each job-seeker (apart from cap on the maximum level of public funds invested). Instead, the guarantee should be financed in a way that *strengthens* providers' incentives to invest efficiently to improve employment outcomes in consultation with their clients. This means that job-seekers would have a greater stake in the design and implementation of *their* employment assistance services. This would of itself improve outcomes. It is also a better way to achieve compliance with activity requirements than harsh penalties.

'Work for the Dole'

'Work for the Dole' is the fastest growing employment assistance scheme. This is ironic, because in one sense it is a "job creation" program of the old fashioned kind. Further, its official objectives do not even include improving employment outcomes for job-seekers. The scheme sits oddly beside a Job Network focussed squarely on employment outcomes.

On the face of it, 'Work for the Dole' at least offers some form of *work experience* for people who have become detached from the labour market and who might not otherwise receive it, and does so cheaply.

However, it has few of the features of successful work experience programs, such as the former Jobskills program here and the emerging *transitional jobs* schemes that are achieving good



outcomes for long-term jobless people in the U.K.¹⁵ Unlike these programs, 'Work for the Dole' projects are not mainstream jobs and participants are not treated like employees (for example, they are not paid a proper wage). Moreover, there is no funding for mentoring, job search support or training while people work on a project.

This is because 'Work for the Dole' is essentially a *welfare compliance* program. It is designed to enforce the social security obligations of job-seekers, not to help them get a job (even though many providers do attempt to run their projects as an employment assistance scheme). The tension between these two objectives gives the scheme a split personality. 'Work for the Dole' must be *attractive* enough for job-seekers to benefit from participation, yet *severe* enough to encourage people to find a job in order to avoid it.

As a result of these flaws, employment outcomes for 'Work for the Dole' participants are poor, with only 27% securing employment after participating in the scheme compared with 41% for the former Jobskills program (see table above).

There is a need for a special employment program to provide mainstream work experience for very long-term unemployed people (out of work for over 2 years), particularly during recessions when private sector job opportunities dry up. The purpose of such a scheme should be to boost the job prospects of "work deprived" job-seekers, not to "create jobs" on "projects". 'Work for the Dole' is a poor substitute for such a program.

Specialised employment assistance programs

Specialised programs operate for population groups that are severely disadvantaged in the labour market. They include open employment services for people with disabilities, the Jobs Education and Training scheme for low income parents and carers, and the Community Development Employment Program and Indigenous Employment Strategy for Indigenous Australians.

Targeting employment assistance to population groups rather than on the basis of duration of unemployment is problematic. The needs of individuals within a group (such as mature age people) often vary more than the needs of groups. So it is difficult to target the right assistance to the most disadvantaged job-seekers on a population group basis. However, these three groups do face unique employment barriers. For example many people with disabilities need *pre-vocational support and training* to prepare them for their entry or return to the labour force. This also applies to many recipients of Parenting Payment. This is not captured by funding systems based on *employment outcomes only*. Many people with disabilities also need help to overcome attitudinal and environmental barriers that confront them, while others need ongoing support once they have secured a job.

The labour market situation of Indigenous Australians cannot be divorced from deeper social and economic disadvantages. These must ultimately be addressed at the level of the community as well as on a "case by case" basis.

¹⁵ These offer temporary employment in the community sector in regions where jobs are scarce. They are achieving average employment outcomes (people getting into ongoing employment) of around 50%. See Rowntree Foundation (2000).



A key challenge is how best to integrate specialist and mainstream employment assistance for these groups. For example, participation by low-income parents in Intensive Assistance is very low, yet many would benefit from a combination of the vocational training they receive through JET, and the help with job search available through Intensive Assistance. Funding systems that recognise intermediate (pre-vocational) outcomes as well as employment outcomes would help personal advisers and service providers to put together sequences of assistance along these lines. This is also a better approach than "parking" people with personal and social barriers to employment in remedial programs over the long term, although. It is important, however, to realistically assess how much distance each person has to travel before he or she is ready for employment.

There is evidence of under-investment by Government in specialised programs. This includes queues for assistance in JET and disability employment programs, the small numbers assisted under the Indigenous Employment Strategy programs, and the low unit costs of JET and some disability programs compared with Intensive Assistance. This is being addressed to a significant extent in the *Australians Working Together* package, but more substantial investment is needed.

3. Directions for reform

This report argues that there is no "right" mix of services and support for long-term unemployed people. This depends on the needs of each job-seeker and prospective employer.

An effective employment assistance system for long-term jobless people should:

- ◆ offer intensive forms of labour market assistance for *all long-term unemployed people* based on individual needs, in return for their active participation in strategies to assist them into employment;
- ◆ also target those most *at risk* of long-term unemployment, and other groups of severely disadvantaged *long-term jobless* people;
- ◆ assess each job-seeker's needs carefully before referring to a service provider, using a personal interview in which choices are offered rather than "standardised" or "automated" referrals;
- ◆ ensure that the providers of these services have the resources, flexibility and incentives to invest in the help most likely to achieve employment outcomes for each job-seeker;
- ◆ encourage job-seekers to play an active role in planning their own return to work strategies, with compliance systems sitting in the background;
- ◆ encourage providers to enter into strategic partnerships with employers.

Our five point plan to improve employment assistance (outlined above) builds on the strengths of the present system while overcoming the weaknesses documented in this report. Most importantly, the proposed *Employment Assistance Guarantee* restores balance to mutual obligation. The obligation is mutual.



Part 1

Long-term joblessness: causes and solutions

Australia faces two distinct unemployment problems: a high rate of overall unemployment and dramatic growth in long-term unemployment.¹⁶ Long-term unemployment is of special concern because it leads to poverty and despair for those affected, raises social security costs, and persists even when the economy has been growing strongly for many years. Long-term unemployment is also a hurdle that must be crossed if we are to make any real progress in reducing overall unemployment.

Despite solid economic growth over the 1990s, Australia only managed to reduce unemployment to just over 6%, one percentage point higher than the lowest level reached in the 1980s. The main reason for this is that employment growth lagged well behind growth in the economy. Australia's rate of employment growth in the mid-to late 1990s was poor compared with the previous decade.¹⁷ Growth in full-time permanent jobs was especially sluggish. Over the 1990s we failed to even restore the number of these jobs lost in the last recession.¹⁸

We need much stronger growth in jobs to make serious inroads into unemployment.

Long-term unemployment

But job creation on its own will not deliver full employment. The other reason we failed in the 1990s to convert strong economic growth into something approaching full employment is that many unemployed people were left behind in the tide of structural change that has swept through the labour market. They lacked the skills, work experience, or capacity to pick up jobs in growth areas of the economy such as business services.

To deal with this problem, we have to engineer a better fit between demand and supply in the labour market. Unless we do this, we risk a repeat of the experience of the past two decades:

- ◆ Unemployment builds up during a recession and many people become discouraged and leave the labour force.
- ◆ As the economy begins to recover unemployment falls, but this process is delayed by the return of discouraged job-seekers to active job search and a large build-up of long-term unemployment.
- ◆ If these two groups are not integrated back into the mainstream workforce quickly, they lose skills and their attractiveness to employers, and it becomes progressively harder to help them secure employment. Employers are reluctant to take them on due to the extra training costs involved, or the common view that they must be inefficient workers to have been out of work for so long. Some remain unemployed long-term while others join the "hidden unemployed".

¹⁶ Those out of work for a year or more.

¹⁷ See Gregory R (1999). Job creation is not, however, the main topic of this paper. For a fuller discussion of employment trends over the 1990s and policies to generate jobs, see ACOSS (2001).

¹⁸ Borland, Sheehan & Gregory (2001).



- ◆ As a result, unemployment ratchets upwards from one business cycle to the next, and more people have to rely on social security payments.

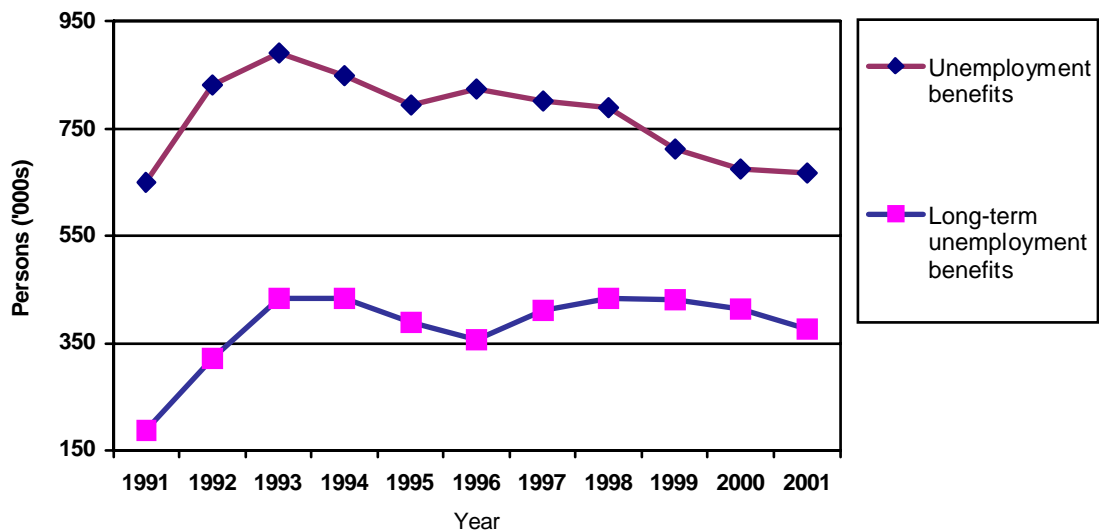
Economists call this process "persistence" or "hysteresis" - where a temporary rise in higher unemployment becomes entrenched as structural unemployment unless prompt action is taken to break the cycle.¹⁹ Although the main direct cause of high levels of unemployment is a lack of jobs, as the economy recovers from recessions the problem of a mismatch between the needs of employers and the skills and capacities of unemployed people assumes greater importance.

The level of *long-term unemployment* is a good basic indicator of the extent of structural unemployment.

Although unemployment gradually fell from 11% to just over 6% over the seven-year economic recovery of the 1990s, long-term unemployment declined much more slowly, especially in the middle of that decade. This is evidence of "persistence". Graph 1 below compares trends in the total numbers of unemployed people on Newstart and Youth Allowances and those on such benefits long-term (over 12 months). At the end of 2001, the number of long-term recipients stood at 385,500 people, the same level as in 1995 despite solid economic growth over this period.

GRAPH 1

Unemployment benefit recipients



Sources: Centrelink (various years); Warburton, Opoku & Vuong (1999):

"Unemployment benefits" are Newstart Allowance, Job Search Allowance, and Youth Allowance (other)

¹⁹ Katz (2000).



Graph 1 shows that although unemployment fell gradually over the second half of the 1990s, long-term unemployment remained stubbornly high.²⁰ This indicates that a large number of disadvantaged job-seekers found it difficult to break into secure employment.

Long-term joblessness

Long-term unemployment is a limited measure of prolonged labour market disadvantage. It masks the problems of hidden unemployment (especially among mothers returning to the aid workforce and people with disabilities), and marginal employment (especially among people moving on and off Newstart and Youth Allowances). These groups can be included if we use the broader term *long-term joblessness*.²¹

By the end of this decade, the policy spotlight is likely to shift from long-term unemployment to long-term joblessness. The McClure report²² on welfare reform has already signalled a greater policy focus on bringing more low income parents, and people with disabilities and mature age people into the mainstream labour force. One reason for this policy shift is that as the population ages, Governments will have to act to boost workforce participation as well as reduce unemployment. Otherwise, the workforce will shrink and the economy will slow.

Long-term joblessness is an enormously important issue for social policy because economic exclusion leads to social exclusion and poverty. There is a world of difference from a social standpoint between having one million people jobless for 3 months and the same number out of work for a year or more.

It is very difficult to measure trends in long-term joblessness with the available public data. We focus here on three deeply disadvantaged groups in the labour market who have a high incidence of hidden unemployment and reliance on social security payments: sole parents, people with disabilities, and Indigenous Australians.

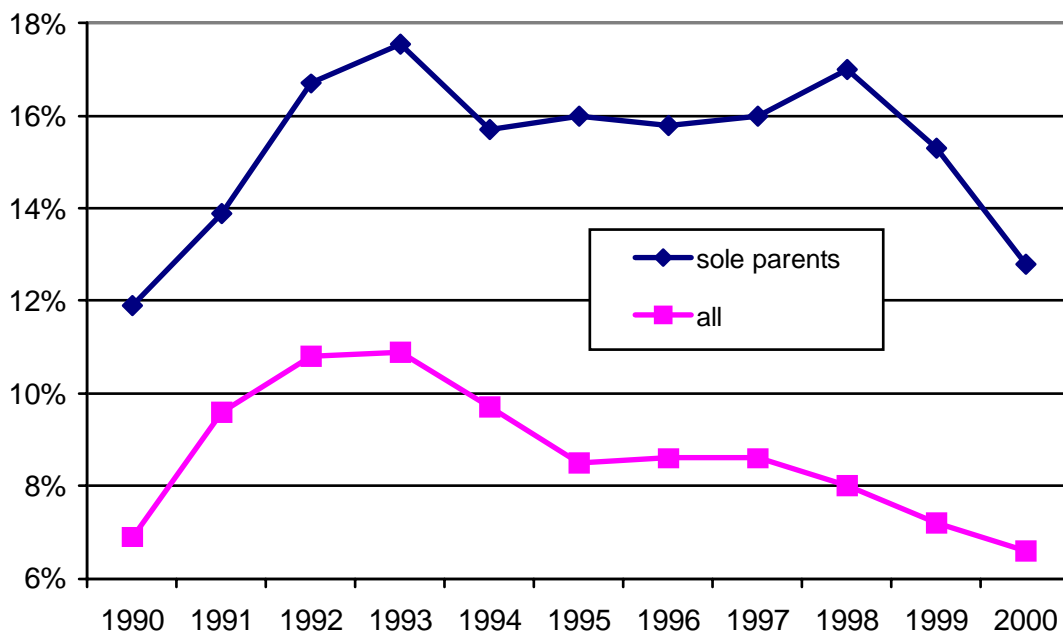
²⁰ We use unemployment benefit (Newstart and Youth Allowance - other) statistics rather than ABS unemployment data because for two reasons, the latter is a very limited measure of labour market disadvantage. First, people who obtain an hour's employment in a given week are classified by the ABS as employed. This excludes the growing number of unemployed people who have short bouts of casual employment. Second, people with a disability or temporary illness that prevents them from working in the short term are also excluded because they are unlikely to be actively seeking and available for employment at the time. The unemployment benefit data includes most people in these two groups. One of the drawbacks of using unemployment benefit data is that changes in eligibility conditions have an influence on the number of recipients. However, these did not appear to have a major net impact over the 1990s. See Warburton, Opoku & Vuong (1999), See also OECD (2001).

²¹ The difference between unemployment and joblessness is that the latter term includes people who are not officially classified as unemployed because, although they want employment, they are not actively seeking it at the present time. This is sometimes referred to as "hidden unemployment". We also include in our description of jobless people those who have only been able to obtain work for very short hours (e.g. less than 16 hours a week, although they want more substantial employment. We do not include in our discussion of "jobless" people those who are voluntarily jobless (those who do not want a job).

²² Reference group on welfare reform (2000).

Most **sole parents** have spent long periods out of the paid workforce to raise a child.²³ Over the 1990s recovery, labour force participation among sole parents rose from 56% to 59%, but their unemployment rate remained roughly twice as high as that for the workforce as a whole. Graph 2 below shows that unemployment among sole parents also showed signs of "persistence" in the mid 1990s, although it has fallen significantly since 1998.

GRAPH 2
Unemployment rates: sole parents and labour force as a whole



Source: ABS Labour force statistics

Many **people with disabilities** are also involuntarily jobless. Although there is almost no reliable data that maps their labour force status over time, it is clear that a high proportion of people with disabilities want to work but have prolonged difficulty securing employment. Of the 1.5 million people of workforce age with a "core activity restriction" in 1998, 800,000 (58%) were jobless.²⁴ Of these, 73,000 (10.5% of the labour force comprising people with disabilities) were unemployed and 513,000 (34% of all people with disabilities) wanted work but were not actively seeking a job.²⁵

²³ On average, sole parents on Parenting Allowance receive this payment for 2-3 years.

²⁴ ABS: "Disability ageing and carers." (Catalogue No 4430).

²⁵ This corresponds roughly with the 29% of people on Disability Support Pension who indicated in a 1996 survey that they would like to work but had no job (DSS, 1997). Less than 20% of people on this pension had private income above \$50 per week in 1999.



The labour market circumstances of people with disabilities

The labour market circumstances of people of workforce age who have a disability are diverse. In very broad terms there are two groups of roughly equal size: young and middle aged people (some of whom have had a disability from birth while others have a disability for other reasons such as a motor accident) and "mature age" people over about 50 years (most of whom suffer from a medical condition such as chronic back pain that emerged later in life).²⁶

The younger group is much more likely to be employed or seeking a job. Of people with a "core activity restriction" (handicap) aged 15-49 years in 1993, 56% were in the labour force (either employed or unemployed). Younger people with physical disabilities are more likely than in the past to undergo successful rehabilitation, and an increasing proportion of younger people with developmental disabilities is active in the workforce.

The "mature age" group are much more likely to leave the workforce and rely on various social security payments until they reach retirement age. Of this group, only 30% were in the labour force in 1993. Many face a range of labour market problems in addition to their disability. These include age-related discrimination, and an education and skill profile that no longer meets the needs of employers. Many receive a Disability Support Pension (DSP). In addition, many people with disabilities that don't qualify them for DSP receive Newstart, Mature Age Allowances, or Parenting Payment instead. Among respondents to a recent survey of social security recipients (on a range of "workforce age" payments, not just Disability Support Pension), 70% of those aged over 40 years indicated that they had a medical condition that constrained workforce participation.²⁷ There is likely to be a high level of "unreported" disabilities and chronic illnesses among mature age social security recipients.²⁸

Indigenous Australians are severely disadvantaged in the labour market. An expert report prepared for the Aboriginal and Torres Strait Islander Commission²⁹ argues that the unemployment rate among Indigenous Australians would have been 41% in 1998 if workers involved in the Community Development Employment Program (CDEP, the Indigenous 'Work for the Dole' program) were included in their number. As is the case for other groups discussed here, much of the joblessness among Indigenous Australians is "hidden unemployment" that does not show up in official unemployment statistics.

The most important function of employment assistance services is to reduce and prevent long-term joblessness. The evidence both here and overseas suggests that these services do make a difference. However, the evidence presented above suggests that we need to do better.

²⁶ Walsh J (1997).

²⁷ Dept. of Social security (1997).

²⁸ This is increasingly being recognised by our income support system. For example, 9% of Newstart Allowance recipients in 1999 (14% of those over 45 years) were not required to actively seek employment due to an illness or disability. See Warburton et al (1999). However, this is probably only the tip of the iceberg. For example, anecdotal evidence suggests that a substantial proportion of long-term recipients of Parenting Payment have a disability or chronic illness.

²⁹ Taylor & Hunter (1998).



1.1 Causes of long-term unemployment and joblessness

There is vigorous debate over the reasons that some people remain out of work for long periods of time. The overall level of demand for labour is clearly a crucial factor, especially in "jobs-poor" regions, but it does not explain why some groups fall behind in the chase for jobs.

We examine below seven possible reasons for this, and policy responses to each of them (see Table 1 below). These are simplified for the purpose of presentation.

One of our key conclusions is that we should not assume that the principal causes of long-term joblessness in Australia are the same as in other countries. Nor should we assume that a single factor is the main cause in the majority of cases. Employment assistance should be designed with Australian conditions in mind, as well as the needs of each job-seeker and employer.

