Changes to Employment Assistance: More or Less Effective?
Changes to Employment Assistance: More or Less Effective?

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Economics, Commerce and Industrial Relations Group
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<td>Advanced English for Migrants Program</td>
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<td>ALP</td>
<td>Australian Labor Party</td>
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<td>ATY</td>
<td>Accredited Training for Youth</td>
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<td>ANU</td>
<td>Australian National University</td>
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<tr>
<td>CES</td>
<td>Commonwealth Employment Service (until May 1998)</td>
</tr>
<tr>
<td>DEETYA</td>
<td>Department of Employment Education Training and Youth Affairs (until November 1998)</td>
</tr>
<tr>
<td>DETYA</td>
<td>Department of Education Training and Youth Affairs (post November 1998)</td>
</tr>
<tr>
<td>DEWRSB</td>
<td>Department of Employment Workplace Relations and Small Business</td>
</tr>
<tr>
<td>DSS</td>
<td>Department of Social Security</td>
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<tr>
<td>EAA</td>
<td>Employment Assistance Australia</td>
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<td>ESRA</td>
<td>Employment Services Regulatory Authority</td>
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<td>JN</td>
<td>Job Network</td>
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<tr>
<td>JSCI</td>
<td>Job Seeker Screening Instrument</td>
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<td>JSPS</td>
<td>Jobseeker Preparation and Support</td>
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<tr>
<td>LEAP</td>
<td>Landcare and Environment Action Plan</td>
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<tr>
<td>LMP</td>
<td>Labour Market Programs</td>
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<tr>
<td>LTU</td>
<td>Long Term Unemployed (&gt; 12 months)</td>
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<tr>
<td>NAIRU</td>
<td>Non-accelerating Inflation Rate of Unemployment</td>
</tr>
<tr>
<td>NEIS</td>
<td>New Enterprise Incentive Scheme</td>
</tr>
<tr>
<td>NTW</td>
<td>National Training Wage (subsidy scheme for employers)</td>
</tr>
<tr>
<td>NWO</td>
<td>New Work Opportunities (public sector job creation)</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
</tr>
<tr>
<td>SES</td>
<td>Special Employer Support (replaced JOBSkills, NWO, LEAP)</td>
</tr>
<tr>
<td>SIP</td>
<td>Special Intervention Program</td>
</tr>
<tr>
<td>SUEP</td>
<td>Survey of Unemployment and Employment Patterns</td>
</tr>
<tr>
<td>TAP</td>
<td>Training for Aboriginals and Torres Strait Islander Program</td>
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<tr>
<td>TEP</td>
<td>Training for Employment Program</td>
</tr>
<tr>
<td>VET</td>
<td>Vocational Education and Training</td>
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<td>WFTD</td>
<td>Work for the Dole</td>
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<td>WN</td>
<td>Working Nation</td>
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Major Issues

The reduction of labour market program (LMP) expenditure has been a major source of savings to the Federal Government's finances and has assisted in its attainment of reaching monetary and fiscal targets. LMP expenditures have declined from around $2.7 billion in 1995-96 to $1.5 billion for 1998-99. Nevertheless, there is noteworthy support from a disparate group of interests for some re-establishment of labour market programs. While these programs are often seen in the forms of skills development measures, wage subsidies or job search skill development, there is no precise definition of LMP. Governments can spend finances on regional infrastructure works as means of countering unemployment. Indeed, the Centenary of Federation funds can be used as a means of alleviating unemployment. LMP have however been seen as those schemes specifically targeted to assist the unemployed, and under this approach a road building scheme let via tender to the construction industry would not be judged as a labour market program. This paper assesses the criteria which might be used to judge the effectiveness of the more conventional measures.

The use of these programs might meet the pressure for a response to the perceived job insecurity of middle-aged males. Much publicised closures of a number of mines and abattoirs over the past 18 months help highlight the perception of job insecurity. There is also now evidence suggesting disaffection with the two major political parties, especially from blue collar males partly because of their declining fortunes in the labour market.

Labour market policy has often been driven by a 'need to be seen to be doing something'. Professor John Freebairn has recently observed that this reason is, in a sense, a legitimate reason for these programs. Community pressures will determine that governments respond by expanding labour market programs—reasonable situation for a democracy to work around. Another source for restoration of these programs has been parts of the academic community who see them as a stepping stone for the unemployed to gain skills relevant to a developed economy. Thus one component of reform, advocated by the 'five economists' who in November 1998 advocated an award wage freeze to address unemployment, is the upgrading of labour training schemes.