TABLE 1

Long-term joblessness: causes and solutions

Causes	Solutions
1. Financial disincentives	Ease social security income tests or Introduce tax credits
2. Culture of dependency	Compliance regime
3. Inefficient job search	Job search training and coaching
4. Inadequate skills	Skills training, Lifelong learning
5. Limited employment experience	Work experience
6. Personal and social barriers	Work preparation and support, Action against discrimination in employment
7. Recruitment practices	Strengthen role of employment assistance services as intermediaries between employers and job- seekers.

1.2 Financial disincentives

Financial disincentives for people to undertake employment are widely regarded as a factor in long-term joblessness. Concern about work disincentives is particularly strong in the United States. This has led to a very large investment in tax credits for earned income, which are denied to people without earnings so as to boost incentives.

It is misleading to apply the US evidence on work incentives uncritically to Australia, for a number of reasons. The US has a particularly serious work incentive problem because minimum wages are very low and compulsory employee social security taxes cut in at very low earnings levels. By contrast, Australian minimum wages are high by international standards³⁰ (see Table 2 below). At the same time, our unemployment benefits are low (unlike those in most European countries) because they are paid at flat rates rather than a proportion of previous earnings.

This means that the gap between maximum rates of benefits and full-time minimum wages is relatively large in Australia.³¹ The work disincentives faced by unemployed people in Australia are less severe than in most other OECD countries.³²

TABLE 2
Ratio of minimum to median wages

Country	%	Country	%
France	61%	United Kingdom	42%
Australia	58%	United States	36%
Ireland	55%	Japan	33%
Netherlands	47%	Spain	32%
New Zealand	46%	Korea	24%
Canada	43%	Mexico	21%

Source: DEWRSB (2000), National wage case submission.

Table 3 below shows unemployment benefit replacement rates for Australia (benefits in proportion to a full-time minimum wage) just after the introduction of the year 2000 tax reforms. Replacement rates are very low for unemployed single people, who can expect to double their disposable income if they get a full-time job. They are higher for couples with children, but the main breadwinner can still expect to increase his or her disposable income by around 25% by getting a full-time job.

³⁰ By comparison with median or average wages in each country.

³¹ To put this another way, the benefit replacement rate, or ratio of benefits:wages, is relatively low.

³² See OECD (1999). Pearson & Scarpetta (2000) argue that the utility of measures such as earned income tax credits varies greatly between countries. Those countries with low minimum wages (such as the US) have a high need for them while most European countries have less need for them. Blundell & Hoynes (2001) evaluated the impact on workforce participation of tax credits and other work incentives measures in the UK (whose minimum wages are much higher than the US, but lower than Australia's), and found that the impact of these measures on labour supply was limited (although design flaws in these measures were noted by the authors).



TABLE 3

Unemployment benefit replacement rates (July 2000)

Family type	Benefits as a % of a single minimum wage (after tax)
Single, no children	51%
Single, 2 children	65%
Couple, no children	74%
Couple, 2 children	78%

Source: ACOSS calculations

Financial incentives are more problematic for people seeking part-time and casual work, especially second earners in low-income families with children. This is due to the high effective marginal tax rates imposed on each dollar of such earnings as a result of social security income tests and the tax system. However, this is unlikely to be responsible for high levels of long-term unemployment since the vast majority of this group are seeking *full-time* employment.³³

Some jobless people would still be worse off undertaking full-time employment at minimum wages. They include some public housing tenants and people facing large work-related expenses such as child care or expenses relating to a disability.

More policy attention should be given to these problems, but financial incentives do not seem to be a major cause of long-term joblessness in Australia.³⁴

1.3 A culture of dependency on welfare

Behavioural factors have received increasing attention from policy makers, especially in the English-speaking countries. This has led to a much greater emphasis on unemployment benefit compliance policies, including in Australia.

Some go further and argue that high unemployment levels are mainly caused by a culture of "welfare dependency".³⁵ This theory holds that jobless people have adapted to life on welfare payments and either lack motivation to seek employment or have lost the personal competence to do so.

³³ The Australians Working Together package includes a welcome measure to improve incentives for unemployed people to undertake casual work, a working credit. Further action is needed to reduce disincentives to regular part-time employment for recipients of Newstart Allowance, Youth Allowance and Family Tax Benefit.

³⁴ Reserve Bank research on unemployment has found no clear connection between variations in rates of unemployment benefits and structural unemployment in Australia (Gruen D et al, 1999). Another finding was that the wages many unemployed people seek are often below award minimum rates (Heath & Swan, 1999).

³⁵ See, for example, Mead (1997).



Some argue that the increase in social security recipients of workforce age in the 1990s, when unemployment was trending down, provides evidence for this theory. However, structural factors provide a more plausible explanation. These include changes in the labour market (such as an increase in the number of people rotating between unemployment and casual work), the greater concentration of joblessness within families (which increases reliance on income support) and changes in social security eligibility conditions (such as the extension of Parenting Allowance to the partners of low wage earners, which increased the total number of recipients).³⁶

The Department of Family and Community Services recently argued that:

"The main influences on trends [in receipt of income support] were changes in economic and demographic factors, and government policy changes. The most important single factor has been labour market change, notably the large increase in unemployment. ... Demographic factors, notably the increase in lone parenthood, the decline in fertility and ageing of the baby boom birth cohort, have also influenced trends."³⁷

Contemporary welfare dependency theories have their origins in the US, where large numbers of residents of poor inner city and rural districts are economically and socially marginalized for prolonged periods, often across generations. This was the context in which Oscar Lewis developed his "culture of poverty" thesis in the 1960s. Since then, the relative contributions of economic and cultural factors to this problem have been hotly debated.³⁸

Whatever the merits of culture of poverty theories, they are unlikely to be relevant to all but a small minority of jobless people in Australia. This is because they imply high levels of long-term (often trans-generational), systematic exclusion from the mainstream labour market and society, a problem that is much less severe here than in the US.³⁹

A minority of unemployed people in Australia is reluctant to seek employment, while others lack the capacity to search effectively. The limited Australian evidence suggests that this is mainly "situational" - a response to the situation people find themselves in at the time, such as numerous knock-backs for jobs or chronic ill health - rather than culturally based or trans-generational.⁴⁰

Advocates of a tougher unemployment benefit compliance regime point to poor take-up rates for employment assistance and large drop-out rates from benefits once people are compulsorily referred to 'Work for the Dole' and similar schemes. They suggest that these data offer evidence that large numbers of recipients are either employed already (and not declaring it) or are not actively seeking employment. However, an equally plausible explanation is that large numbers of recipients do not understand, or have difficulty negotiating, the complex system of referrals to employment assistance. In most cases, there is no personal interview immediately prior to referral to guide job-seekers through this maze.⁴¹

³⁶ See Penman (2001) for a detailed critical analysis of trends in the receipt of income support over the 1990s, and their interpretation. Dawkins et al (2001) analyse growth in the numbers of jobless households.

³⁷ Reference Group on Welfare Reform (2000), Technical and other appendices, p21.

³⁸ Lewis (1968), Moynihan D (1968), Danziger, Sandefur & Weinberg (1994).

³⁹ These conditions do exist in parts of the country, for example in some aboriginal communities, public housing estates in the cities, and on the fringes of some country towns.

⁴⁰ Pech & McCoull (2000). Ternowetsky (1980).

⁴¹ ACOSS and Sydney Welfare Rights Centre (2001b). Referrals to Job Search Training and Work for the Dole are made using an "automated referral system" rather than by personal interview with the agency of first contact, Centre-link. Less than 30% of those referred commence in these programs. By contrast, referrals to Intensive Employ-

Nevertheless, there is consistent international evidence of positive "compliance effects" from referral to employment assistance, where people either leave benefits or intensify job search at this time.⁴² The introduction of requirements to undertake active job search where few or none previously applied also seems to reduce overall unemployment levels.

Therefore, we can expect some positive employment outcomes from the use of employment assistance to test compliance with social security rules. However, the Australian unemployment benefit compliance system is already among the toughest in the world, with one of the highest rates of "breaching" for failing to meet the system's administrative requirements (such as attending interviews).⁴³ The penalties for non-compliance are excessive, for example \$837 for a "first offence" and \$372 for an "administrative breach" such as failure to attend an interview. This has given rise to widespread hardship among socially and financially vulnerable people who are not adept at negotiating complex bureaucratic systems.⁴⁴ Ironically, this often reduces the employment prospects of those affected.

Any attempt to tighten the system further is likely to yield diminishing returns. A recent Department of Family and Community Services survey⁴⁵ found that:

"Most people would seek work regardless of Centrelink monitoring. (This) indicates that on the whole, unemployed people want work and are taking steps to find it."

The use of employment assistance to support social security compliance has costs above and beyond those imposed on the job-seekers who are penalised. In a period of mass unemployment, where there are insufficient suitable job vacancies, employment assistance is increasingly becoming an adjunct to the social security system. It provides activity against which to test compliance. There is a danger that the main function of employment assistance - to help people secure employment - will be diluted and undermined if this becomes "activity for activity's sake".⁴⁶

It is widely argued today that employment assistance and social security systems should be "better integrated", and this is a worthy aim. Unfortunately, too little attention is paid to the practical tensions between these two systems and their underlying objectives.⁴⁷

As the Reference Group on Welfare Reform argued, positive strategies to engage job-seekers in the labour force should be pursued first and foremost. The compliance regime should sit in the background.⁴⁸

ment Assistance are made directly from Centrelink (though often without an interview immediately prior to referral), and over 60% commence.

⁴² Layard, Nickel & Jackman (1990), Grubb (1999), OECD (2001).

⁴³ Grubb (1999).

⁴⁴ ACOSS and Sydney Welfare Rights Centre (2001b), Salvation Army (2001).

⁴⁵ Tann and Sawyers (2001), p13.

⁴⁶ For example, by creating a climate of fear and mistrust between job-seekers and employment assistance providers, by requiring people to undertake a pre-determined set of activities rather than concentrate on activities that will get them a job, or by regularly requiring them to obtain evidence from prospective employers of their job search efforts.

⁴⁷ For example, social security bureaucracies usually make poor employment assistance providers, unless the two functions are clearly separated within the organisation (for example, by the appointment within Centrelink of specialist JET advisers). There is a tension between the rules-based systems that necessarily underpin income support and the more flexible and open-ended nature of effective employment assistance services.

⁴⁸ Reference Group on Welfare Reform (2000).



It is possible to achieve both a "compliance effect" and positive employment outcomes from referrals to employment assistance by offering people meaningful, substantial and personalised help to get a job. Positive encouragement is usually more effective than the threat of penalties to motivate people to participate. The only draw-back to this strategy is that it is probably more expensive to offer substantial personalised assistance rather than "activity for activity's sake". In times of mass unemployment, this is a test of a Government's fiscal commitment to reducing unemployment.

1.4 Inefficient job search and matching

Long-term unemployment is caused in part by inefficient job search on the part of unemployed people and inefficient recruitment practices on the part of employers. This is the traditional argument for public investment in job matching services.

Over the last decade, greater emphasis has also been placed on job search "training" for unemployed people, ranging from formal classroom training in job search techniques through to personal counselling and "coaching".

Some international studies suggest that this form of employment assistance is relatively inexpensive and effective,⁴⁹ especially if each job-seeker is "coached" in his or her job search efforts by an employment adviser⁵⁰ or case manager. This supports the "inefficient job search" theory.

On a broader note, the evidence from program evaluations strongly favours the use of employment advisers or consultants, not only to assist people with job search, but also to assess their needs and assemble an appropriate package of employment assistance services.⁵¹

However, job search assistance on its own does not appear to substantially improve the job prospects of most long-term unemployed people in Australia.⁵² For this reason, job search training in Australia is generally targeted towards people with relatively short unemployment durations, such as three or six months.

The success of job search training and coaching strategies depends a great deal on demand conditions in the labour market. If there is an ample supply of low-skilled jobs, then many long-term unemployed people can be assisted into jobs in this way. This was the story in the US over the mid to late 1990s, where there was a shift away from training and paid work experience programs towards the policy trifecta of a tough compliance regime, coaching and incentives to push sole parents on welfare payments towards employment. The 1996 welfare changes in the US imposed strict work requirements (often described as a "work first" strategy), increased resources for case managers to guide and coach people into jobs, and increased the earned income tax credit to "make work pay".

Over the following three years, the workforce participation and employment levels of low-income sole parents dramatically increased.⁵³ However, a fundamental pre-condition for success was a plentiful supply of low-skilled labour.⁵⁴

⁴⁹ Martin (1998).

⁵⁰ We use this term here in its generic sense, equivalent to a consultant or case manager.

⁵¹ Martin (1998), DEETYA (1997).

⁵² Stromback & Dockery (1998).

⁵³ Schoeni & Blank (2000).



One down-side of the strategy was that many of these jobs were casual and very low-paid.⁵⁵ This meant that large numbers of former welfare recipients returned to benefits after losing casual jobs, while those who kept their low paid jobs had to be heavily subsidised by an earned income tax credit that now costs the US Federal Budget more than total outlays on social assistance.⁵⁶

This has led a number of US labour market experts to advocate "mixed strategies" that combine coaching to get people into jobs with training, wage subsidies and other support to help them keep their jobs and progress into more secure employment.⁵⁷

Job search assistance is a cost-effective way to *prevent* long-term unemployment, and anecdotal evidence for Australia suggests that it also helps many people who are already unemployed long-term. However, in the absence of a plentiful supply of low-skilled jobs, this strategy on its own is less effective for those who are already long-term unemployed, who face more entrenched barriers to employment.⁵⁸

1.5 Skills mismatch

Another important factor likely to contribute to our high levels of long-term joblessness is the large gap between employer's needs or expectations, and the skills and other characteristics of many long-term jobless people.⁵⁹ If this is so, then better work incentives and more efficient job search will not, on their own, resolve the problem.

⁵⁴ In the late 1990s, when unemployment in the US fell below 5%, there was anecdotal evidence of supermarkets offering their customers "spotter's fees" to recruit employees for them, and employers recruiting outside prison gates. Another likely reason for success was the choice of target group. Female sole parents are more likely to be successful in securing employment in growth industries such as retail and business services than other long-term jobless people such as mature age blue-collar males. However, because the latter group is largely excluded from welfare assistance in the US, attention focussed on sole parents.

⁵⁵ Research by the Manpower Development Research Corporation (MDRC) found that although 70% of a sample of sole parents on a major "welfare to work" program obtained employment during a 2 year period after commencing in the program, only 42% were still employed at the end of that period. See Butler (2000).

⁵⁶ Research conducted by the Urban Institute (Wren, 2000) found that among a sample of sole parents leaving welfare between 1995 and 1997 the median wage was \$6.60 per hour and 77% of jobs lacked medical benefits. Also, 57% said they worried that food would run out and 40% worried that they were unable to pay utility bills.

⁵⁷ Butler D (2000); Brown A (2001); Kazis (2000).

⁵⁸ The recent OECD report on labour market assistance in Australia (OECD 2001, p32) notes that: "Open vacancies suitable for long-term unemployed people are in short supply, judging by the limited proportion of Intensive Assistance clients that is sent to a job interview, and referrals to short training and related courses or work experience could be a useful additional activation tool."

⁵⁹ Committee on Employment Opportunities (1993), Kirby (1985), Borland & Kennedy (1998), Meagher & Evans (1998).



ABS data on the self-reported job search experience of unemployed people supports this view. As the Table 4 below indicates, a majority of short-term unemployed people give "lack of jobs" as the main reason for failure to secure employment. On the other hand, the main reasons cited by long-term unemployed people are lack of skills, other personal characteristics or employer discrimination.

TABLE 4		
Main difficulty finding work (2001)		
	Short-term unemployed people (% of total)	Long-term unemployed people (% of total)
Lack of job opportunities	37%	23%
Lack of skills or other barriers, including:	46%	70%
• Skills/education	12%	18%
• Too old/young	9%	15%
• Health/disability	5%	11%
Other reasons	17%	7%
Total	100%	100%

Source: ABS (2001), Successful and Unsuccessful job search.

The clearest gap between what employers need and what long-term jobless people have to offer is their relatively low level of formal education and vocational skills.

Table 5 below shows that the average basic education and vocational skill levels of long-term jobless people in Australia are much lower than those of the labour force as a whole. Note that data in this table includes female sole parents and people of workforce age with disabilities because these groups include large numbers of people who want a job but are jobless for long periods of time.



Skill profile	Labour force (% of total)	Long-term unemployed people (% of total)	Female sole parents (% of total)	Adults with disabilities (% of total)
Year 10 or less ⁶⁰	33.7%	53.0%	51.6%	46.7%
Labourer, transport, production	20.0%	45.6%		22.4% ⁶¹
Clerical, sales, service	32.1%	26.6%		28.4% ⁶²

Sources: ABS: Labour force status and educational attainment (Catalogue No 6235 - 1994) ABS: Disability ageing and carers (Cat No 4430 - 1998), ABS: Labour force status of families (Cat No 6224 - 1998) Borland & Kennedy, 1998.

The most telling figures here are the high proportions of all three groups with year ten qualifications or less, and the high proportion of long-term unemployed people who formerly worked in low-skilled manual occupations.⁶³ This is symptomatic of the effects of structural adjustment in the economy on people who have limited qualifications and work in declining areas of low-skilled employment. It is also noteworthy that many people with disabilities appear to have workforce barriers (such as limited formal education) extending beyond their disability. Similarly, many sole parents face employment barriers above and beyond the need to juggle caring for a child alone with workforce participation.

There has been significant growth in low-skilled employment in Australia over the past two decades, but this has not been sufficient to reduce unemployment and it has largely been confined to service industries. Low-skilled blue-collar jobs have declined sharply. As a result, a substantial group of low-skilled (mostly male) workers has been left behind. They include young people who have failed to break into the workforce, parents who have failed to successfully re-enter it, retrenched mature age workers who have found that their skills are no longer required by employers, and low-skilled workers in regions adversely affected by industry restructuring.

⁶⁰ These data are for 1994.

⁶¹ Current employment.

⁶² Current employment.

⁶³ By contrast, a relatively low proportion of long-term unemployed people was previously engaged in clerical, sales and service occupations. Unfortunately we lack a detailed breakdown between high and low skilled service-based occupations. It is likely that a relatively high proportion of long-term unemployed people and sole parents (compared with the labour force as a whole) was previously engaged in low-skilled "service" occupations. However, given the sharp decline in low skilled manual employment in Australia over the last few decades, it is likely that low-skilled manual workers face a greater risk of long-term unemployment than low-skilled service sector workers.



Further, growth in low-skilled employment has largely been confined to "marginal" jobs that offer neither a living income nor reasonable job security.⁶⁴ This provides job opportunities for some low-skilled jobless workers (especially young people and middle-aged women) but a growing number of these workers are stuck on a treadmill between low skilled jobs and unemployment.⁶⁵ One reason for this is that many of these jobs are now casual jobs.⁶⁶

Another, more fundamental, reason is that a "dual labour market" operates in Australia. The labour market for unskilled jobs is separate and distinct from that for skilled jobs, with limited movement upwards from low-skilled to highly-skilled occupations.⁶⁷ Traditional career pathways between low-skilled and higher-skilled work within organisations are breaking down, as employers rely increasingly on external education and training to prepare people for skilled jobs. These trends raise barriers to entry into secure adequately paid employment, especially for young unemployed people, mothers returning to the workforce after providing full-time care, and mature age manual workers.

Under these conditions, better work incentives and job search skills alone will not get the most disadvantaged job-seekers into "secure" jobs. especially those with limited recent workforce experience. A logical policy response to this problem is to invest in vocational and other skills training for jobless people.