The Government has not seen the need to restore the former system of LMP delivery. It has pursued its long term program of replacing job assistance services delivered previously through the Commonwealth Employment Service (CES, and subsidiary bodies) with purchased assistance measures delivered through the private and community sectors under the Job Network. The statistics indicate that access to LMP has been reduced (but
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not eliminated). It has retained a few of the previous specific schemes such as the New Enterprise Incentive Scheme. It has also moved away from defining a number of assistance programs as labour market programs. For example the Green Corps scheme is open to the unemployed and those not unemployed, and is therefore not classed as a labour market program. The Work for the Dole scheme can be seen to be more part of 'Mutual Obligations' and less a labour market program. The Government's major instrument for delivering labour market assistance, the Job Network (which replaced the CES) is predominantly a job placement or labour exchange service.

Rather than expecting LMP to address unemployment, the Government considers that employment security is ultimately assured by a strong economy, one in which fiscal and monetary policy allows business borrowing, investment and jobs growth. Few would argue with this strategy. Indeed the Government often aligns its range of policies with those prescribed by the OECD (Organisation of Economic Cooperation and Development). The OECD released its Jobs Strategy in 1994 and this strategy was set around a ten point policy list including taxation reform, macro economic framework, working hours reform, labour market efficiency, social security reform to maximise work incentives and other measures.

The Government has also been critical of the perceived waste of expenditures associated with the Working Nation policies (1994–996). It is shown that the current cost of current programs is around 60 per cent of the 1995–6 schemes and is likely to trend down to 50 per cent or less.

In this context, how might the effectiveness of pre and post March 1996 labour market assistance be calculated? The data shows that long term unemployment (those > 12 months) has not significantly declined since 1996, indeed it trended upwards over 1997–8. However, the overall unemployment rate is lower (7.4 per cent in May 1999 against 8.5 per cent in March 1996) and overall employment numbers are now 8.7 million (May 1999, up from 8.29m. in March 1996). The employment outcomes are assisted by the ongoing swing to part-time/casual work and some withdrawal from the labour market (a reduced participation rate). There also seems evidence that the higher productivity now being generated across the economy is limiting the growth of employment opportunities (a situation termed 'jobless growth').

These indicators, particularly, the costs of employment assistance, the unemployment rate and the long-term unemployment rate are likely to be the main ones to be used to determine the success or failure of the new arrangements. It is indisputable that there is less government assistance being provided to the unemployed, but it is also noted that the reduction has been intentional to allow the Government to achieve its fiscal target of a Budget in surplus thereby, it argues, allowing a less restrictive monetary framework under which the business sector is supposed to invest and employ.

The paper reviews the evidence for these arguments. It details the cost of programs and numbers assisted over recent years. The main trends and measures of recent Budgets on
LMP are also reviewed. It notes that the case for LMP spending fundamentally rests on an ability to alter equity outcomes within the unemployed, i.e. between the long term unemployed and others, often those who are less disadvantaged. In this respect, LMP perform a role not easily duplicated in other employment-creating initiatives such as a wage freeze/tax credit.

Finally, the paper returns to its theme of reviewing the calls for the restoration of LMP. It suggests that the sort of skills development which commentators rightly wished to see developed to allow participation and contribution in a modern economy, are more likely to be derived from vocational and educational training (VET). The transformation involved in restoring job readiness to actual workforce contribution and participation at a semi-skilled, let alone a trades equivalent level (or higher) is unlikely to be delivered through the traditional LMP.

Therefore, the calls for the restoration of the previous LMP appear genuine but may be misplaced. The signs of skills mismatch and shortages in a number of industries are also likely to be better addressed by access to and expansion of VET programs thus delivering higher skill development than the traditional LMP. The dimensions of the unemployment problem are not as acute as in the early 1990s and the employed workforce larger, and on this criteria, a return to the former schemes and their previous levels of funding are not likely to be seen as warranted. Should the unemployment rate resume its downward fall, then there would be less likelihood of a restoration of the programs.
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Introduction

Labour market programs (LMP) comprise a sub-group of micro-economic strategies used by governments to address unemployment through improvements to the operation of the labour market. In economic terminology they are classified as 'supply side' policies, meaning that, with the exception of direct job creation schemes, they primarily attempt to remedy deficiencies in the supply of a factor of production in this case, labour.