In the late 1980s, on the heels of the *Kirby Report*,⁶⁸ employment assistance for long-term and disadvantaged job-seekers was re-weighted away from programs designed to give people paid work experience towards short vocational training courses.

The results of this strategy in Australia and other countries that travelled down this path were disappointing. Program evaluations point to the critical importance of a direct link with paid employment for long-term jobless people.⁶⁹

Table 6 below shows the results from two key Australian studies of the *net employment impact* of different kinds of employment assistance programs for job-seekers in the mid 1990s (that is, the extent to which programs improved people's chances of securing employment).

⁶⁴ Most of these jobs have been part-time and/or casual. For example, from 1990 to 2000, 600,000 additional low-skilled jobs were created, roughly half of all additional jobs created over the decade (see Borland, Gregory & Sheehan, 2001). However, there was a reduction of 200,000 in the number of permanent full-time low-skilled jobs. The difference comprised 140,000 extra casual full-time jobs, 450,000 extra casual part-time jobs, and 220,000 extra permanent part-time jobs.

⁶⁵ Dunlop (1999) researched people's movements into and out of employment over the mid 1990s and found a much higher level of "churning" among people who were jobless at the beginning of the period studied, than among the broader workforce. This does not mean that jobseekers cannot progress from casual employment to more secure jobs. Chalmers & Galb (2000) found that a significant number of jobseekers do so. However, many need some form of labour market assistance to help them to make this transition.

⁶⁶ Although casual does not always equate with "precarious", turnover in these jobs is high.

⁶⁷ Song & Webster (2001) find empirical evidence of a segmentation of the labour market between low skill and higher skill sectors, with higher turnover in the former and little movement of workers from low to high skill sectors. Buchanan & Watson (1999) suggest that workers in low paid occupations are five times less likely to receive training from employers than those on higher wages.

⁶⁸ Kirby (1985).

⁶⁹ Webster (1998), Stromback Dockery & Ying (1998), Martin (2000), Meager & Evans (1998).



TABLE 6
Impact of programs on employment prospects⁷⁰

Program type	Departmental estimates			Stromback, Dockery & Ying's estimates		
	% of participants employed	% of non-participants employed	net impact of program	% of participants employed	% of non-participants employed	net impact of program
Job clubs (job search training) Target group: short-term unemployed	36%	24%	12%	25%	24%	1%
Jobtrain (vocational training) Target group: short-term unemployed	31%	24%	7%	23%	23%	0%
Jobstart (wage subsidies) Target group: long-term unemployed	50%	22%	28%	42%	22%	20%
Jobskills (employment and training in community sector) Target group: very long-term unemployed	30%	19%	11%	43%	18%	25%

Sources: DEETYA (1997), Stromback, Dockery & Ying (1998).

These data suggest that although job search assistance is relatively inexpensive, its impact on employment prospects is uncertain. Moreover, job search training schemes have generally been targeted towards less disadvantaged job-seekers with shorter unemployment durations.

However, short vocational training programs appear to have even less impact. This is despite the fact that these courses were usually targeted towards growth sectors such as the hospitality industry. A notable exception was training schemes for sole parents such as that provided through the JET program in Australia.⁷¹ This may be due in part to the strong motivation among low-skilled sole parents who have been absent from the paid workforce for long periods, to improve their future career prospects. Another likely factor is the relatively strong growth in occupations that tend to employ middle-aged women, such as the retail, banking and hospitality industries.

One reading of these results is that it is very difficult to overcome years of educational and labour market disadvantage with a training course of a few weeks' or months' duration. There is growing international interest in schemes that aim to prevent educational disadvantage from an early age,

⁷⁰ Employment outcomes are based on the % of people employed 3 months after completion of a program. The Department's estimates are reasonably consistent with their previous studies of the same programs, although employment outcomes were generally better in the two years prior to 1996. These outcomes were also sustained over 12 months in previous departmental studies that measured outcomes over a longer time frame. Note the discrepancy between Stromback et al and Departmental estimates of the net impact of the Jobskills program. Importantly, the Stromback estimates may be more reliable since it is known that Jobskills participants were drawn from among the most disadvantaged long term unemployed people.

⁷¹ Dept of Social Security (1997); Martin (2000).



and some evidence that these are effective in reducing labour market disadvantage later in life.⁷² However, it is much harder to compensate for educational disadvantage once a person has left school. It is not clear whether more substantial vocational training courses for unemployed people, or a stronger focus on basic education, would significantly improve employment outcomes.⁷³ Further, the investment required would be very substantial.⁷⁴

Another interpretation is that many long-term jobless people have simply lost (or never had) a strong connection with the world of "mainstream" employment,⁷⁵ and that training in the absence of employment experience is therefore ineffective.

1.6 Limited employment experience

Employment experience programs

The data in the Table 6 above suggests that programs for disadvantaged job-seekers offering direct experience in mainstream jobs, were among the most effective. On the face of it, this is consistent with the "work first" strategy described above. Direct experience of mainstream employment has many tangible and intangible benefits. It improves a range of work and personal skills, broadens the job-seeker's personal networks, improves self esteem and motivation, provides a recent "work history" and, if a decent wage is paid, lifts them out of poverty. All of these factors contribute strongly to people's future employment outcomes, even if the work is only temporary.

Employment experience of this kind is especially important for the growing number of long-term jobless people who have simply lost (or never had) a strong connection with mainstream employment (see box below).

⁷² See Katz (1994).

⁷³ Chapman (2000) simulated the effects on the employment prospects of unemployed people of a program that offers an additional two years of formal schooling. He found that it would have little impact. On the other hand Meagher & Evans (1998) and Chitty & Elam (2000) found evidence to suggest that vocational training increases the duration of jobs obtained by unemployed people even if it doesn't improve their prospects of obtaining one in the first place.

⁷⁴ Heckman (1994).

⁷⁵ By this we mean paid employment that is both substantial and regular, as distinct from short bouts of casual or part-time employment.



Disconnected

A substantial minority of long-term unemployed people have practically lost their connection with the world of "mainstream" employment.⁷⁶

- Four in five long-term unemployed people in September 1997 has also been either unemployed or not in the labour force in September 1995;
- Over half of those who received Newstart Allowance (an unemployment payment) during the period from 1995 to 1999 had more than two spells on benefits;
- 29% of the people on Newstart Allowance in 1995 were still claiming that benefit in 2000, and a further 16% had moved to other payments apart from the age pension.

Unlike the booming labour market in the United States in recent years, the Australian labour market seems to have little to offer "work deprived" long-term unemployed people with few employable skills. As the recent OECD review of labour market assistance in Australia pointed out:

"Open vacancies suitable for long-term unemployed people are in short supply."⁷⁷

This limits the effectiveness of job search assistance and "coaching" for long-term unemployed people, on its own. It implies that further efforts must be made to encourage employers to offer work experience and job opportunities.

One strategy that worked well in Australia over the past few decades was to *subsidise the wages* for long-term unemployed people for a limited period in order to give them a "foot in the door" of the mainstream labour market. This is a less costly and inequitable way to reduce *long-term unemployment* than across the board reductions in minimum wages (the strategy adopted in the United States). Nevertheless, wage subsidies and the various forms of entry level or "trainee" wages are not the solution to overall unemployment. The evidence generally shows that their job creation potential is limited and that to a large extent the participants displace other unemployed people. However, this is not necessarily a problem, as long as wage subsidies improve the job prospects of those most disadvantaged in the labour market, especially long-term unemployed people.

The last major wage subsidy scheme for long-term unemployed people was *Jobstart*, which operated in various guises from the mid 1970s through to 1997, when it was cashed out (along with other programs) in order to introduce the Job Network. Jobstart offered (mainly) private employers a wage subsidy of about 50% to employ a long-term unemployed person for 6 months, with an expectation (not strongly enforced) that they would retain these workers if their performance was satisfactory. The wage subsidy was, in effect, a bribe to encourage employers to give disadvantaged jobseekers a chance.⁷⁸

⁷⁶ Dockery & Webster (2001).

⁷⁷ OECD 2001, p31.

⁷⁸ A possible problem with wage subsidies is that they signal to employers that a job-seeker is disadvantaged and may thereby discourage the employer from taking them on. This has not been a major problem in Australia as it is overseas as the scheme was well established and widely accepted among employers, it was not targeted too tightly towards the most severely disadvantaged job-seekers, and the Commonwealth Employment Service (which made referrals for placement) enjoyed close relationships with the employers involved. It is noteworthy that peak



Official evaluations of the impact of Jobstart on the future job prospects of long-term unemployed people were consistently favourable, a view echoed by most independent academic studies.⁷⁹ In the early to mid 1990s, these studies generally found that 50-60% of program participants were in unsubsidised employment three months after completion of the program, and that the program *increased* their job prospects (that is, it had a positive net impact) by some 20-30%.⁸⁰ These outcomes were superior to those of practically all other labour market programs at the time, and were achieved on a large scale. Moreover, Jobstart was cost effective because the cost of each placement was reduced substantially by savings in unemployment payments over the 6 month work experience period, to an average of about \$2,000 in current dollars including "case management" costs.

Jobstart had two key limitations. The first is that job-seekers were selected for placement mainly from among the easiest to place. There is usually a strong element of "creaming" in wage subsidy schemes. This gives rise to concerns about *deadweight loss*, that is, many of the job-seekers referred to Jobstart may have secured a job in absence of such assistance. Nevertheless, Australia's experience with Jobstart suggests that hundreds of thousands of *long-term* unemployed people have achieved employment outcomes they would not otherwise have achieved due to wage subsidies.

The solution to this "creaming" problem is careful targeting:

- ◆ wage subsidies should be targeted towards long-term unemployed jobseekers in order to minimise the problems of deadweight loss;
- ◆ however, they should not generally be targeted towards the most disadvantaged job-seekers within this group, to avoid a fall off in employer support for the scheme.

How, then, can this latter "harder to place" group of long-term unemployed people be given the mainstream employment experience they often need? The answer is that effective intervention for this group will inevitably be more difficult and more expensive than wage subsidy scheme like Jobstart. It is likely to require something approaching a 100% subsidy of wages, and a greater effort devoted to preparation and ongoing personal support for job-seekers. There are advantages in offering this kind of work experience through the public or not for profit sectors to minimise the much higher risk of displacement in private sector employment and the distortion of competitive markets.

Traditionally, these schemes were used in Australia and overseas as a labour market buffer in economic down-turns, and they were called "job creation" schemes. Unfortunately, in the early job creation schemes too little attention was paid to employment outcomes for participants and many schemes were so far removed from mainstream employment that they were little more than parking places for jobless people. Some programs may have even reduced the future employment prospects of unemployed people through a "lock in effect" (participants stopped searching for permanent employment during their work placement). By the 1980s, these features of the early schemes were widely criticised.⁸¹

Over the past decade new schemes have emerged both here and overseas with a much tighter focus on improving the future employability of the most disadvantaged long-term unemployed

employer associations recently called for the reinstatement of wage subsidies (see ACCI 2001, ABL 2001, and VECCI 2001).

⁷⁹ For example Stromback, Dockery & Ying (1998).

⁸⁰ See table above. Previous official evaluations of wage subsidies indicated that these outcomes were usually sustained over 12 months.

⁸¹ Brodsky, 2000.



job-seekers. These are not job creation schemes but *paid work experience* schemes for people who need mainstream employment experience but are unlikely to be helped by partial wage subsidy schemes like Jobstart, as well as those in job-poor regions.

In Britain and the United States, these emerging work experience schemes are called *transitional jobs* or *transitional labour markets*. This underlines their purpose, which is to move work deprived job-seekers from long-term unemployment into mainstream employment, not simply to "create jobs". Although more expensive than most other forms of labour market assistance, there are indications that these schemes are succeeding where others have failed - in getting severely disadvantaged jobseekers into employment. They also contribute to the betterment of community services and the natural environment.

The Rowntree Foundation reports that intermediate labour market schemes in depressed regions of the UK are achieving employment outcomes of around 50% (moving into unsubsidised employment), compared with less than 40% for other "New Deal" programs subsidised by the British Government (such as vocational training programs).⁸² Employment outcomes for the equivalent, larger scale, programs that operate in many continental European countries have also improved over the past decade.⁸³ In the United States, the new compulsory employment requirements imposed on sole parents on income support have led to a revival of interest in public sector employment programs, targeted to those recipients considered unlikely to secure a private sector job.

In Australia, independent academic studies suggest that the Jobskills scheme, an employment experience and training program operating in the early 1990s, was effective in increasing the employment prospects of very long-term unemployed people by over 20%.⁸⁴ This scheme offered a combination of 6 months part time employment on a trainee wage and part time or on the job vocational training, mainly in the community and Local Government sectors.

On the other hand, the New Work Opportunities scheme which also operated at this time was more expensive yet less effective than Jobskills.⁸⁵ This scheme more closely resembled traditional job creation schemes, offering 6 month's full time employment at a low award wage. However, the main problem with this scheme was that it was hurriedly assembled in 1994 and then dramatically expanded to meet the ambitious *Working Nation* target to guarantee all long-term unemployed people a subsidised job.

The lessons from Australian and overseas experience with transitional employment schemes are that success depends on:

- ◆ targeting them towards those among the most disadvantaged long-term unemployed people who are considered most likely to benefit from paid employment experience;
- ◆ keeping the focus on employment outcomes (for example, the duration of placements should not be too long);
- ◆ ensuring that placements are in mainstream jobs and that participants are treated as employees, including payment of appropriate award or trainee wages;

⁸² Rowntree Foundation (2000).

⁸³ Brodsky (2000). See also Katz (1997) for outcomes of US schemes.

⁸⁴ See table above.

⁸⁵ The average unit cost of NWO was about \$11,500 in today's dollars, compared with \$8,200 for Jobskills. DEETYA's evaluation studies (see Table 6 above) suggest that the net employment impact of Jobskills was more than double that for New Work Opportunities.



- ◆ integration of work experience with appropriate personal support and training, including ongoing help with job search

Transitional employment schemes still have a key role to play in economic down-turns. They are the only means by which large numbers of unemployed people can obtain mainstream work experience when private sector job opportunities dry up, without displacing large numbers of existing workers. The schemes also help stimulate economic activity in the worst affected regions. Most other forms of labour market assistance are ineffective under these conditions. Transitional jobs should therefore be expanded substantially in recessions. However, if they have to be rapidly established from scratch in each down-turn, this will diminish the quality of these programs. Governments should maintain them on a reasonably large scale throughout economic recoveries, both to avoid this problem and to assist very long-term unemployed people.

Other options to provide work experience for long-term unemployed people include voluntary (unpaid) work experience and self employment programs. Evaluations suggest that these programs are relatively successful in assisting people into employment at low cost. However, one of the main reasons for their apparent success is that participation is usually voluntary and those long-term unemployed people with the best prospects are more likely to choose them. Long-term unemployed people who face more severe employment barriers are less likely to benefit, especially from self employment programs. Therefore, these programs should be offered on a voluntary basis, and should not be used a substitute for large-scale paid work experience schemes.⁸⁶

Integrating employment experience and training

Work experience of itself is not sufficient to help long-term unemployed people progress into secure employment, given the skills deficits noted above. There is a danger that an over-reliance on large-scale subsidised or transitional employment for long-term unemployed people would lead to problems along the lines of those encountered in the United States as a result of its "low minimum wage" strategy. That is, participants in these schemes could be "churned" between low skilled insecure jobs and further periods of unemployment or participation in programs.

One possible solution to this problem is to *integrate* paid employment experience and training. Training leading to widely accepted qualifications would be offered in conjunction with work experience, either on or off the job. This strategy is consistent with the demands of employers for training that is more relevant to their needs, and with the needs of job-seekers to acquire transferable credentials in a labour market where traditional systems of career employment are breaking down.⁸⁷

⁸⁶ Meager & Evans (1998), Martin (2000).

⁸⁷ A major employer association has recently called for a better integration between Job Network services and New Apprenticeships. See ACCI (2001).



The integration of work experience and training is the strength of the apprenticeship model. Evidence from evaluations of apprenticeship systems in Australia and overseas suggests that they deliver positive employment outcomes for participants.⁸⁸ The German apprenticeship system, which is relatively comprehensive, has been credited with improving the overall labour market position of low-skilled workers there, compared with other European countries and the US.⁸⁹

One of the interesting features of apprenticeship systems is the way in which they influence the recruitment practices of employers as well as the skills of job-seekers and employees. That is, they operate on both the supply and demand side of the labour market to provide structured entry level employment opportunities.

In recent years Australian apprenticeships have increasingly been taken up by middle-aged people seeking to improve their skills. However, one of the main reasons for the apparent success of apprenticeships in getting people into jobs is that they are mainly targeted towards school leavers and people already in jobs rather than disadvantaged job-seekers. Although the former Jobskills program for long-term unemployed people adopted elements of the apprenticeship model, it was a much shorter program (6 months) and participants did not obtain trade qualifications or guaranteed employment on completion. These features of apprenticeships would be difficult to replicate in an employment assistance scheme for disadvantaged job-seekers.⁹⁰

The "dual labour market" problem can ultimately only be resolved by employment and training policies that extend well beyond employment assistance for jobless people. Continuous improvement and up-dating of skills across the low skilled workforce is needed to improve their labour market position.⁹¹ To this end, the Australian "Green Paper" on Full Employment suggested that people should have access to at least five years of non-compulsory education and training (beyond Year 10) over their lifetime.⁹²

Little progress has been made in Australia towards the ideal of "lifelong learning". This will have to change as the population ages and traditional career structures are further eroded. If Australia continues to abandon its mature age workers, we shall pay a price over the next 20 years in lower economic growth and reduced competitiveness.⁹³ Ireland is one country that has greatly improved its performance in both these areas through a sustained investment in both compulsory and post-compulsory education and training.⁹⁴

Schmid⁹⁵ coined the phrase "transitional labour markets" to describe the shift from the traditional (male) pattern of 40 years of continuous full-time employment with the same employer to one with less certainty and more "transition points". These transition points include a lengthy period of further education or training after completion of compulsory schooling, career breaks for caring and re-training purposes, and a phased transition from full-time employment to retire-

⁸⁸ Over 90% of former apprentices are still in employment 3 months after completion.

⁸⁹ Nickel & Bell (1997) argue that unemployment among low-skilled workers in Germany has not increased more than unemployment among higher-skilled workers, notwithstanding the relatively high wages of the low-skilled compared with those paid in the US. They suggest that the German vocational training system can take much of the credit for this.

⁹⁰ However, Denmark appears to achieved positive employment outcomes from large scale traineeship-style programs (called "job training") for long-term unemployed people, in which approximately 3% of the labour force was enrolled in 1997. See Madsen (1999), Auer (2000).

⁹¹ Katz.1994, Booth & Snower (1995).

⁹² Committee on Employment Opportunities (1993).

⁹³ Reich (1991), Porter (2001), Booth & Snower (1996).

⁹⁴ Dorgan (2001).

⁹⁵ Schmid G (1995).



ment. He argues that a key challenge for social security and employment assistance policy is to ensure that these transitions are successful and people do not fall into long-term joblessness. Therefore, the central objective for full employment policies would no longer be to "guarantee" 40 years of continuous full-time employment. Secure well paid employment should be available to people, but with the expectation that they will spend a significant part of their working lives engaged in other activities such as caring and retraining which might be combined with less than full-time employment.⁹⁶ During these transition periods, they should receive income support on a needs basis, and support to maintain and improve their skills.

Given the enormity (and budgetary cost) of this task, the best approach is to advance one step at a time:

- ◆ The top priority should be to improve the skills of long-term jobless people, as part of a work-oriented strategy to move them into mainstream jobs as soon as possible.
- ◆ Another high priority is to improve the educational outcomes of children and young people from low income backgrounds in the early years of schooling;
- ◆ Over time, further investments should be made in skills development for low-skilled workers who are vulnerable to long-term joblessness at key transition points in their careers such as the transition from school to work, from caring to employment, and from full-time employment to retirement.⁹⁷

1.7 Personal and social barriers

A substantial proportion of all long-term jobless people have a disability or other personal or social barrier to employment that will not be overcome by employment experience or vocational skills training alone. These barriers to employment are often not identified until after jobless people are referred to employment assistance services.

People with disabilities

People with workforce barriers such as a physical disability or chronic psychiatric condition often need employment assistance of a different kind to those whose main employment barriers are a lack of skills or recent work experience. They need work preparation or capacity building assistance such as rehabilitation services, drug and alcohol counselling, or subsidies to improve mobility. In addition, they may need ongoing support in the workplace once they have secured employment.

Disabilities are a social construct rather than simply a personal "condition". The integration of people with disabilities into "mainstream" employment also requires the education of employers and co-workers, as well as assistance (such as workplace modifications) to enable them to work productively.

⁹⁶ This is already the experience of most women in Australia.

⁹⁷ For example, ACOSS, the BCA, Dusseldorp Skills Forum and others proposed in a recent joint statement that retrenched low-skilled workers should receive more help to plan their future careers both at and before retrenchment. See ACOSS et al (2000).



This suggests that specialised programs, such as the disability employment programs and the new Personal Support Program, are needed to assist people with disabilities and their prospective employers. However, it is not desirable to fully separate these from mainstream employment assistance services. This could undermine the objective of the greatest possible integration of people with disabilities into mainstream employment, and lead to inefficiencies in the funding and delivery of services.

Social exclusion

Another workforce barrier that is difficult to overcome using traditional employment assistance models is the combination of economic disadvantage and social exclusion in jobs-poor communities. We suggested earlier (in the discussion of welfare dependency theory) that these included Indigenous communities, some outer-urban public housing estates and impoverished rural towns.

In these places, economic and social disadvantage must be addressed simultaneously. Strategies that broaden the focus of service delivery from individual to community capacity building should also be pursued.

Employment assistance, social support and health services are usually funded and managed independently of one another. This works reasonably well for the majority of clients, who prefer to deal with specialists that are knowledgeable in their particular field.

However, this does not work so well in deeply disadvantaged communities where health, social and employment problems are closely entwined. For example, it is very difficult for people to undertake active job search if they are homeless, have a drug problem or suffer from domestic violence. Dealing with these more fundamental life problems leaves them with little personal energy or resources to resolve their labour market problems.

People in these circumstances often prefer to rely on one or two individuals within the service network to help them navigate the system of community services. This applies especially to people with literacy problems, limited formal education or mental health problems. These individuals and their services are usually unable to address the needs of their clients due to their own excessive workloads and the demarcation lines between services.

The solution to these problems lies well beyond any attempt to tinker with incentives in the social security system. Social security payments provide a basic level of material support without which problems such as insecure housing would worsen. Proposals to "pool" individual entitlements or encourage recipients to "invest" their future entitlements in employment assistance would be counter-productive unless they receive the money back in the form of wages (as is the case with the Community Development Employment Scheme for Indigenous Australians). It is reasonable for social security recipients to expect public support with both their immediate income needs *and* their efforts to secure employment. These forms of public support are not mutually exclusive.

However, the present system of employment and community services is not effective in meeting the needs of people in jobs poor regions, and here is a strong case for better integration of these services at the local level. There is also a strong case for greater consumer and community involvement in their design and implementation.

The recent UK reforms to employment assistance have taken a step in this direction by pooling the employment assistance resources available to regions of very high unemployment (such as Glasgow) in a scheme called Employment Zones. The service providers that administer these funds for the government have considerable flexibility to allocate the funds according to the needs of job-seekers and employers within the local area. Under the banner of "joined up Government",



employment and community services in some of these regions are being integrated, either as a local network of services or one-stop shop.⁹⁸

A related strategy is to link employment assistance in disadvantaged regions directly with local job generation schemes (for example, the establishment of community-based business enterprises). This is another form of transitional labour market, from which job-seekers can progress towards mainstream employment.

This approach has its drawbacks. It could erode individual service guarantees and entitlements, so that assistance is no longer fairly targeted on the basis of need. It would be difficult to measure the outcomes of such a fully integrated service because it would be addressing so many dimensions of the community's problems at once. This could weaken efficiency and accountability.

Concentrating a wide range of services for deeply disadvantaged people within any single organisation also raises concerns about the power such an organisation and its staff might hold over those who depend on it. Many people who have experienced institutional care are aware of the risks of abuse of power, and isolation from the mainstream society, that often comes with this form of social support. A strong commitment to the involvement of job-seekers in decision-making within these organisations is needed to overcome this problem, as well as independent complaints mechanisms and sound evaluation processes.

There is also a danger that participants in these schemes will continue to rely on local community networks and their associated transitional labour markets for support rather than taking the next step towards mainstream employment. This appears to be a problem in some regions with the Community Development Employment Program (the Indigenous "Work for the Dole" scheme).

Nevertheless, it is worth experimenting with service delivery models in which local employment assistance resources, job generation schemes, and possibly a limited range of other community services, are "pooled" in deeply disadvantaged communities.

The conditions for success include:

- ◆ targeting of the most disadvantaged regions and communities;
- ◆ forging broadly-based local partnerships to improve employment opportunities, including business and disadvantaged job-seekers themselves;
- ◆ providing the additional resources local services need to assist people into employment (that is, more resources are needed in these regions, not just a redistribution of existing resources);⁹⁹
- ◆ an emphasis on local cooperation rather than competition, and the creative use of "lead agency" or brokerage models;
- ◆ keeping a strong focus on economic independence, whether or not each individual service or initiative has this as its direct objective.

⁹⁸ Social Exclusion Unit (2001)

⁹⁹ This is illustrated by the experience with the Community Development Employment Scheme, which in many regions has relieved Governments of their responsibilities to provide basic community infrastructure such as garbage collection.



1.8 Recruitment practices

The contribution of recruitment practices to long-term joblessness has not been studied as thoroughly as the skills and other characteristics of long-term jobless people. Many analysts forget that the labour market is a two-way relationship – job-seekers must be matched with employers.

Anecdotal and research evidence points to the use by employers of unemployment duration as a screening mechanism and to employer discrimination against some groups of long-term jobless people such as mature age workers and Indigenous Australians.¹⁰⁰

Traditional employment assistance schemes for disadvantaged job-seekers focus on the needs of job-seekers. As a result, there has been a tendency to neglect the needs of their prospective employers. This is especially so in employment assistance systems that operate as an adjunct to social security regimes, giving priority to compliance with benefit requirements rather than improving people's employment prospects. Indeed, these systems may generate friction between employment assistance providers and employers.

There is an emerging trend, particularly in the United States and United Kingdom, to strengthen the role of employment assistance services as intermediaries between job-seekers and employers.¹⁰¹ This calls for a shift in the mindset of policy makers and providers:

- ◆ from the job-seeker as client to the employer as client;
- ◆ from the separation of employer canvassing and assistance for disadvantaged job-seekers to the integration of these functions;
- ◆ from the packaging of employment assistance to meet the needs of each disadvantaged job-seeker, to the development of disadvantaged job-seekers to meet the needs of employers.

This is sometimes referred to as demand-led employment assistance. It blurs the boundaries between supply and demand side intervention in the labour market.

This argument should not be taken too far. As we argued above, job-seekers with limited education and skills often need more broadly-based skills training to gain a secure footing in the labour market.

However, as employers increasingly outsource their human resource management functions, new opportunities will emerge for demand led employment assistance. For example, providers could offer medium to large employers a guarantee that they will fill vacancies in certain occupational sectors within the enterprise with suitably-trained and competent jobless workers. Employers who engage disadvantaged job-seekers on the basis of such a relationship with a provider might do so at first out of a sense of social obligation. However, the relationship will only be sustained over time if it meets their business needs as well.

¹⁰⁰ Chapman (1992), Mission Australia (2000), Meager & Evans (1998), ABS (2001).

¹⁰¹ Kazis (2000).



Wildcat services corporation¹⁰²

This employment assistance provider entered into a partnership with financial services company Salomon Smith Barney in New York to train jobless people to fill vacancies for administrative staff delivering financial services.

The training program is tailored to the needs of the employer, and Wildcat guarantees to provide appropriately trained recruits to fill vacancies that may emerge at this level of their operation. The scheme is partly funded by the employer, and partly by the State (under a "welfare to work" program).

The trainees are sole parents on income support, who are strongly motivated to take part in the scheme because the jobs are secure, the average rate of pay is over \$26,000 per annum, and health benefits are offered. These are much better jobs than most participants in U.S. "welfare to work" schemes can expect to obtain.

As a result, job retention is high (94%), reducing recruitment costs of the employer.

Both the job-seekers and the employer gain from this partnership.

These relationships could extend to unions with a presence in the targeted industries. An example of this "tripartite" cooperation between employers, unions, and employment assistance service providers is the Danish "job rotation" schemes which are being extended to other European countries.

Job rotation schemes in Denmark

In Denmark, around 2% of the paid workforce took part in *job rotation schemes* in 1996. In these schemes, workers who take paid leave for parenting or retraining purposes (which is partly subsidised by government) can be temporarily replaced by jobless people referred to them by employment services (whose wages and training are also partly subsidised by the government). These schemes improve workforce skills and work-family balance, and also have a modest impact on unemployment.¹⁰³

¹⁰² Wren T (2000).

¹⁰³ Ministry for Employment, Denmark (2000).



1.9 Targeting and delivering the right mix of employment assistance

Targeting employment assistance

The needs of disadvantaged job-seekers and their prospective employers are diverse, and targeting the right kind of employment assistance to the right people is a big challenge for policy makers.

Most job-seekers find employment with limited help, such as job matching services to connect them with employers. A substantial minority face greater difficulty.

It makes sense to target more costly forms of assistance towards long-term unemployed and jobless people, and those most at risk of it.¹⁰⁴ Although on the face of it, it is easier and less costly to intervene early to prevent long-term joblessness, this is wasteful to the extent that a job-seeker would have obtained a job anyway without assistance.¹⁰⁵

There are also powerful equity and social policy arguments for giving top priority to helping long-term jobless people into employment. People out of work for long periods face a much greater than average risk of poverty, poor health, family breakdown and homelessness. The social and fiscal costs of not assisting this group into employment are often very high. They include people in receipt of social security payments who are not classified by the ABS as unemployed, but who want a job and have been out of work for a long period - such as many people with a disability or caring responsibilities and mature-age "discouraged job-seekers".

To the extent that we can predict who is most at risk of long-term joblessness, it is desirable to intervene earlier to prevent it. In these cases, accurate assessment of risk is the key to avoiding large deadweight losses. However as we argue below, this is difficult to achieve in practice, no matter how sophisticated the assessment instrument might be.

It also makes sense to provide specialised services for groups of long-term jobless people who face particularly severe employment barriers, and whose labour market needs are unique. Examples include Indigenous Australians, people with disabilities and sole parents. However, it is wise to use this kind of targeting selectively. Over the past two decades policy makers have moved away from a system of different employment assistance schemes targeted to different demographic groups of job-seekers (such as separate "programs" for young and mature age jobless people). The main problems with this approach are that:

- ◆ Assistance is not provided on an equitable basis between groups (for example, in the past there was a bias against middle and mature age job-seekers);
- ◆ It reduces the flexibility of employment advisers to tailor assistance to the needs of each job-seeker (each "group" contains individuals with diverse needs);
- ◆ It leads to a complex array of separate programs that are difficult to integrate.

¹⁰⁴ We use the shorthand term "disadvantaged job-seeker" elsewhere to refer to this group.

¹⁰⁵ This is called deadweight loss. See Chapman (1999).



As argued above, there is also a case for greater investment in the early years of schooling and in lifelong learning: that is, to extend access to education and training beyond the formal school years to low-skilled workers and people entering or re-entering the labour force who are at risk of being "left behind". Targets should also be set for this form of assistance, on the basis of lifelong access to certain minimum levels of education and training,¹⁰⁶ or perhaps the achievement over the life cycle of minimum competency levels. However, this "lifelong learning" project would require very substantial public and employer investment and should therefore be implemented in stages based on key labour market transitions (such as from school to employment and from caring to re-employment). For the reasons outlined above, this investment in preventing long-term joblessness should not be given a higher priority than reducing it among those already affected.

Lower level support should nevertheless be offered to short-term unemployed people generally. A modest investment at this stage can help prevent long-term joblessness. This should include personalised job matching and individualised help with job search techniques and the direct costs of job search (such as access to the internet and help with transport costs). A universal personalised job matching service is also important to improve the overall functioning of the labour market and reduce labour market segmentation.

This discussion of the targeting of employment assistance services is summarised in Table 7 below. Our highest priorities are services to assist those already jobless long-term or at risk: intensive assistance for long-term unemployed people and specialised programs such as disability employment services.

¹⁰⁶ For example, the 5 years of non-compulsory education and training advocated in the 1994 employment Green Paper, referred to above. The cost could be shared between Government, students, and employers where appropriate. One advantage of this approach is that the entitlement to support would be based (albeit in a crude way) on the level of further education and training actually received. This approach is probably fairer and more efficient than the alternative approach of "learning accounts", which arbitrarily cap the overall level of public subsidies for an individual's post-compulsory education and training.

TABLE 7
Targeting of employment assistance services

Target group	Job matching and other "basic" employment services	Transitional assistance (eg school to work)	More intensive employment assistance (eg within Job Net)	Specialised programs (eg disability employment)
Unemployed job-seekers generally	X			
Low-skilled workers and labour force entrants at risk of long-term unemployment	X	X		
Unemployed people out of work long-term or at high risk	X	X*	X High priority	
Other long-term jobless people on social security payments	X	X*	X	
Special needs groups ¹⁰⁷	X	X*	X#	X High priority
* Where appropriate, for example Parenting Payment recipients. # Where they are jobless long-term or at risk.				

The mix of services for long-term unemployed and jobless people

At the least, long-term jobless people and those most at risk should be offered job matching and job search assistance provided through an employment adviser or consultant. This is all that a substantial minority of long-term jobless people need to secure employment.¹⁰⁸

However, most are likely to require more substantial help with the barriers to employment discussed above, such as their weak links with mainstream employment, vocational skills deficits, inadequate literacy skills, a disability, locational disadvantage, or poor communication skills. This raises two problems: how to distinguish between these two groups, and how to determine what kind of help to offer the latter (more deeply disadvantaged) group.

It is not possible to accurately assess whether a long-term jobless person needs more than job search assistance and "coaching" until he or she has spent some time in a program such as Intensive Assistance (within the Job Network). The United Kingdom's system of "New Deals" for long-term unemployed people addresses this problem by dividing their version of Intensive Assistance into two parts. First, all long-term unemployed people are automatically referred to employment advisers¹⁰⁹ for three months of assessment, coaching, job search assistance, and job

¹⁰⁷ Including people with disabilities, Indigenous Australians, and low income parents and carers returning to the paid workforce.

¹⁰⁸ This varies across the business cycle. During economic booms, those job-seekers who are still long-term unemployed are drawn from more deeply disadvantaged sections of the labour force than is the case just after recessions.

¹⁰⁹ See Finn D (2001). In the UK, where the Employment Service coordinates the provision of employment assistance for disadvantaged job-seekers in most regions, it is logical to locate these personal advisers within the Employment Service. However, Australia has adopted a decentralised model of employment assistance in which non-government, public and private sector Job Network providers are given a great deal of latitude to decide what



referral (where appropriate). This period is called the "Gateway". Second, those who have not secured a job by this time are offered a series of "options" for more substantial labour market support, including subsidised employment, training, or work in local social services or environmental remediation schemes. This is a sensible way to target more costly assistance towards those likely to need it most, since those with the least need for further help are likely to leave the system within the Gateway period. It also gives advisers sufficient time to establish a close relationship with their clients in order to accurately assess their needs.

The second challenge is how to identify which services the most disadvantaged long-term jobless people need. Flexibility is very important. The systems which work best for long-term jobless people are those in which employment advisers have maximum scope to assemble a package of assistance to meet the needs of each job-seeker. This implies that funding for services should not be tied too closely to a given set of program "inputs". Funding based on employment outcomes, or flexible combinations of outcomes and "inputs" is needed. Most countries now aspire to such a system, but it is difficult to achieve in practice, especially if the form of employment assistance is prescribed in advance by Government program guidelines. Major problems have also emerged with Australia's experiment with outcomes-based employment assistance funding through the Job Network (as discussed in the next Part).

form of help to offer each job-seeker. Therefore, in Australia two "layers" of personal adviser are required: one within Centrelink to assess, counsel and personally refer job-seekers to appropriate employment assistance providers (and determine to a large extent the level of funding attached to each job-seeker); another within those providers assisting disadvantaged job-seekers (such as Intensive Assistance providers) to undertake further needs assessment, offer advice on a practical return to work plan, and assemble the resources required to back it up (most effective providers do this already).



Section 2.

The present employment assistance system for disadvantaged job-seekers

Our highest priority for further investment and reform in employment assistance are those services designed for job-seekers who are already long-term unemployed and those who are jobless and have special employment assistance needs, such as people with disabilities. If more public resources are not invested in these services, there is a danger that the present level of long-term joblessness will become entrenched (and will become entrenched at a much higher level in the event of a recession).

We therefore focus on these services in the remainder of this paper. They are:

- ◆ Intensive Employment Assistance within the Job Network
- ◆ the 'Work for the Dole' Scheme
- ◆ specialised employment assistance for people with disabilities, low income parents and carers, and Indigenous Australians.

To benchmark the effectiveness of the present system, we compare it with the most effective programs within the previous Working Nation strategy. Our purpose is not, however, to attempt an overall comparison of the two models. This has been done elsewhere, and is probably a pointless exercise given that our aim is to improve the system we have now.

2.1 The Job Compact within Working Nation

The Working Nation strategy was introduced in 1994 in response to a sharp rise in long-term unemployment following the recession of the early 1990s. Its centrepiece was the Job Compact. The Job Compact guaranteed all unemployed people a temporary job for around six months once they had been out of work for 18 months. This was a circuit breaker designed to improve their employment prospects. The guarantee was a very important commitment for the Government to make. Until then, Australian Governments guaranteed unemployed people access to social security payments and basic job matching assistance through the Commonwealth Employment Service, but more intensive employment assistance was rationed, and only a minority of long-term unemployed people benefited in any given year.

The Job Compact was implemented through a series of employment assistance programs. Given the “work first” orientation of the Working Nation package, they were of two main types:

- ◆ paid employment experience programs;
- ◆ programs that combined employment experience and training.

It is significant that the two most effective Job Compact programs, Jobstart and Jobskills, predated the Working Nation reforms. Jobstart was a paid employment experience program while Jobskills combined employment experience and training.