While there has been a vigorous debate both for and against LMP, they are a feature of the manpower policies of most of the industrialised countries, and are systematically reviewed by the Organisation for Economic Cooperation and Development (OECD, in its *Employment Outlook*). However, the scope, size and cost of the schemes differ across countries. The key categories are: direct public sector job creation, wage subsidies for private sector employers to employ the unemployed and training and related facilities to improve their job-search skills or assist with job-searching. The OECD also includes youth assistance measures as employment assistance, however these measures are not considered here as they are not targeted to the unemployed.

Importantly such LMP have attracted some re-appraisal. This renewed interest appears to have arisen as sections of the community perceive that they have been disadvantaged by the labour market's operations. The apparently buoyant economic growth has not manifested in the growth in jobs on offer; or these are not distributed to the areas where unemployment is high; or that the jobs on offer demand sophisticated skills.

The perception of 'unfairness' might manifest in the lesser skilled being exposed to a disproportionate share of structural change (redundancies) as well as receiving low or stagnant wages. In this vein, a recent book *Australia at Work: Just Managing?* reviews the evidence of the loss of job security of blue collar males from the 1980s onwards, as well as increases in workplace stress for those able to remain in the workforce. For the lesser skilled it is noted that the labour market over the past decade, has become a 'minefield'.

Dissatisfaction by individuals with what appears to be these new 'life chances' may translate into popular support for political parties perceived as offering a return to previous securities of permanent employment.

This is the context then for the major political parties and others to re-examine the provision and even expansion of reskilling and training schemes which can be provided as aid to those who bear the brunt of restructuring.

The perception of the need for educational and training assistance comes more earnestly from what might call the 'neo-liberal' view, evident in Fred Argy's contribution for restoring equity in the Australian society: *Australia at the Crossroads*. But it is also a
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plank of the 'third way', evident in Mark Latham's *Civilising Global Capital*. The Libertarian Right however remains sceptical over the usefulness of these or other government spending programs for reducing unemployment—apparent in the Institute of Public Affairs (IPA) Backgrounder *From Workfare State to Transfer State*. Under almost any scenario for the future of work, there looms the prospect of ongoing technological and workplace change resulting in insecurity among less skilled, permanent employees. In the advent of unemployment these programs represent some form of alternative, but what sort of alternative?

This paper looks at how the effectiveness of LMP might be assessed. If government finances are to be used to provide these schemes, what is the criteria for success or failure? An apparent lack of effectiveness of these programs re-occurs as criticism of the programs. The criticisms include that the number of unemployed assisted into employment through these programs is too low to justify the amount of money spent, or that the reduction in unemployment has not been sufficient to justify the outlays (or is no better or marginally better than what would have been achieved without them). Indeed these criticisms have been a rationale for the LMP spending reduction since 1996.

This paper outlines the rationale of LMP, and describes the form of LMP delivery under the ALP Government's *Working Nation* policy. It traces the changes to the delivery of LMP since the change of government in 1996, and the cost of programs and the numbers assisted. It reviews the assessments of the *Working Nation* programs, and looks at the scope of LMP offered through the Coalition Government's Job Network. The paper also reviews the reasons being put, particularly through editorials and press reports, for the restoration of LMP. The paper concludes that the value of retaining LMP hinges on the value attached to a skilled workforce and on the potential (and limits) for LMP achieving these objectives. While the States and Territories have some role in LMP delivery, the focus of the paper is on Commonwealth programs.

**Trends in Unemployment**

The graphs over-page show the trends in long term unemployment and the share of long term unemployment as a proportion of overall unemployment. They show that the peak in long-term unemployed numbers of 356 000 was reached in 1993. The LTU number since then has been reduced by about 150 000 and the numbers were 202 000 (June 1999), having fallen from 236 000 in January.

But the these numbers are still on par with those recorded in 1996 suggesting that the bulk of the fall in long term unemployment occurred over 1994–96. The numbers of total unemployed also have fallen steadily. Over the 18 months to May 1999, from 772 800 to 697 400 (in trend terms). Despite this improvement the proportion of long term unemployed to the total unemployed has not fallen much below 30 per cent.
The higher share of long term unemployed indicates that there may be a sizeable block of the unemployed who have developed or will develop the negative signals (to employers) associated with prolonged separation from the workforce. (Note: labour market economists prefer the concept of 'flows' into/out of the labour force or into/out of long term unemployment).
The Economic Roles of Labour Market Programs

The Macro Role

Labour market programs, as with public expenditures generally, impose a call on taxation revenues. In the absence of LMP expenditures, taxation can be reduced allowing the economy to grow more rapidly than would be the case otherwise (assisting with employment growth). Government expenditures on these programs also tend to be counter-cyclical, that is they are increased during recessions and wound down in periods of employment growth. Government faces decisions over the opportunity costs concerning LMP expenditure. Without the costs of LMP, taxes can be reduced, other government expenditures can be increased or public debt can be reduced and, as the Government believes, assist in relieving pressures to increase interest rates. LMP can also perform a macro-economic function by boosting aggregate demand, should this be perceived as needed. Decisions to expand these programs are therefore difficult.