TABLE 8
Features of key past and present employment assistance schemes

	Key "Working Nation" programs (early 1990s)		Key current programs (post 1997)	
	Jobstart	Jobskills	Work for the Dole	Intensive Assistance
Period of operation	1986-1997	1992-1997	1997-	1998-
Target group	people in, or at high risk of, long-term unemployment	mainly very long-term unemployed people (out of work for 2 years or more)	mainly long-term unemployed young people	people at high risk of long-term unemployment
Employment experience	6 months full-time, in mainstream jobs	6 months for an average of 3 days per week (in a mainstream job or community project)	6 months or more for 2 days per week, on community projects	May be offered, but not in most cases
Payment	Full-time award wages ¹¹⁰ , partly subsidised by the program ¹¹¹	A fixed trainee wage based on 3/5 of a standard award rate, partly subsidised by the program ¹¹²	Newstart Allowance plus a \$10pw supplement	Newstart Allowance, (or subsidised wages in a small minority of cases)
Education or vocational training	No	Vocational training for an average of 2 days per week	May be offered, but is not funded under the program	May be offered, but not in most cases
Other forms of support (e.g. help with job search, employment counselling)	No, but most participants had a (separately funded) case manager	No, but most participants had a (separately funded) case manager	May be offered, but is not funded under the program	Usually offered
Average duration of assistance	6 months	6 months	less than 6 months ¹¹³	12-18 months
Average cost per placement ¹¹⁴	\$2,160 ¹¹⁵	\$8,860 ¹¹⁶	\$2,000	\$2,200 ¹¹⁷

¹¹⁰ Minimum full-time award wages for adults were approximately double the value of Newstart Allowance for a single person.

¹¹¹ Newstart Allowance was discontinued.

¹¹² Newstart Allowance was discontinued.

¹¹³ Estimated average duration.

¹¹⁴ Based on assumptions outlined in Graph below.

¹¹⁵ Includes an estimate for the cost of case management. Reduced cost of unemployment benefits while people were on the scheme is taken into account.

¹¹⁶ Includes an estimate for the cost of case management. Reduced cost of unemployment benefits while people were on the scheme is taken into account.

¹¹⁷ Intensive Assistance (IA) providers receive an up-front payment on acceptance of a referral, but the majority of their funding (around 70%) is paid on the basis of the employment outcomes they achieve for disadvantaged job-seekers. They are not required to offer specific services, although they must negotiate an Intensive Assis-



Access to Job Compact programs was via a system of case management. Case managers (another term for employment advisers) were responsible for counselling each disadvantaged job-seeker, working out a plan of action to secure employment, and referring them to an appropriate mix of programs.

Case managers, but not programs, were mainly funded according to the employment and training outcomes they achieved. This was in accordance with a fixed schedule of fees that was meant to reflect the degree of labour market disadvantage of each job-seeker.

The Job Compact achieved positive employment outcomes for many long-term unemployed people, but it didn't meet expectations of a sharp reduction in the overall level of long-term unemployment.

One reason for this was the economic slow-down of the mid-1990s.¹¹⁸ Another reason was flaws in design and implementation:

- ◆ One major design flaw was the assumption that all long-term unemployed people needed the same kind of assistance - a temporary subsidised job.¹¹⁹
- ◆ A related flaw was that unrealistic placement targets, a program-based delivery system and the high caseloads of case managers all meant that their role was largely reduced to slotting people into available places in programs, at times inappropriately. This was a serious weakness, given the complexity and diversity of the labour market and social disadvantages faced by many long-term unemployed people.
- ◆ Third, there were serious problems with implementation. Program places were expanded too rapidly, there was too much focus on very long-term unemployed people (out of work for five years or more) at the outset, and the most effective programs, Jobstart and Jobskills, were not given priority.

Despite the weaknesses described above, Working Nation demonstrated that it is possible to significantly improve employment outcomes for long-term unemployed people on a large scale - if Governments are prepared to investment the necessary resources.¹²⁰ The key lessons were that program targets should reflect the realities of service delivery on the ground, employment assistance cannot overcome weaknesses in the overall performance of the labour market, sound implementation is crucial, and that those responsible for guiding unemployed people through the system must have the maximum flexibility to adjust employment assistance to the needs of each job-seeker. Another lesson is that radical experiments such as the job compact should not be introduced in a rush, and that they are always likely to require fine-tuning after their introduction.

tance Support Plan with each client. Unlike the other schemes listed here, this funding subsidises services such as personal advice, support, and the linking of participants to other services.

¹¹⁸ There was a downturn in employment growth over the last two years of the Job Compact (1995 and 1996). The Treasury recently identified this as a period of weak employment growth (Treasury 2001, Budget Overview, p 20).

¹¹⁹ This was inspired by the previous Swedish employment assistance system, which guaranteed all long-term unemployed a subsidised job (partly to maintain their connection to the labour force and partly to renew their entitlement to social insurance payments). The Swedes have since replaced this guarantee with a more flexible guarantee of employment assistance based on individual needs.

¹²⁰ Chapman & Pigott (1995) show that under a reasonable set of assumptions regarding program outcomes, a strategy such as Working Nation could pay for itself over the medium term.



2.2 Intensive Assistance within the Job Network

The Job Compact was abolished from 1997 by the incoming Federal Government, and replaced by a second radical experiment, the Job Network. Ostensibly, this was done because the Job Compact had "failed".¹²¹ However, a major consideration was the \$1 billion per annum in expenditure savings achieved by abolishing the Job Compact and introducing competition in the provision of public job matching services. As a result, in 1997-98 employment assistance outlays for jobless people were cut by approximately 50 per cent.

Most previous programs of employment assistance, such as wage subsidies, were abolished and replaced with a more open-ended 3 tier system of labour market support:

- ◆ First, the Commonwealth Employment Service (CES) was abolished and its job matching function tendered out among competing public (that is, "Employment National" - the successor of the CES) not for profit, and private sector organisations.
- ◆ Second, these and similar organisations were invited to tender to provide job search training courses for people who were considered unlikely to secure employment by self-help alone.
- ◆ Third, the Job Compact was replaced by an Intensive Assistance funding stream for the most disadvantaged unemployed people, where the nature of the services to be offered was, for the most part, left to be determined by the providers.

Apart from modest up-front fees, most of the funding for these services is linked to employment outcomes for participants. The theory underpinning the Job Network funding model was that it would create an employment assistance "market" in which providers focussed on outcomes rather than inputs (for example, the needless referral of people to programs).¹²² They would have greater flexibility to offer whatever services were required to achieve employment outcomes. This is the main strength of the Job Network model.

A key drawback is that there are no guarantees that long-term unemployed people will be referred to Intensive Assistance, or that they will receive substantial help once referred.

Access to Intensive Assistance is rationed by Centrelink, using an assessment tool known as the Job Seeker Classification Instrument (JSCI), in which duration of unemployment is only one a number of factors taken into account. Between May 1998 to September 2000, approximately 25% of long-term unemployed people were assessed as not requiring Intensive Assistance.¹²³ It is

¹²¹ A Departmental review (DEETYA 1997) raised the above (valid) criticisms of the Working Nation strategy but took too little account of two key factors: Slower employment growth through 1995 and 1996; The more expensive public and community sector job placements were introduced or expanded in order to provide employment experience and training for harder-to-place job-seekers who were unlikely to gain a Jobstart place. As such, it was always anticipated that their employment outcomes would be lower. See also ACOSS (1997) for ACOSS's response to the review.

¹²² This is not a market in the traditional sense as it has a single purchaser (the Employment Department) which in effect manages competition among providers through the tender process and administrative intervention. For a more detailed discussion of this aspect of the Job Network, see ACOSS (2001), Submission to the Productivity Commission Inquiry into the Job Network model.

¹²³ See DEWRSB (2001). Some of this group would have been assessed as requiring assistance from other specialised programs for people with disabilities or the Community Support Program for people with personal barriers to employment, but they would have been in the minority. Taking into account the fact that not all long-term unemployed people on the relevant social security payments were assessed, and that not of those referred to



sensible to use a sophisticated classification tool to ration early access to the most expensive assistance to those most likely to become long-term unemployed. However, no assessment tool can accurately predict, in advance of the actual provision of services, which job-seekers will secure employment in the near future with limited assistance and which need more substantial help.¹²⁴ Moreover, long-term unemployment is in itself sufficient evidence of severe labour market disadvantage.

It appears that job-seekers receive more ongoing help with job search and personal "coaching" from Intensive Assistance providers than they received from case managers under the previous system (whose main role, in effect, was to refer people to programs). This is a major improvement on previous arrangements.

However, this advantage is offset by a serious flaw in the new funding arrangements: providers of Intensive Assistance are offered too little resources, and too little incentive, to provide substantial help to overcome workforce barriers. Apart from employment advice and "coaching", most recipients of Intensive Assistance received little more than job search training. In the first tender round of the Job Network, very few job-seekers received paid employment experience (e.g. wage subsidies), and less than 25% received vocational training.¹²⁵ This situation does not seem to have changed appreciably in the second funding round (from 2000). The funding Department reports that in 2000, only 14% of a sample of Intensive Assistance clients received vocational training and only 5% obtained work experience (Table 9).¹²⁶ Further, the introduction of price competitive tendering for Intensive Assistance contracts appears to have *reduced* the average level of resources allocated to each Intensive Assistance client¹²⁷

Intensive Assistance actually commenced, only 45% of long-term Newstart Allowance recipients actually commenced Intensive Assistance.

¹²⁴ Assessment of labour market disadvantage is a dynamic process. An accurate assessment can ultimately only be made by the service providers who assist each job-seeker to secure a job. However, it is necessary to assess labour market disadvantage in advance in order to determine which job-seekers are referred to the highest level of employment assistance (Intensive Assistance). The primary basis for this assessment should be duration of unemployment because this clearly signals the degree of difficulty a job-seeker has experienced in the labour market up until now. The recent OECD report on labour market assistance in Australia (OECD, 2001) argues for extension of eligibility for Intensive Assistance for all long-term unemployed people on relevant benefits on these grounds. See also Finn (2001).

¹²⁵ DEWRSB (2000), Job Network evaluation, stage one; Eardley, Abello, & McDonald (2001) Is the Job Network benefiting disadvantaged job-seekers? SPRC Discussion Paper No 111, ACOSS (2000), Is the Job Network working for disadvantaged job-seekers?

¹²⁶ See DEWR (2002), p54. The OECD report on labour market assistance in Australia (OECD 2001) also notes, at p202, that: "Under Intensive Assistance, Job Network Members may finance training or pay a hiring subsidy, but most spending is probably devoted to services (eg interviews, short courses in job search skills, referral to jobs and for external training and general administration) that would be correctly classified under the OECD heading 'employment services and administration' rather than 'vocational training' and 'employment subsidies'. See also ABS (2000) Employment Services.

¹²⁷ Anecdotal evidence suggests that most providers bid for Intensive Assistance tenders at close to the floor price (which is significantly below the fee scale set in round one), and that once they have covered their overheads, most Intensive Assistance providers have only \$200-\$400 left to spend on help other than personal advice and job matching assistance.

TABLE 9
Activities of Intensive Assistance participants (2000)

Activities	% of participants
paid work ¹²⁸	18%
vocational training	14%
job search training	11%
work experience	5%

Source DEWR (2001)

This under-investment in assistance to overcome employment barriers is reflected in the employment outcomes from Intensive Assistance, which are lower than could have been expected if Intensive Assistance clients were offered assistance along the lines of the best-performing Working Nation programs: Jobstart and Jobskills.¹²⁹

A comparison of past and present programs

Graph 3 below compares the employment outcomes, client profiles, and unit costs of Jobstart and Jobskills in 1994-95, with those for Intensive Assistance and the 'Work for the Dole' scheme, in 1999-00. This is, necessarily, an over-simplified comparison. One limitation is that programs are compared at different points in time. We have compared the years 1994-95 and 1999-00 because they represent similar stages of the business cycle - that is, periods of strong employment growth when it should be relatively easy to secure employment for disadvantaged job-seekers. The second limitation is that we have no information on the net employment impact of the new schemes - that is, the employment outcomes of Intensive Assistance and 'Work for the Dole' clients compared with a similar group who did not receive such assistance.¹³⁰ In the absence of such data, we rely on unemployment duration as a proxy for degree of labour market disadvantage faced by job-seekers referred to various programs.

¹²⁸ This probably refers to those whose obtained jobs (e.g. casual employment) while in Intensive Assistance, rather than paid work experience placements organised by the provider.

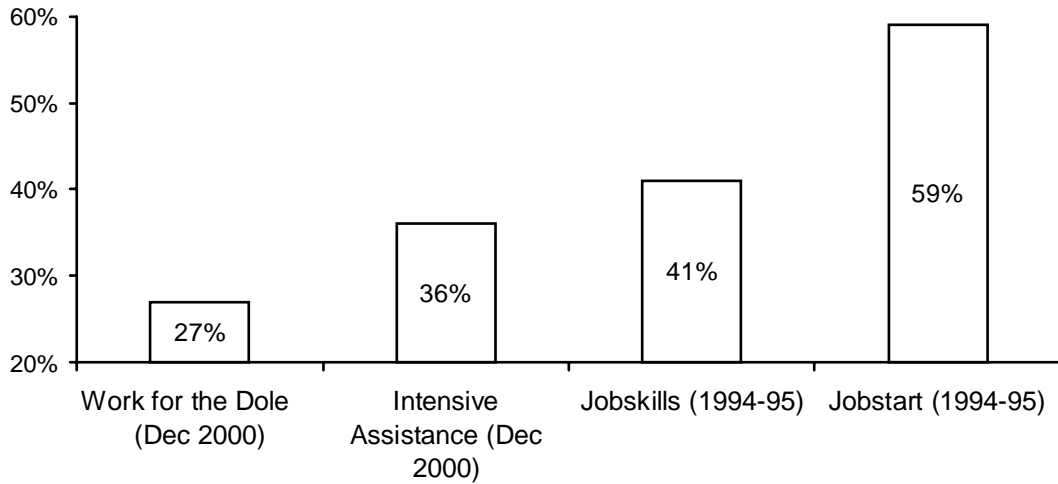
¹²⁹ Had they still operated over the late 1990s, when employment growth was solid - see ACOSS (2000A) and ACOSS (2000B)

¹³⁰ Unfortunately, this information is not yet available from official evaluations of the Job Network, though we understand it will be part of the third stage of the Job Network evaluation. DEWRSB has published evaluations of the net benefit impact of Intensive Assistance, but this only tells us how effective the scheme was in shifting people off unemployment benefits, not whether or not they obtained employment. For example, many of those who went "off benefits" would have transferred to disability pensions, or relied on informal support from their families.



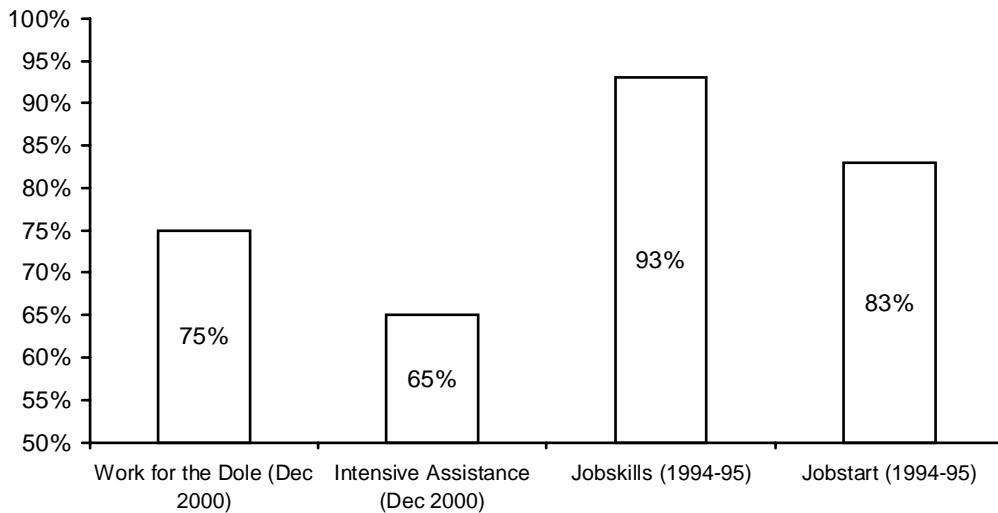
GRAPH 3

PART A
Employment outcomes of various programs
(% in employment 3 months after assistance).



Sources: DEETYA: "Annual reports" (1994-95 and 1995-96), DEWRSB: "Labour Market Assistance Outcomes" (December quarter 2000)

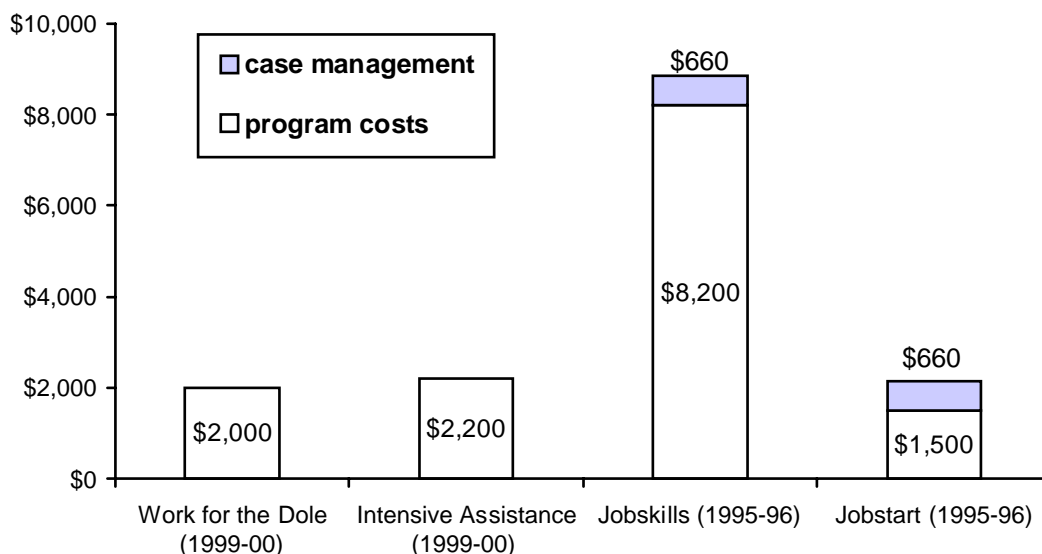
PART B
Proportion of participants in various programs
who were unemployed for more than 12 months



Sources: DEETYA: "Annual Reports" (1994-95 and 1995-96), DEWRSB: "Labour Market Assistance Outcomes" (December quarter 2000).



Part C
Average net cost per place in various programs.



Sources¹³¹: DEWRB: "Work for the Dole' net impact study" (2000), DEWRB: "Job Network evaluation - stage one" (2000), DEETYA: "The net impact of labour market programs" (1997)' ESRA: Annual Report (1995-96), FACS: "Annual Report (1998-99). Note: Unit costs are compared in 1999-00 dollars.

The above graph suggests that:

- ◆ Jobstart was much more successful than Intensive Assistance or 'Work for the Dole' in getting people into unsubsidised employment, for a comparable unit cost (taking account of benefit offsets) - see Part A. and Part C
- ◆ Further, its client group in 1994 was more heavily weighted towards long-term unemployed people, although (as noted above) Jobstart was targeted towards the more "job ready" long-term unemployed people.¹³² - See Part B
- ◆ Jobskills was more successful than Intensive Assistance or 'Work for the Dole' in getting people into unsubsidised employment, despite having a much higher proportion of long-term unemployed clients (most of whom were unemployed for over 2 years)¹³³ - See Part A and Part B
- ◆ It was more expensive than current programs, but this must be set against the degree of labour market disadvantage of the participants and the costs of their long-term reliance on social security if they are not effectively helped to get a job - See Part C.

¹³¹ Note that the cost estimates for Jobstart and Jobskills take account of social security offsets, since participants generally went off benefits while they were involved in these programs. For more detail on the methodology used, see ACOSS (2000B).

¹³² The OECD (OECD, 2001 Innovation in labour market policy, the Australian way.) suggests that official post program monitoring data for Jobstart during the Working Nation period may exaggerate employment outcomes because employers were given incentives to keep participants on for at least 3 months after completion (at which time employment outcomes were measured). However, earlier evaluation studies indicate that strong positive employment outcomes were sustained, in most cases, for at least 12 months. See DEETYA (1997).

¹³³ It was deliberately targeted towards harder to place long-term unemployed people.