The Micro Role

The rationale for labour market programs hinges on their purpose to remedy the employment prospects of a targeted group—the long term unemployed (those unemployed for 12 months or more). The options available to government to improve employment can be achieved by other methods such as tax cuts or income tax credits, but such measures while often good for the economy may not be sufficient to make up for the special disadvantages of the longer term unemployed. This was the observation made by the Committee on Employment Opportunities in 1993 which drafted an options paper forming the basis for Working Nation:

While the sustained net effects on employment remain uncertain, active programs have the advantage that they can be clearly targeted to long term unemployed people and reduce their dependence on income support.

Other types of government action such as tax cuts are likely to have lower direct employment effects, and the jobs created are much less likely to be filled by long-term unemployed or disadvantaged jobseekers.

One other economic function of LMP is also often noted in the literature. This is that they should assist in reducing the NAIRU (Non Accelerating Inflation Rate of Unemployment). The NAIRU is the unemployment rate below which inflation will start to rise. The NAIRU concept came to be used from the 1970s. It has been important as acting as a break on governments using stimulatory measures to boost growth and reduce unemployment, since measures to reduce the unemployment rate below its NAIRU rate will result in inflation 'taking off'. The traditional but often unfortunate method of countering inflation is to
tightly monetary policy (increase interest rates) adversely impacting on business profitability and employment levels.\textsuperscript{10}

To reduce the unemployment rate below its 'NAIRU' rate requires, it is argued, labour market reform including labour market flexibilities such as increasing casualisation of the workforce and winding down the award and arbitration system. In Australia, the NAIRU is said to be about 7.5 per cent and the Employment Minister, Mr Reith, has noted that the OECD has recently revised Australia's NAIRU downward.\textsuperscript{11} The \textit{Australian Financial Review} has also made the proposition that:

... the accumulated labour market reforms and productivity gains suggest that the natural rate of unemployment has been lowered through the 1990s.\textsuperscript{12}

So Australia's NAIRU appears to be reducing. LMP can also make a contribution to labour market efficiency improvements and reduce the NAIRU. They can assist in reducing some forms of skills shortages, and if they are successful in this, they can have a role reducing labour demand pressures and thus reduced wage pressures. In his recent book, Fred Argy has summarised the benefits in the following points:

- ... by redistributing work from short-term to long-term unemployed and from general taxpayers to LMP participants, such programs can serve wider distributional goals (helping those most disadvantaged and putting the cost burden where it can be best borne)

- by improving the competitiveness of some low skill labour relative to capital, they tend to increase the level of employment at any given level of output

- by improving the efficiency of the labour market (better matching of job vacancies to jobseekers) and by keeping the LTU in closer touch with the labour market, LMP can lower the NAIRU (i.e. make it possible to sustain a higher level of output at any given rate of inflation—explained in this endnote).\textsuperscript{13}

The Disadvantages of LMP

The disadvantages of these programs are usually regarded in the literature as being threefold, Argy for example summarising the main disadvantages (see also OECD criteria on page 26 below):

- their cost

- the likelihood that a good many of those assisted would have found employment without the scheme (deadweight costs—a key concept and explained below in an illustration)

- the tendency of wage subsidies to encourage termination of employment in order for the employer to gain a subsidy in hiring an unemployed person (substitution effect).
Argy adds to these disadvantages the effects on work attitudes (less incentive to find work due to LMP alternative) and perhaps some added pressure on wage claims as the unemployed regain work skills.  

In summary then, the long-term unemployed suffer from work-skills atrophy and lack of appeal to employers. Other disadvantages might include a lack of English language skills, physical disabilities, mature age, remote area location, non-English speaking backgrounds and others. The traditional range of LMP can, in one sense, be seen to induce an element of equity into the job-search chances of the unemployed by assisting the LTU. The schemes attempt to raise their job prospects rather than allowing the usual selection processes to favour the more employable of the unemployed. In part, this emphasis on LTU reflects an important feature of job searchers, which is that they are not all from the ranks of the unemployed. Many (around 800 000) are either part-time employees wanting more hours and others are within the wings of the labour market but not actively seeking work while maintaining connections to it. In other words, many in this group are likely to gain preference for jobs over the LTU.