At the least, these data indicate that many long-term unemployed people need more substantial help to overcome workforce barriers (especially paid employment experience for very long-term unemployed people - those out of work for over 2 years) than they presently receive through Intensive Assistance.¹³⁴

The report of the second stage of the Job Network evaluation¹³⁵ provides further evidence of under-investment in help to overcome employment barriers among very long-term unemployed people (those out of work for more than 2 years). The report notes that very long-term unemployed people do not appear to have achieved their "share" of positive employment outcomes from Intensive Assistance. Further, it indicates that most of the employment outcomes from Intensive Assistance occur within the first 3 months of participation in the scheme. After 6 months of participation, positive employment outcomes fall to less than 20%. One explanation for this is that the hardest-to-place groups are, by definition, more likely to remain longer in Intensive Assistance. However, this very low employment outcome¹³⁶ suggests that this group is not getting the more substantial help they need to obtain employment.

Flaws in the outcome-based funding system

Although a number of improvements have already been made to the Intensive Assistance funding model (to improve the accountability of providers to offer assistance and monitor performance between tenders), it is not possible to resolve these problems within the present outcomes-based funding model.¹³⁷ The problem is not whether the providers wish to make a substantial investment in improving their clients' job prospects. The problem is that the funding model does not allow them to do so and remain financially viable in a competitive market.

¹³⁴ The summary of the recent OECD report (OECD, 2001) suggests that the Job Network appears to be achieving similar employment outcomes to the Working Nation programs, at a lower unit cost. However, this appears to be based on a comparison of outcomes for all Working Nation and Job Network clients, and is later qualified by acknowledgements that labour market conditions may have been more favourable over the Job Network period and that the key "Working Nation" programs may have been targeted towards groups more disadvantaged in the labour market.

¹³⁵ DEWR (2001). See also DEWR (2002).

¹³⁶ Data on employment outcomes from previous program evaluations suggest that these program outcomes are unlikely to be much higher than those which this group could expect if they did not receive any assistance.

¹³⁷ In OECD (2001), the OECD suggests that there may be significant under-investment in assistance to overcome employment barriers and suggests a number of adjustments to the funding structure. One suggestion was to introduce a set of much higher fixed outcome payments (around five times the value of Intensive Assistance Level 'A' payments), based on the fiscal and social cost of prolonged joblessness: "If providers can devise programmes that generate net employment impacts sustained for at least 12 months, at an average cost of about \$10,000 - and experience suggests this may be possible - the use of them should be profitable [under the OECD's proposed funding model], whereas fees for Level 'A' clients are currently too low to permit this." (p22). However, they advocate a complex system of funding for outcomes "at the margin" (above and beyond outcomes that would have been achieved in the absence of assistance). This is not workable because of the extreme difficulty of measuring "marginal" or "net" outcomes at a local level, and the financial uncertainty this would impose on providers. Another option raised by the OECD is that outcomes based funding might be supplemented by program (input) based funding.

Outcomes-based funding is, in theory, the most efficient and effective way to fund employment assistance services. It concentrates the minds of providers on the main objective, to achieve employment outcomes for job-seekers. It does not dictate the means by which this goal should be achieved. However, a pure system of outcomes based funding also reduces accountability for the expenditure of public funds, and imposes risks on the providers that were previously borne by the Government.

A Job Network provider who intends to invest in higher-cost but potentially more effective interventions (such as wage subsidies) faces two risks:

- ◆ First, it must pitch its bid for an Intensive Assistance tender at a much higher level than its competitors in order to finance this investment and make it worthwhile from a budgetary standpoint. This puts its Job Network funding at risk.
- ◆ Second, it must invest in a wage subsidy for a job-seeker without knowing whether and to what extent this will improve his or her employment prospects, and payable outcomes. This puts the provider's own funds at risk.

Under program-based funding, the Government bore the latter risk which was spread across very large numbers of job-seekers. As the provider of social security for jobless people, the Government also had an incentive to invest in more expensive assistance provided it yielded strong employment outcomes, on average across the country.

If providers achieve positive employment outcomes they do not share these benefit savings with Government. If providers invest in wage subsidies, they do not even benefit (as does the Government) from the direct offsetting savings in social security payment when the job-seeker is placed in a subsidised job. This discourages investment in wage subsidies.

From the standpoint of individual providers, investment in more expensive interventions is not a viable proposition unless these are separately funded by Government, or providers are paid a high risk premium (that is, a much higher outcomes payment) to both encourage and equip them to do so.¹³⁸ However, a substantial boost to outcome payments without any guarantee that the extra money would be spent on additional services for unemployed people would be risky for Government, because it would entail very substantial deadweight losses. This would also heighten the political risk associated with a large public investment in employment assistance programs.

From the job-seeker's point of view, what is important is that they be guaranteed the help they need to improve their employment prospects. This is the Government's side of the mutual obligation "bargain" with job-seekers, which is not being adequately met under the present Intensive Assistance system. The funding model discourages providers from investing in relatively costly but effective interventions for job-seekers.

The best feature of the Working Nation system from the standpoint of job-seekers was that long-term unemployed job-seekers were guaranteed substantial labour market support. The best feature of the Intensive Assistance model is that providers are able (in theory at least) to assemble a package of assistance that is more relevant to each person's needs. Can we combine the positive features of each without being overwhelmed by the negatives? We turn to this issue in Part 3 below.

¹³⁸ Webster (1998) demonstrated empirically why it was not financially worthwhile for providers to invest in wage subsidies along the lines of the previous Job start program, during the first tender round.



2.3 Work for the Dole

One of the ironies of employment assistance policy in recent years is that at the same time that the Government replaced labour market programs for long-term unemployed people with an open-ended system of funding based on outcomes, it introduced a new program of the old fashioned kind in Work for the Dole. Jobseekers are referred automatically to this program regardless of their particular employment assistance needs.¹³⁹

Moreover, 'Work for the Dole' has some features in common with past "job creation" schemes for disadvantaged job-seekers, including New Work Opportunities (NWO), the Regional Employment Development Scheme (REDS) and the Community Employment Program (CEP).

Some of these schemes, especially the Community Employment Program, were reasonably effective in improving people's prospects of securing unsubsidised employment during and just after recessions when paid employment experience was not widely available to job-seekers in the private sector. As discussed in Part 1 above, the features that distinguish the most effective paid work experience schemes include effective targeting of the most disadvantaged job-seekers, work experience in mainstream jobs, a focus on employment outcomes and strong links between work experience and other supports such as job search assistance and training.

The 'Work for the Dole' scheme has few of these features.¹⁴⁰ Although individual sponsors and Community Work Coordinators often invest their own resources to ensure better outcomes for job-seekers and local communities, the scheme is inadequately funded and lacks a clear focus on improving people's employment prospects.

Indeed, the program's official objectives do not even include improving the employment prospects of job-seekers.¹⁴¹ Its main objectives are for unemployed people to "give something back to the community" in return for their social security payments, and to improve self esteem and work motivation among participants.

A major deficiency of 'Work for the Dole' as an employment assistance program is that it only offers 20 hours per week of employment experience in "projects" that are usually separate from mainstream employment. Sponsors receive little or no help with the costs incurred in providing supervision and personal support. Participants do not benefit from the kind of personal support and coaching in regard to job search that is available through Intensive Assistance, because these two programs operate separately.¹⁴²

¹³⁹ If they do not choose other mutual obligation options.

¹⁴⁰ For a more detailed analysis of the scheme, see ACOSS (2001).

¹⁴¹ However, this has subsequently been claimed by the Government as a positive outcome of the scheme, so it is fair to assess its effectiveness on this basis.

¹⁴² See OECD (2001). Attempts are being made to better integrate these programs. The Australians Working Together package includes allowance for Intensive Assistance providers to refer some clients to Work for the Dole. However, it appears that the Intensive Assistance providers would no longer have responsibility for these clients at this point. If so, there is a danger that this could lead to the inappropriate referral of "hard to place" clients to Work for the Dole. A better approach would be to keep these clients on the books of the IA provider and offer them the usual payments for successful employment outcomes on completion of Work for the Dole. However, in this case the IA provider should probably share with the Government the cost of the Work for the Dole placement (see Part 3 below).

As a result, the program's employment outcomes are poor. As Graph 3 above indicates, only 27% of participants leaving the scheme in December 2000 secured employment three months later.¹⁴³ This is a poor outcome by comparison with other programs, and it is likely that most of these job-seekers would have obtained employment in the absence of Work for the Dole. The New Zealand Government recently abolished the Community Work Scheme (their 'Work for the Dole' program) on these grounds, following an evaluation which found that the scheme actually *reduced* employment outcomes for job-seekers.¹⁴⁴

Moreover, unlike Intensive Assistance, the 'Work for the Dole' program is not deliberately targeted towards the most disadvantaged job-seekers.¹⁴⁵ and there is limited flexibility to tailor assistance to individual needs. It offers a fixed package of assistance to which people are automatically referred at certain stages in their unemployment, if they fail to take up other options.

Many of the weaknesses of the program stem from its role in testing benefit compliance. Within the present system of "mutual obligation", it is the default option for job-seekers who fail to choose another option (such as voluntary work, training, or part-time employment) from a menu of mutual obligation activities.¹⁴⁶ This compliance focus is evident from the strong emphasis on deterrence effects in a recent official evaluation of the "net benefit impact" of the scheme.¹⁴⁷

As discussed in Part 1 above, there is often a tension between compliance goals and the need to positively encourage people to make effective use of employment assistance. In the case of Work for the Dole, there is a serious tension between the need to make the program attractive enough that people enter it with a positive outlook (and therefore benefit from it), yet punitive enough to encourage them to avoid it (and intensify their job search activities).

Another weakness that is relevant to the scheme's compliance function is the system of "automated referral" to Work for the Dole. Referrals to Community Work Coordinators (who broker places within the scheme) are made by computer-generated letter rather than personal interview at Centrelink, the main "gateway" to employment assistance programs. This system refers large numbers of jobseekers at minimal cost, but yields a very low take-up rate. In late 2000, the take up rate was less than 20%. This compares poorly with a take-up rate of over 60% among job-seekers referred to Intensive Assistance. One of the reasons for the difference is that Intensive Assistance referrals are made by Centrelink, following an assessment interview. Another possible reason is that many job-seekers do not consider they could benefit from Work for the Dole.¹⁴⁸

¹⁴³ This outcome is likely to be distorted significantly by selection bias due to the very low take up rate of referrals to Work for the Dole (see below). It is not clear whether those who decline referral, and those who do not receive their referral letters or are simply confused by the referral system, are more or less disadvantaged than those who actually commence in the program.

¹⁴⁴ New Zealand Dept of Work and Income (2000). The main reason for this was that many participants suspended or reduced their job search efforts while participating in the scheme (the so-called "lock-in effect"). Net employment outcomes may not be as weak for the Australian Work for the Dole scheme, since participants are strongly encouraged to maintain active job search.

¹⁴⁵ For example, although the majority of participants are long-term unemployed people, many people are referred automatically at 6 months' unemployment if they fail to undertake an alternative "mutual obligation" activity.

¹⁴⁶ This "menu" approach is basically sound since it enables job-seekers to exercise a degree of choice while still enforcing compliance with activity requirements.

¹⁴⁷ DEWRB (2000).

¹⁴⁸ For this reason, surveys of "satisfaction" with the scheme among those who do participate should be heavily qualified.



Social security penalties and employment assistance

One outcome of the excessive emphasis on compliance within the employment assistance system is that very large numbers of job-seekers are penalised (by having their benefits reduced or temporarily cancelled) for their failure to meet requirements to participate in various programs.

Over the 2000-01 financial year a total of 349,100 penalties were imposed on job-seekers for failure to meet their benefit obligations.¹⁴⁹ In a majority of cases, they were penalised for failure to attend interviews or other administrative requirements (as distinct from more substantive breaches such as not declaring income or refusing a job referral). Most of these cases involved employment assistance services.¹⁵⁰

The present unemployment benefit compliance system is *unfair* because it catches in its net many people who simply fail to understand the requirements they have to meet or lack the skills to negotiate complex and inefficient systems of referral to services. Vulnerable people such as homeless people and people with chronic mental illnesses are particularly affected.¹⁵¹

It is *harsh*, due to the size of the penalties imposed. The penalty for "administrative breaches" is \$301, deducted from benefits over a 26 week period. The penalty for "activity test breaches" (which also include many breaches of an administrative nature) is \$837 for a first "offence", deducted from benefits over a 26 month period. This rises to \$1,160 (an eight week suspension of payment) for a third "offence. Penalties of this severity can lead to evictions, and breakdown in family relationships.

It is *counterproductive* because it generates fear and mistrust between job-seekers and key service providers such as Centrelink and employment assistance services and requires people to "jump through hoops" rather than engaging them in a positive way in strategies to improve their employment prospects.

The 'Work for the Dole' Scheme offers an inexpensive form of work experience. Nevertheless, its net cost to Government is about the same as that for the previous Jobstart wage subsidy scheme (which offered full-time subsidised employment at award wages in the private sector). The reasons for this are that under the Jobstart program the employer paid about half the wage, and the Government benefited from savings in Newstart Allowances.

As discussed in Part 1, transitional employment schemes in the community and public sectors have a useful role to play in economic down-turns when few jobs are available in the private sector and in providing work experience for very long-term unemployed people. Given that outcomes from 'Work for the Dole' do not appear to vary much in accordance with local employment conditions,¹⁵² the scheme may well be expanded in the event of a recession to take on this role.

¹⁴⁹ ACOSS and Sydney Welfare Rights Centre (2001).

¹⁵⁰ For example, 39% of all penalties were imposed following recommendations from Job Network members.

¹⁵¹ Hanover Welfare Services (2001), Salvation Army (2001).

¹⁵² Department of Employment, Workplace Relations and Small Business (2000).



For the reasons outlined above, 'Work for the Dole' would have to be dramatically changed to perform this role effectively. It would have to be converted from a welfare compliance program into an employment program. One option, explored in Part 3 below, is to replace the 'Work for the Dole' program with one offering more substantial "mainstream" paid employment experience (predominantly in the community and public sectors) for very long-term unemployed people.

2.4 Specialised programs

The Federal Government funds a range of programs for specific groups of disadvantaged job-seekers, many of whom have not yet reached the stage where they are actively seeking and available for employment.

The main programs are:

- ◆ disability employment services;
- ◆ the Jobs Education and Training program for parents and carers;
- ◆ the programs comprising the Indigenous Employment Strategy.

There are a number of problems with targeting employment programs to specific population groups. It can lead to unnecessary complexity, inflexibility, poor targeting, unfairness and reduced cost-effectiveness. However, these concerns must be balanced against the need to address the unique workforce barriers of the certain groups that are deeply disadvantaged in the labour market. For example, a generic scheme such as the Job Network, which is focussed on employment outcomes only, will have difficulty addressing the needs of many people with disabilities. As we argued in Part 1 of this paper:

- ◆ Many people with disabilities need "work preparation" or pre-vocational support at this stage rather than assistance directly aimed to secure them a job.
- ◆ Many sole parents also need to focus on prevocational or further education and training activities to better equip them for a return to the paid workforce after years of absence.
- ◆ A generic scheme will also have difficulty addressing the labour market disadvantages of Indigenous Australians, since this is but one element of a much wider range of social and economic problems faced by Indigenous communities.

Therefore, there is a strong case for separate programs of employment assistance for certain severely disadvantaged target groups, provided they have equitable access to "mainstream" assistance (through the Job Network) and there are strong connections between the two.

However, there is evidence of under-investment by Government in existing specialist programs.

The **Jobs Education and Training (JET) scheme** for low-income parents and carers is strong on personal support and coaching but weak in terms of substantial support for people with severe barriers to employment.¹⁵³ Its strong employment outcomes are partly due to the strengths of the system of JET advisers, but partly also due to the fact the scheme is voluntary (so those parents who are most strongly committed to, and ready for, employment are the ones who participate).

A further problem is that there are substantial queues for JET assistance in many parts of Australia.

These problems are compounded by the very low rate of participation in Intensive Assistance (which might offer a higher level of personal support, though less vocational training). For example, in the year to March 2001 only 2% of Intensive Assistance clients were sole parents.¹⁵⁴

There are also queues for assistance in **specialist services for people with disabilities**, such as open employment assistance and rehabilitation services, especially for those with severe disabilities. The latest available estimates of potential demand for these services, based on 5 to 8 year old data, were of the order of 60,000 to 70,000 people.¹⁵⁵ This is broadly similar to the number assisted in 2000, but demand would have grown substantially over the intervening period and the majority of those assisted were not active job-seekers.¹⁵⁶ Evidence from these reports, and more recent anecdotal evidence suggest that those who miss out, or do not receive the level of support they need, include people with more severe disabilities generally, and people with a mental illness. Further, the average investment per client in employment assistance for people with disabilities does not appear to be a great deal higher than Intensive Assistance through the Job Network, despite the substantial labour market disadvantages faced by many people with disabilities.

The main **Indigenous employment assistance program** is the Community Development Employment Program (CDEP), in which unemployment payments for Indigenous Australians are pooled within a community to undertake community projects. This program enables many communities to engage their unemployed people in activity that improves community infrastructure. However, administrative funding is lower than for Work for the Dole. Further, like 'Work for the Dole' scheme, it offers too little support to help people progress towards mainstream employment, where such opportunities exist. In regions where "mainstream" employment opportunities are available, there is some evidence to suggest that the CDEP holds people back from participation in the wider labour market through a "lock-in" effect.

Other Indigenous employment programs which target "mainstream" employment appear to be effective, but on a very small scale. There are also problems with access to Job Network services, especially Intensive Assistance, by Indigenous Australians.

¹⁵³ This is because JET advisers have very limited funds to devote to vocational training and other labour market support for their clients. The Reference Group on Welfare Reform characterised JET as a "low level" scheme (compared with Intensive Assistance, for example). See also McHugh & Millar (1996), *Sole mothers in Australia - supporting mothers to seek work*. SPRC Discussion Paper No 71.

¹⁵⁴ Department of Employment, Workplace Relations and Small Business (2001), *Labour market assistance outcomes*, March 2001.

¹⁵⁵ AIHW (1996), *Demand for disability services in Australia*, Coopers & Lybrand (1997), *Study of unmet need for the disability reform package*. FACS (2000), *Annual report*. Note that these estimates were very conservative. The number of places is being modestly expanded as part of the *Australians Working Together* strategy (see below).

¹⁵⁶ For example, many were employed in specialised "business services" for people with disabilities. Moreover, many of those assisted would have more moderate disabilities than the target population identified in the "demand" studies of the mid-1990s.



2.5 The 2001 welfare reform package

Government concerns that increasing numbers of people were "dependent" on social security payments led to the establishment of a Welfare Review Reference Group in 1999. The Final Report of the Reference Group proposed a new model for employment assistance. The Reference Group was critical of the fragmented nature of the present array of programs, and its report suggested that they should be rationalised, using a brokerage model with the following features:

- ◆ a central gateway and assessment process (probably located within Centrelink) to stream people into the appropriate level of support;
- ◆ personal advisers (the report did not clarify where these should be located) to help the most disadvantaged job-seekers plan their return to employment and assemble a package of employment and other assistance;
- ◆ greater investment in employment assistance, including improved access to employment assistance for people with disabilities, low income parents, mature age job-seekers, and Indigenous Australians.

In the 2001 Federal Budget, the Government responded to the report by announcing an Australians Working Together package costing \$76 million in the first year, rising over three years to \$620 million¹⁵⁷ in 2004-05.

The employment assistance measures announced in this package were costed at \$13 million in the first year, rising over three years to \$160 million in 2004-05. They include:¹⁵⁸

- ◆ the introduction of personal advisers within Centrelink to offer counselling and advice to jobless parents, mature age people, and Indigenous Australians to connect them to appropriate employment assistance schemes and monitor compliance with new obligations;
- ◆ a new sequence of compulsory participation in employment assistance commencing with Job Search Training at 3 months, and followed by 'Work for the Dole' or voluntary community work at 6 months, and every 12 months thereafter;¹⁵⁹
- ◆ training credits of up to \$800 to reward participation in 'Work for the Dole' or voluntary community work and to assist parents, mature age people and Indigenous Australians to upgrade their skills;
- ◆ more help for people with significant personal barriers to employment (such as a mental illness) through a new Personal Support Program and improved assessment processes;
- ◆ a modest boost to employment assistance and vocational education places for people with disabilities;¹⁶⁰
- ◆ a modest boost to training and child care support for parents, although parents relying on social security payments as their main source of income may now face more competition from parents on higher incomes for pre-vocational training places;

¹⁵⁷ Or \$201 million, taking account of cost savings built into the estimates.

¹⁵⁸ For more detailed comment on the Australians Working Together package, see ACOSS (2001), Response to the Australians Working Together package.

¹⁵⁹ For those who do not choose other options such as part time work or training.

¹⁶⁰ 7,000 new places are planned from 2002 for rural areas, and 11,000 additional rehabilitation places are planned "over time".

- ◆ initiatives to encourage and enable Indigenous Australians involved in the Community Development Employment Program to move into open employment, and to strengthen community capacity in regions where labour market opportunities are limited.

The measures focus particularly on Parenting Payment recipients and mature age jobless people on social security payments, with compulsory participation requirements being extended to many social security recipients within these groups.¹⁶¹

The proposed boost to employment and training assistance for people with disabilities, those with personal barriers to employment, and low-income parents is welcome. These additional resources are badly needed and should help reduce queues for assistance in programs to which many people have committed themselves voluntarily. It will be important to ensure that the new Personal Support Program is well integrated with Intensive Assistance services.

The proposed enhancements to the Indigenous employment strategy are also very welcome, as they target the key problems identified above.

However, the package does little to ensure that all long-term unemployed people receive a substantial level of employment assistance. A minority will receive training credits and many more will be referred to 'Work for the Dole' and these measures are unlikely to significantly improve their employment prospects. This is disappointing given the persistence of long-term unemployment in Australia over the 1990s.

On the face of it, the training credit ensures that at least some groups of disadvantaged job-seekers receive some assistance to overcome skills deficits. This could help overcome one of the key deficiencies in the Intensive Assistance funding model identified above. However the credit is poorly targeted, inadequate in its scope and inflexible in its application. These resources would be better used to extend and improve the training offered to disadvantaged job-seekers on a discretionary basis (to those who would derive the most benefit from training) by Intensive Assistance providers.¹⁶²

The new system of personal advisers within Centrelink is a step in the right direction. Centrelink needs better resources to perform its "gateway" role of assessing needs and making appropriate referrals. The advisers could also help connect people to appropriate forms of employment assistance, once they have completed a "program" such as Intensive Assistance. This is a serious gap in the present system. On the other hand, it would be wasteful for these advisers to duplicate the services provided by employment assistance providers or to attempt to monitor their work at arms-length. The best-performing Intensive Assistance and other providers of services for disadvantaged job-seekers already offer their own employment advisers (or consultants) to coach them in job search, further assess their needs and put together packages of employment assistance to address them.

¹⁶¹ Especially low income parents whose youngest child is a teenager.

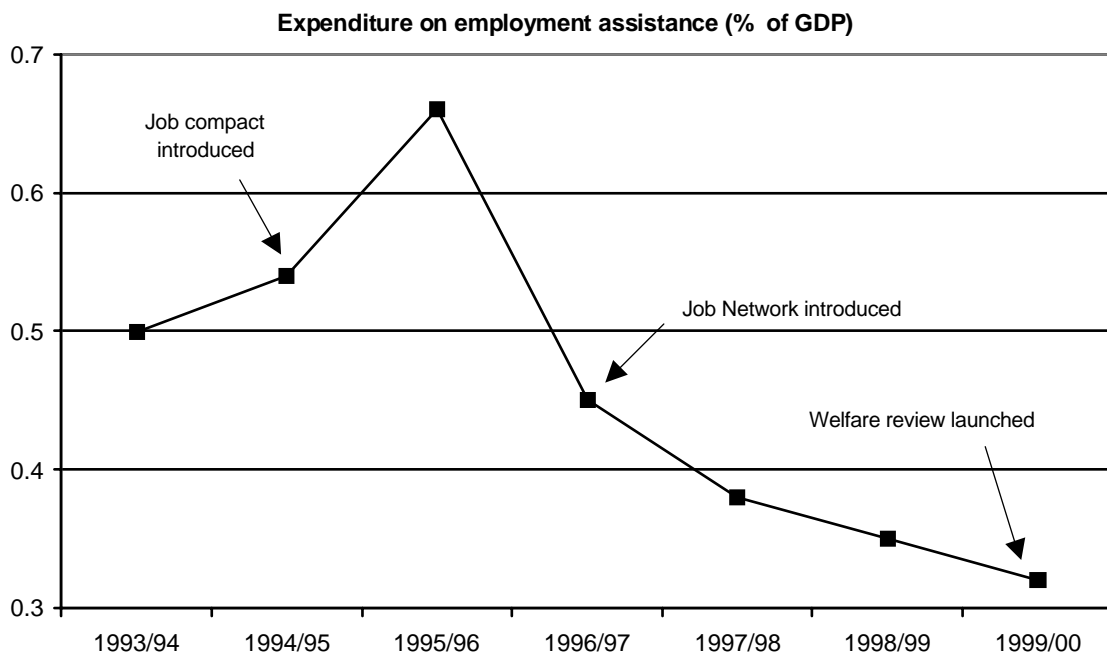
¹⁶² Previous evaluations of short vocational training courses under the Jobtrain program indicated that such training on its own has little impact on the employment prospects of long-term unemployed people.



The role of the new personal advisers vis a vis other services such as employment assistance providers and the JET advisers within Centrelink should be clarified. This should focus on initial assessment and referral, and follow-up interviews with job-seekers who have completed programs without securing a job, in order to reflect on progress and jointly plan further action.

Finally, it is noteworthy that the proposed additional expenditure in *Australians Working Together* is well below the \$1 billion per annum cut from employment assistance outlays in 1997-98 (See Graph 4 below). The OECD reports that in 1999 Australia spent less (in proportion to Gross Domestic Product) on employment assistance for job-seekers than 10 of the 17 countries for which comparable data are available.¹⁶³

GRAPH 4



Source: Federal Budget Papers

¹⁶³ OECD (2001), p84.



Section 3.

Directions for reform

A more substantial investment in employment assistance is needed to achieve a lasting reduction in long-term joblessness. The first priority should be to improve help to overcome workforce barriers faced by people who are already unemployed long-term. Existing support for unemployed people at high risk of long-term unemployment should be maintained, and improved over time. Other groups of long-term jobless people in receipt of social security payments (for example, Parenting Payment recipients returning to the workforce after an extended period of full-time parenting) should also be targeted for improved labour market support.

Our five key proposals are:

1. An *Employment Assistance Guarantee* that guarantees an *Intensive Assistance* place in the Job Network for *all* long-term recipients of unemployment payment¹⁶⁴, and substantial extra help (such as wage subsidies or training) after three months in Intensive Assistance.
2. '*Work for the Dole*' to be replaced by work for wages under a scheme of *transitional jobs for very long-term unemployed people*.
3. Over time, extend the *Employment Assistance Guarantee* to *long-term jobless people* on social security payments due to a disability or caring responsibilities.
4. Extend the *Indigenous Employment Strategy* to help Indigenous Australians (including participants in the CDEP) secure mainstream jobs.
5. Extend the new Centrelink personal advisers to all long-term unemployment payment recipients.

The centrepiece of our proposed reform of employment assistance for disadvantaged job-seekers is an *Employment Assistance Guarantee* for long-term unemployed people, in two parts:

- ◆ *Universal access to Intensive Assistance* through the Job Network for recipients of unemployment benefits once they have received payments for 12 months.¹⁶⁵ This would include assessment, advice, job search assistance and "coaching" from an employment adviser/consultant within the Intensive Assistance system.
- ◆ For those who remain in Intensive Assistance for more than 3 months, a *guarantee of more substantial help to overcome their employment barriers*. This assistance would be determined jointly by the adviser and the job-seeker and might include wage subsidies, training, or relocation assistance. In return, the job-seeker would be obliged to participate fully in the agreed activities and programs.

¹⁶⁴ Or to specialist employment assistance providers where appropriate.

¹⁶⁵ Apart from those assessed as needing specialised assistance such as a disability employment program. The unemployment payments referred to here are Newstart Allowance and Youth Allowance (other).



Over time, a similar guarantee would be offered on a voluntary basis (through specialised employment programs or Intensive Assistance) for long-term recipients of Disability Support Pensions, Parenting Payment and Carer Payment.¹⁶⁶

Our proposals to improve the Job Network are broadly in accord with recommendations contained in the recent OECD Report on employment assistance in Australia (see box below).

OECD recommendations to improve employment assistance in Australia¹⁶⁷

The OECD recently published the report of its investigation of Australian employment policies. Among other recommendations, the report suggested that the Government consider:

- referring all people in receipt of relevant Government benefits for more than one year to Intensive Assistance;
- sharply increasing payments to Intensive Assistance providers for successful outcomes (though only outcomes above and beyond those which would occur if no assistance was provided)¹⁶⁸
- setting Intensive Assistance payments on the basis of the fiscal and social costs of long-term joblessness, rather than competitive bidding by providers;
- initiating programs of labour market assistance such as wage subsidies and training, to which Intensive Assistance providers could refer job-seekers;
- the introduction of some form of infrastructure funding for Job Network providers;
- replacing the present penalties for breaches of mutual obligation requirements with a temporary suspension of benefits until the breach is remedied, and giving "case managers" a greater role in the breaching process for socially disadvantaged job-seekers.

Another major change proposed below is that the 'Work for the Dole' scheme would be replaced by a 6 month *transitional jobs* scheme in community and public sector employment for long-term unemployed people. The objective of this scheme would be to assist those very long-term unemployed job-seekers who have "lost contact" with mainstream employment, and to provide employment experience for long-term unemployed people during recessions.

Transitional jobs would have the following features:

- ◆ They would replicate mainstream employment as closely as possible, including payment of a trainee wage rather than unemployment payments.
- ◆ Ideally, they would take the form of a *traineeship* in which job-seekers are employed on a part-time basis and engage in training relevant to their labour market needs for the rest of the working week. This need not be vocational training, but if so would be accredited.
- ◆ The scheme would be expanded during recessions and contracted (but maintained) in recoveries. Job-seekers would be referred to places in this scheme by Intensive Assistance

¹⁶⁶ For the most part, this Guarantee would be implemented by specialist providers outside the Job Network.

¹⁶⁷ OECD (2001).

¹⁶⁸ This is widely regarded as unrealistic, given the difficulty (and high cost) associated with any attempt to accurately assess the probability that a job-seeker will secure employment without assistance, and the greater financial risk for providers.



(IA) providers where the provider considers this would significantly improve their employment prospects, and its cost would be shared between the Government and IA providers.

This is not the place to offer a detailed blueprint for the implementation of these proposals. Rather, we raise a set of proposals here for discussion among policy makers, service providers and consumer organisations.

These proposals would require a significant increase in public investment in employment assistance. However, if this helps reduce long-term unemployment at an early stage of the economic recovery, it will save a great deal of personal hardship and fiscal cost later on.

Over the past 20 years, Australian Governments have boosted investment in employment assistance after recessions, and withdraw funding when pressure mounts for Federal Budget expenditure cuts during the ensuing economic recoveries. This is false economy. It means that high levels of long-term joblessness are allowed to fester until pressures emerge later in the recovery to reduce "dependency" on social security payments. By then, the cost of reducing long-term unemployment ratchets upwards, due in large part to the retrenchment of investment in employment assistance in previous years. Moreover, this "stop-start" approach to employment assistance reduces the effectiveness of employment assistance as service infrastructure and institutional memory is lost. Employment assistance reforms, even radical ones, should build on the foundations already established.

We advance our proposals for change in this spirit.

3.1 Intensive employment assistance

Intensive employment assistance within the Job Network would be guaranteed for people receiving unemployment payments for 12 months, and would continue to be available to short-term unemployed people assessed as "at risk". Those who do not get a job or otherwise leave Intensive Assistance within an initial three month "gateway" period would also be guaranteed more substantial help to overcome their particular workforce barriers pursuant to the *Employment Assistance Guarantee*. The nature of this additional help would be negotiated between the provider and each client.

The Guarantee would be funded and delivered in a way that builds on the greatest strength of the Job Network model - its flexibility; but overcomes its greatest weakness - insufficient incentive for providers to invest in substantial help for the most disadvantaged job-seekers.

In addition to up-front and outcomes based payments, providers would share with Government the cost of providing services pursuant to the Guarantee. This is broadly similar to the concept of a "job-seeker account" recently suggested by the Department of Employment and Workplace Relations (DEWR), except that the amount of support on offer would not be specified in advance and would not be the same for each job-seeker.¹⁶⁹ The funding would be structured so that a minimum amount *must* be spent to fulfil the guarantee, and providers would have financial incentives to invest further to the extent that they believe this will significantly improve

¹⁶⁹ DEWR (2000), p63. Fixing the level of financial support for employment assistance in advance is too rigid an approach. In many cases providers can only reliably estimate the level of support required once the jobseeker has been assisted for some time. It would be sheer coincidence for the needs of each job-seeker to correspond perfectly to an arbitrary public subsidy specified in advance.

employment outcomes. To contain the cost of the Guarantee to the Federal Budget and prevent wastage, providers would share part of the cost with Government and the overall amount available to be spent on each Intensive Assistance participant would be capped.

The proposed system of Intensive Assistance is outlined below:

<p style="text-align: center;">Proposed Intensive Assistance model</p> <p style="text-align: center;">Targeting</p> <ul style="list-style-type: none">➤ <i>all</i> long-term unemployed people on relevant social security payments, except those who need specialised assistance;¹⁷⁰➤ shorter-term unemployed people assessed as at high risk of long-term unemployment;¹⁷¹➤ over time, an offer of a place for other long-term jobless people on relevant social security benefits.¹⁷² (continued overleaf) <p style="text-align: center;">Assistance provided</p> <ul style="list-style-type: none">➤ An <i>employment adviser</i> (consultant) to assess needs and help with job search;¹⁷³➤ After a 3 month "gateway period"¹⁷⁴, an <i>intensive assistance guarantee</i> of substantial help¹⁷⁵ to overcome barriers, to be negotiated between the adviser and job-seeker (for example, a wage subsidy, training, or relocation assistance);
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¹⁷⁰ Such as disability employment services.

¹⁷¹ Centrelink would use the Job Seeker Classification Instrument (JSCI) to make this assessment.

¹⁷² This might include Disability Support Pension and Parenting Payment recipients who volunteer for Intensive Assistance, and "discouraged" mature age job-seekers on a range of social security payments. The Guarantee could be offered through specialist services such as disability employment services or the JET scheme or through Intensive Assistance services.

¹⁷³ This is in addition to the new personal advisers within Centrelink, but their role would be different. The principal function of the Centrelink advisers should be that of needs assessment and referral to appropriate services (including but not limited to employment assistance services for disadvantaged job-seekers), and follow up and further planning on completion of such assistance. The principal roles of the proposed Intensive Assistance advisers are to directly assist disadvantaged job-seekers with job search, assess their needs for Intensive Assistance services pursuant to the Guarantee, and assemble a package of employment assistance to address them. This two-stage assessment process is necessary because no assessment instrument (such as the JSCI) is capable of accurately identifying employment assistance needs before a job-seeker is referred to a direct service provider. The most effective Intensive Assistance providers already offer "personal advisers" or consultants to assess the needs of their clients and offer them personal assistance and coaching with job search.

¹⁷⁴ This is similar to the United Kingdom's "gateway" system, in which those who have not left the system after 3 months are offered a series of "options" such as subsidised employment. The "gateway" thus rations more expensive employment assistance to the most disadvantaged. A majority of long-term unemployed young people in the UK leave the system during the gateway stage. However, in the proposed system of Intensive Assistance there would be no fixed set of options or programs, and no "default" activity for those who do not choose an "option". In this way, providers have the maximum flexibility to match services to needs. This does not preclude the establishment of "programs" (such as a national wage subsidy scheme) from which providers might purchase places. However, most of the funding for such "programs" would be channelled through Intensive Assistance providers.

¹⁷⁵ The kind of assistance offered would not be specified by the funding body, although the provider would be required to undertake (in an Intensive Assistance Support Plan) to deliver the services agreed with each job-seeker, and would be accountable to the funding body for expenditure of funds for this purpose. The Guarantee would be exclusive of the job search assistance, job matching and "coaching" normally offered by I.A. providers (which should continue in any event). To facilitate the use of wage subsidies (an effective form of assistance for



Funding

- A mixed funding model combining up-front, outcome, and service-based funding;
- Up-front and outcome payments to be fixed by Government, not by competitive bidding.
- Providers would be required to spend a minimum amount on each client who passes beyond the 3 month "gateway" period to meet the Intensive Assistance Guarantee;
- Beyond this, they could enter into a cost-sharing arrangement with Government to fund more substantial help under the Guarantee for their most disadvantaged clients;¹⁷⁶
- Total public funding in respect of each IA client would be capped in order to contain the cost to the Federal Budget.¹⁷⁷

An example of how the Employment Assistance Guarantee would work:

Jenny has been on Newstart Allowance for 12 months. She is referred to an Intensive Assistance (IA) service provider by Centrelink following assessment of her level of disadvantage (Level A or B) using the Job Seeker Classification Instrument. After working with her for 3 months to identify her goals, strengths, and workforce barriers, to coach her in effective job search techniques and help resolve a transport problem, her employment adviser within the IA provider has not been able to help her secure a job.

She is now entitled to more substantial help with her particular workforce barriers under the Employment Assistance Guarantee. Following discussion with Jenny, her adviser opts to place her on temporary work experience for 6 months with a local employer because she believes that this will improve Jenny's future job prospects. The position is an ordinary job in which half her wage is subsidised by the IA provider (or a contracted wage subsidy scheme administrator) to encourage the employer to take her on. During this time she will be expected to continue to seek other jobs, and will continue to receive personal support from her adviser.

The provider receives a small up-front payment when Jenny commences with them, plus 75% of the net cost of the wage subsidy. In this example, the net cost of the wage subsidy is \$2,000 (half the award wage for 6 months, minus social security offsets) so the provider must contribute 25% of this, or \$500. If Jenny gets a full-time job on completion of the placement the provider gets an outcome payment. If (by way of example) the outcome payment is \$5,000 and the wage subsidy increases Jenny's job prospects by a factor of 20%, the provider would effectively gain \$1,000 as a reward for its investment of \$500. If the wage subsidy has no impact on her job prospects, then the provider has no incentive to use it.

many disadvantaged job-seekers), the Government might also fund the infrastructure costs for a national wage subsidy scheme, from which I.A. providers could purchase places. Alternately, providers could administer their own wage subsidy schemes within national guidelines.

¹⁷⁶ For example, the Government might fund 75% of the cost and the provider 25%, within annual limits based on the provider's client profile. In the case of wage subsidy schemes, the cost should be calculated net of unemployment benefit offsets, so that direct benefit savings during the placement are effectively shared between Government and the provider. On this basis, the net cost of a wage subsidy along the lines of the previous Jobstart program would be approximately \$2,000 per place.