The Working Nation Programs: Features and Cost

The ALP Government's *Working Nation* (May 1994) policy (and earlier policies) embraced the active employment strategy and introduced the new concept of *reciprocal obligation*. This (the Job Compact) promised long term unemployed (i.e. those unemployed 18 months or more) either employment (usually for a maximum of six months) through subsidies with private employers, or failing this, through direct job creation, or an offer of training. If the offer was refused, social security benefits could be withheld.

Enabling legislation in the form of the *Employment Services Act 1994* incorporated three new organisations (apart from the CES) to bring diversity of choice into the provision of employment assistance. These were *Employment Assistance Australia* and the *Employment Services Regulatory Authority*. These agencies both provided case management services to long term or disadvantaged jobseekers. EAA performed this within the CES. ESRA let contracts to private sector case managers or organisations which provided the assistance under contract. Clients were thus given a choice as to private or public sector assistance. A third new body, the National Employment Training Taskforce (NETTFORCE) was charged with promoting apprenticeships and traineeships.

The focus of *Working Nation* was on the long-term unemployed, and resources were transferred from the assistance of short-term unemployed. Case management attempted to identify the most suitable path to augment a client's employability. This may be, for example, suggesting a program of English language training or other skills enhancement. Participation in such recommended training would also satisfy the Social Security Act's worksearch activity test.
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There was also a significant delivery of assistance through the brokered programs: JoBTrain, JoBSkills, the Landcare Environment Action Plan (LEAP) and the New Work Opportunities (NWO) program (for the key programs see Table 2 for 1995–6). Brokers contracted to DEETYA provided a job or training experience in return for a fee. The range of programs under Working Nation was recommended for streamlining in 1995 by CESAC (CES Advisory Council). The first full year of the operation of Working Nation policies in 1995–6 revealed the cost of these labour market programs increased by $700 million from the previous year to $2.1 billion—excluding administration costs.

The Coalition Government’s Approach: Features and Cost

From October 1996 the major Working Nation programs were either terminated or grouped under new program names with their expenditures limited as well as the numbers assisted (see table above). In the August 1996 Budget, the Minister for Employment Education and Youth Affairs, Senator Vanstone, announced the plan to deliver the bulk of employment assistance via a purchaser-provider system. This would include contracting the staff, facilities and services provided through the CES and corporatising the remainder of the organisation. Coinciding with this development, steps were taken to streamline the programs and reduce expenditures. The 1996 Budget reduced allocations under Forward Estimates by $1.7 billion for the years to year 2000.

Also announced in the August Budget (1996) was the major blueprint for employment assistance reform Reforming Employment Assistance: Helping Australians into Real Jobs. This proposed that the Government would become a purchaser of employment services.15 Despite the Coalition’s statement prior to the March 1996 federal election that labour market programs would continue in much the same form and funding levels16, it is clear that planning to abolish the CES and implement the employment services market commenced almost immediately after the election. By May 1996, some 16 working parties had been established within DEETYA each covering separate aspects of the conversion process, for example DEETYA working parties were set up to develop: Request for Tender, Fee for Service, Payment Policy and so-on.17 The services would be provided by the private and community sectors through tender.

The Government expected that employment placement enterprises (which now operate under the Job Network) would place a jobseeker in a job. Reimbursement for this service would be made in accordance with a schedule of fees paid by the Employment Department and determined under a contract.

However, ultimately it is the department (since November 1998, the Department of Employment, Workplace Relations and Small Business) which determines the mix of services a Job Network member can provide. It was envisaged that the provision of public employment services might be required in regional areas where there is little commercial
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incentive to undertake a contract, as well as for certain hard to place clients. Indeed reforms announced by Minister Abbott in April 1999 and cited below address these shortcomings.

1997 Budget and Labour Market Programs

The 1997 Budget for the employment portfolio contained some fifteen measures most of which reduced LMP outlays. Statements accompanying the 1997 Budget contained proposals to terminate the CES infrastructure for delivering labour market programs and the proposal to cash-out (terminate) many labour market programs. The Government’s proposed framework for the delivery of labour market assistance involved three key sets of changes:

1. Integration of key functions performed by the separate CES and DSS networks (and others) into a single national network of offices via a new agency (Centrelink).