¹⁷⁷ For example, following the recent OECD Report's suggestion (OECD 001, page 22), the overall level of assistance could be capped at an amount equivalent to the average anticipated cost of ongoing social security payments for an Intensive Assistance Level "A" and "B" client respectively (plus a loading to take account of the social cost of prolonged joblessness), in the absence of employment assistance.



3.2 Replacing 'Work for the Dole' with *Transitional Jobs* for long-term unemployed people

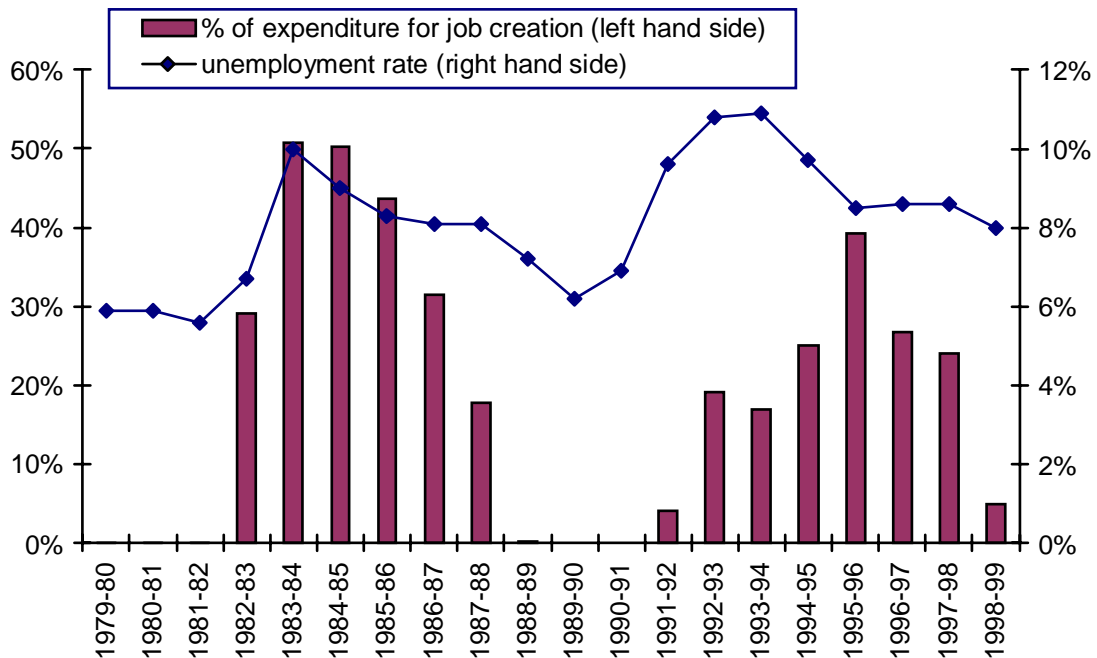
Economic downturns and recessions pose a major dilemma for employment assistance schemes for disadvantaged job-seekers. These schemes typically operate on the supply side of the labour market, by re-ordering the queue of job-seekers in favour of the most disadvantaged. They do not, for the most part, create additional jobs.

However, during recessions demand for labour in the private sector dries up. Even in good economic times, job vacancies are very scarce in many regions (such as the Wide Bay region of Queensland, and much of Tasmania). Under these circumstances it is much harder to connect long-term unemployed people with mainstream employment.

This is particularly important in the period immediately following a recession, when long-term unemployment rises to its cyclical peak. If it is not nipped in the bud at this time, there is a danger that high levels of unemployment will persist throughout the ensuing recovery. However, this is difficult to achieve even when strong economic growth resumes, because employers have a much wider range of unemployed people (and discouraged workers re-entering the workforce) to choose from at this time.

On or after each of the last three recessions Governments have introduced so-called "job creation" schemes targeted to long-term unemployed people (as discussed in Part 2, above). The graph below shows that the proportion of labour market assistance expenditure devoted to these schemes rising substantially at these points in the business cycle.

GRAPH 5
Share of employment assistance expenditure devoted to direct job creation



Sources: Stretton & Chapman (1990), OECD Employment Outlook, ABS 6203



To expand paid work experience opportunities for very long-term unemployed people, we propose the replacement of the 'Work for the Dole' scheme by 6-month *transitional jobs* under conditions as close as possible to mainstream employment, including payment of trainee wages. These would be offered to selected long-term unemployed people in the form of traineeships in the community and public sectors as described in the box below¹⁷⁸

Transitional jobs for long-term unemployed people

Targeting

- Very long-term unemployed people referred by Intensive Assistance (IA) providers on a needs basis (especially in regions with high unemployment);¹⁷⁹
- Expand in recessions, contract but maintain in recoveries.

Assistance provided

- A combination of paid work experience and training in a "mainstream" community or public sector job;¹⁸⁰
- Payment of a trainee wage in lieu of benefits.¹⁸¹

Delivery

- Replaces the 'Work for the Dole' scheme.
- Jobseekers referred from Intensive Assistance providers to Community Work Coordinators, (CWC) who organise placements with community and public sector organisations and training providers.
- Job-seekers continue to look for ongoing employment with assistance from their IA provider.

Funding

- Cost shared by Government and IA providers except CWC and other program administrative costs, which would be met by Government.¹⁸²

¹⁷⁸ One possible model for this scheme is a more flexible version of the former Jobskills program, which we argued above was successful in improving the job prospects of some of the most disadvantaged job-seekers, at a lower cost than many previous "job creation" schemes.

¹⁷⁹ Referrals would be on the basis of an assessment of the benefits of the scheme for each job-seeker. It should not be used as a "residual" scheme for "hard to place" job-seekers.

¹⁸⁰ When employment is growing strongly and concerns about displacement of existing workers are diminished, consideration could be given to extending the scheme, under strict guidelines, to private sector jobs. The training offered could be vocational training (in which case it should be accredited), basic education (such as literacy), or personal skills training, and could be provided off the job or on the job. Broadly speaking, training that is integrated with work experience is likely to work best.

¹⁸¹ That is, an award wage that is adjusted downwards to take account of time spent in training.

¹⁸² We suggested above that under the proposed Employment Assistance Guarantee (see above), 75% of the cost might be met by Government and 25% by the provider. Given that the relatively high cost per placement (probably between \$5,000 and \$10,000 net of benefit offsets and CWC administrative costs) a higher proportion of the cost of this scheme would probably need to be subsidised by Government. This could be justified on the grounds that it is targeted towards very long-term unemployed people who are otherwise likely to rely on social security payments for a considerable period, and that other interventions are likely to fail during a recession. The cost

The scheme would be expanded dramatically during recessions and reduced in scope, but maintained during economic recoveries and targeted towards very long-term unemployed people and regions where there are very limited employment opportunities in the private sector.

The scheme could be administered separately from the Job Network using a brokerage system along the lines of the present Community Work Coordinator (CWC) system. One advantage of this approach is that these brokers would gain specialised skills in operating the scheme and could establish long-term relationships with employers offering placements. This would facilitate rapid expansion of the scheme during recessions.

However, referrals to the scheme would come from Intensive Assistance providers. To ensure that they refer only the most disadvantaged long-term unemployed people the scheme could be restricted to people unemployed for long periods¹⁸³ (such as more than 2 years) and long-term unemployed people in regions with high levels of unemployment. To ensure that they refer only those who are most likely to benefit from such a placement, they could be required to share the cost of each placement (along the lines of the Intensive Assistance cost-sharing arrangements proposed above). Their employment advisers would also be required to maintain contact while their clients undertake placements, to encourage them to persist with job search.

This approach has the following advantages:

- ◆ It gives some of the most disadvantaged long-term unemployed people access to the mainstream work experience and training they need (especially in recessions), making the relatively high cost of the scheme worthwhile if it improves their employment prospects.
- ◆ It is not as costly as schemes that offer full-time employment at award rates.¹⁸⁴
- ◆ It would boost the economies of some severely disadvantaged regions.
- ◆ Once the program infrastructure and expertise is in place, it could be quickly and efficiently expanded during recessions, and expenditure could be wound back in economic recoveries.

If the scheme is maintained through economic recoveries, the quality of its "output" (e.g. community services) would improve over time, raising its direct benefit to the community. The effectiveness of employment assistance would also be enhanced in recessions if job-creating public investment and community service projects are planned well in advance of any recession, and *linked* with employment assistance schemes for disadvantaged job-seekers such as those described above.¹⁸⁵ Partnerships would be encouraged between the project managers or community service employers and employment assistance providers to ensure that disadvantaged job-seekers gain a fair share of the work and are specifically trained for it. The successful partnerships forged in connection with the Sydney Olympic Games between employers and Job Network providers (albeit in a very tight labour market) suggest that this model might work, especially if there are strong incentives or requirements for project managers to take on disadvantaged job-seekers.

sharing arrangement should encourage providers to purchase places for their most disadvantaged clients, where they believe the scheme would improve their employment prospects.

¹⁸³ This requirement, and the training requirement, could be relaxed when the scheme is expanded during recessions.

¹⁸⁴ For example, the unit cost (after taking direct benefit savings into account) for the Jobskills program was roughly 70% of that for New Work Opportunities (which offered full-time employment at minimum award wages).

¹⁸⁵ See Davidson & Thompson (2001) for a more detailed account of this proposal.



3.3 Employment assistance for people with disabilities

There is an ongoing need for a separate system of employment assistance for people with substantial disabilities or other major personal or social barriers to employment (such as an alcohol or drug problem). This is necessary because Intensive Assistance providers may not be able to offer the specialised support these job-seekers require. It may also be inappropriate to fund these services predominantly on the basis of employment outcomes.

For these reasons, specialised services are funded under a range of disability employment programs and the new Personal Support Program (for people with other personal barriers to employment). Both programs will in future be funded using a combination of purchase-of-service and outcomes-based funding. This is a significant change for disability employment services, most of which are currently funded through a grants system that is not tied to the needs of individual clients. Outcomes-based funding in disability employment services is currently being road-tested through a set of case-based funding pilots, although the majority of the funding provided in these pilots is service-based.¹⁸⁶

This emerging emphasis on outcomes for individual people with disabilities is a positive development. The system of employment maintenance payments (to provide ongoing support where required once a person with a disability is in employment) is a welcome feature of case-based funding. However, there are four key problems with this emerging outcomes-based funding system for these services:

- ◆ There is no guarantee of assistance for people with substantial disabilities who wish to undertake open employment, so they must still queue for assistance.
- ◆ Funding levels per client in the case based funding trial are much too low to offer substantial help.¹⁸⁷
- ◆ The emerging case-based funding system sits oddly alongside an inefficient and arbitrary system of block grants to service providers.
- ◆ There is no integration between specialist disability employment programs and Intensive Assistance, despite the fact that some specialist providers draw funds from both sources.
- ◆ The system recognises employment outcomes only, which has apparently led to a degree of "creaming" (a reluctance to take on people with more substantial disabilities) by providers.

Of these problems, the last carries the most serious long-term implications for people with disabilities. To address this "creaming" problem and ensure that providers have a stable source of funding, the funding formula places much less stress on outcome payments than does Intensive Assistance. The majority of "case-based" funds are allocated to providers on the basis that a client is on the provider's books and an "employment assistance plan" has been signed. This raises a further problem (which emerged in the first stage of the Job Network): providers may be discouraged from investing in substantial labour market assistance because outcome payments are too small. That is, there is a risk that harder to place clients will be "parked".

¹⁸⁶ See the Department of Family and Community Services website for more details, at <www.facs.gov.au/disability/ood/cbf>.

¹⁸⁷ Indeed, some funding levels are lower than available to Intensive Assistance providers offering "mainstream" employment assistance to disadvantaged job-seekers.



To a significant extent, a funding model along the lines we propose for Intensive Assistance would alleviate these problems, because it combines outcomes-based funding and service-based funding linked to a guarantee of substantial help for each client.¹⁸⁸

However, this would not entirely resolve the "creaming" problem. The reason for this is that it often takes a considerable time, and substantial investment of resources, to assist people with severe disabilities to progress from their present labour market status towards open employment. In these cases, it would be very difficult to assess at an early stage the precise nature and level of support required to secure employment outcomes. People with the most severe barriers to employment (some of which might not even be identified from the outset) would not receive the level of support they need. In other cases, providers might be paid too much for employment outcomes that were easier to achieve than first anticipated. Moreover, many people with disabilities need ongoing support once they obtain employment, which would not be funded under the present Intensive Assistance model.¹⁸⁹

One option to resolve this problem is to fund on the basis of a set of *milestones*: for example, work preparation (or pre-vocational support, such as successful rehabilitation) Intensive Employment Assistance (which could either be provided by specialist services or by Job Network providers), and post-employment support. This does not necessarily mean that service delivery for clients would be fractured. For example, the same provider could be funded to assist an individual through each step of the process.

A number of States in the United States use "milestone" based for disability employment services, with the milestones and related payments negotiated between Government and the providers as a group.¹⁹⁰ The milestones could specify either "hard" outcomes (such as employment) or "soft" outcomes (such as an improved capacity to work).¹⁹¹ For example, three milestones or phases of support could be identified: work preparation, employment assistance, and post-employment support. While employment assistance would have placement in unsubsidised employment (at award wages) as its goal, work preparation would have intermediate targets such as improved function (rehabilitation) or skills enhancement (for example through accredited vocational training). Post-employment support would entail ongoing support in employment designed to sustain employment outcomes.¹⁹²

The difference between this model and the current case-based funding system is that "milestone" funding would be based on outcomes rather than administrative processes. The viability of this model depends on the capacity of the funding body and providers to define and measure "intermediate" outcomes. This is a major challenge. It could also impose higher administrative and assessment costs on providers and their clients.

This sequence of services could be provided by a single provider (for example a specialist disability employment service) or a series of providers. It could be fully funded under a specialist program or the funding could comprise "packages" of specialist and mainstream (especially Intensive Assistance) funding. The funding system should facilitate better integration between specialist and mainstream services.

The effectiveness of the Personal Support Program incorporates elements of milestone funding. That is, it acknowledges outcomes other than employment outcomes. However, the program

¹⁸⁸ This is quite different to the present system of block grants for some services.

¹⁸⁹ This is acknowledged, within limits, in the funding formula for the case based funding trials.

¹⁹⁰ See Novack et al (2000), Frumkin (2001).

¹⁹¹ See Dewson, Eccles, Tackey, & Jackson (2000).

¹⁹² Of course, many people with disabilities would not need to progress through all of these three stages.



should be better integrated with Intensive Assistance, so that employment outcomes are the ultimate goal. Otherwise, there is a danger that participants in this program will be "parked" indefinitely in programs that place no emphasis on employment outcomes.

This risk also arises from of the emphasis in the Australians Working Together package on improved *social participation* as an alternative objective for people who are not yet ready for full *economic participation*. For example, under the package, job-seekers with personal barriers to employment can be referred out of Intensive Assistance (which focusses on employment outcomes) into the Personal Support Program (where providers can be paid for either employment or social participation outcomes). Intensive Assistance providers will have strong incentives to inappropriately refer "hard to place" job-seekers to the program.

A better approach would be to set unsubsidised employment as the medium term objective for all job-seekers who can realistically achieve it. Within this framework, help to improve social participation (such as action to address a drug addiction) would be treated as a milestone in a sequence of support designed to achieve the ultimate (employment) goal. This could be put into practice by better integrating the Personal Support Program and Intensive Assistance. For example, the majority of PSP clients could be offered access to IA services tailored to the their level of "work readiness" (either in conjunction with the PSP or in sequence with it). Conversely, referral to PSP could be an option under the Employment Assistance Guarantee, so that clients referred to PSP from IA remain within the IA system instead of being referred out of it.¹⁹³ These clients would continue to receive IA services (such as personal coaching and help with job search), as appropriate, and employment outcomes payments could be shared.

3.4 Employment assistance for low income parents and carers

The essential features of the voluntary Jobs Education and Training (JET) scheme for low-income parents and carers should be retained, and the program improved by:

- ◆ increasing the number of places available in the program to reduce waiting lists;
- ◆ increasing the budget for pre-vocational assistance (such as vocational training) so that more substantial training can be purchased by JET advisers¹⁹⁴;
- ◆ conducting a net employment impact study for the program to assess the extent to which it improves employment outcomes, by what means, and for whom.

¹⁹³ Changes along these lines are being implemented as part of the Australians Working Together package.

¹⁹⁴ The Australians Working Together package includes a proposal that the "pre-vocational elements" of JET be transferred to an expanded Transition to Work Scheme for parents and carers returning to paid employment. If this were implemented, there is a danger that employment assistance services for low-income parents and carers would lose the seamless character they have under JET. To avoid this problem, JET should either retain its pre-vocational elements or be integrated with the Transitional to Work scheme. If the latter path is taken, it is critical that people in receipt of Parenting Payment or Carer Payment receive priority in the allocation of places within that scheme. Otherwise there is a danger that waiting lists for employment assistance among the most disadvantaged parents and carers would lengthen further as this group competes for places with other less disadvantaged groups.

Consideration should be given to the introduction of a component of outcomes-based funding within JET, in addition to funding for inputs such as training.¹⁹⁵ As we suggest for employment assistance services for people with disabilities (see above), payable outcomes might include intermediate outcomes such as the attainment of relevant educational or vocational qualifications. Otherwise, there is a risk that the training function of JET would be down-graded.¹⁹⁶

Referrals from JET to Intensive Assistance within the Job Network should be encouraged where clients would benefit from the kind of help available through the Employment Assistance Guarantee (such as wage subsidies).¹⁹⁷ Alternately, JET advisers could be funded to directly purchase employment assistance along these lines.

Further, the respective roles of the proposed personal advisers in Centrelink and JET advisers (also located within Centrelink) should be clarified.

3.5 Indigenous employment assistance

The severe labour market disadvantage of Indigenous Australians is a function of their depressed position within the Australian economy and society and high levels of entrenched poverty, discrimination, poor health, and family break-down. Therefore, it can only be effectively addressed within this broader context and the comments below are general and tentative.

In remote communities, employment assistance should be part of a broader strategy to achieve economic self reliance, including investments in Indigenous enterprises and strategic partnerships with employers in the region.

In regions where there are "mainstream" employment opportunities, strategies to progress CDEP participants into open employment are needed. The Indigenous Employment Strategy announced in 1999, together with initiatives announced in the Australians Working Together package, are intended to fill this gap. A number of these programs appear to be successful on a small scale in improving people's employment prospects:

- ◆ The STEP program offers traineeship-style employment experience and training. Of its participants during 2000, 35% were unemployed long-term yet 68% were employed 3 months following participation.
- ◆ The wage assistance scheme offers wage subsidies for temporary employment experience in the private sector. Of its participants during 2000, 41% were unemployed long-term yet 64% were employed 3 months following participation.

However between them these schemes had only 5,300 commencements during 2000 and take up is slow. Consultation should be held ATSIC and with Indigenous communities on ways to improve these programs and their take-up. Access to Intensive Assistance through the Job Network must also be improved.¹⁹⁸

¹⁹⁵ Consistent with the proposed funding model for Intensive Assistance outlined above.

¹⁹⁶ As noted in Part 1 above, skills training programs appear to benefit many parents and carers returning to the paid workforce.

¹⁹⁷ This would permit sequences of pre-vocational assistance (through JET) and employment experience (such as a subsidised temporary job).

¹⁹⁸ Australians Working Together includes measures to help achieve this objective.



Further, it is unlikely that substantial progress will be made in improving mainstream employment outcomes for Indigenous Australians until the problem of discrimination in employment is addressed. Projects currently under way to encourage large employers to take on Indigenous job-seekers are a starting point as this will set an example for others, but this problem appears to be widespread and entrenched.

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