2. The development of a fully contestable market for publicly funded employment placement services in which assistance will be provided via private firms, community organisations and a corporatised public provider (replacing the CES). Flex 1 (job matching), Flex 2 (skills training) and Flex 3 (intensive assistance) are the categories of assistance which providers tender for, and if successful, provide. Payments for each level of service vary, but range from @$200 for job matching $2000-$3000 for job training and up to $9000 for intensive assistance.

3. Arrangements for the delivery of assistance to jobseekers, entailing testing applicants to see if they have a 'capacity to benefit' from any assistance. This is formally referred to as the Job Screening Classification Instrument. This assessment of a client provides quick points ranking of the client according to certain criteria, e.g. proximity to jobs, English language proficiency, drug abuse etc. If jobseekers don't meet the JSCI criteria and satisfy Centrelink officials that they will meet the 'capacity to benefit' test, then they will receive mainly counselling advice under alternative schemes such as the Community Support Program.

The way the JSCI and Flex 3 (intensive employment arrangements) interact can be seen from the following table.
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### Intensive Employment Assistance scheme of fees (Flex 3)

<table>
<thead>
<tr>
<th>Assistance level</th>
<th>JSCI score band width</th>
<th>Share of intensive assistance places (%)</th>
<th>Maximum length of assistance (months)</th>
<th>Payment for primary outcomes, $</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>27–34</td>
<td>67</td>
<td>12</td>
<td>1500 1500 1200</td>
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<tr>
<td>3.2</td>
<td>35–44</td>
<td>26</td>
<td>12</td>
<td>2250 2250 2200</td>
</tr>
<tr>
<td>3.3</td>
<td>45+</td>
<td>7</td>
<td>18</td>
<td>3000 3200 3000</td>
</tr>
</tbody>
</table>

Source: Dr. Elizabeth Webster, *What is the Job Network?* Melbourne Institute of Applied Economic and Social Research

Specific labour market programs, which were to continue, were:

- Support for Indigenous People
- Entry Level Training
- Regional Assistance (Office of Labour Market Adjustment), and other programs including the New Enterprise Incentive Scheme
- Workplace English Language and Literacy, Advanced English for Migrants and Bridging Courses for the Overseas Trained.

### The 1998 Budget

The 'cashing out' of funding for the former *Working Nation* labour market programs allowed savings in 1998–99 of $472.58 million (compared to 1997–98). It was expected that the new labour market system would cost $996.8 million annually. Savings in the cost of providing employment services contracts to Job Network providers have allowed a saving of approximately $36 million (compared to initial estimates) in 1998–99. Note however, that these savings have been used to fund additional assistance measures for the Job Network, as announced by the Minister for Employment Services, Minister Abbott, in December 1998.¹⁸

To some extent, these announcements negate those made in the May 1998 Budget. Then, changes were announced to the Social Security Act’s activity test allowing unemployment benefit recipients to choose between a number of activities which would satisfy the activity test (i.e. allow the payment of the benefit) such as:

- Securing part-time work
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- Engaging in part-time education or training including literacy and numeracy training
- Being placed in Job Search Training or Intensive Assistance
- Participating in Work for the Dole or other community work including under the environmental Program Green Corps.
- Participation in the Job Placement, Employment and Training Program which assists hard-to-place clients such as the homeless.

The December 1998 announcements by Minister Abbott concerning Job Network registration require all eligible job seekers to register with one or more Job Network members.

The 1999 Budget

In the May Budget, an expansion for the Work for the Dole scheme (WFTD) has been funded. This allows funding for 125 000 places over four years at an expected cost of $360 million. However the scheme is currently restricted to 18–24 year olds and the Budget proposed extending the scheme to those aged up to 34 years old.

A new proposal allows Year 12 school leavers WFTD placement, provided they have received the full rate of the Youth Allowance for three months. This extension of the scheme would increase the number of places by 25 000 over the four years and cost an additional $100 million. Minister Abbott, the Minister for Employment Services suggested the proposal, on 19 April 1999. Minister Reith also suggested a similar expansion of WFTD in his letter (3 December 1998) to the Prime Minister, although he also warned of potential backlashes to such a move.

There has been a renewed emphasis on indigenous employment assistance in the Budget with an allocation of $52 million, although in part funded from the Job Network funds. The new arrangements should allow more Flex 1 places (350 000 to 400 000 places), and more Flex 2 places from 75 000 to 90 000. In all, the 1999–2000 Budget finances employment assistance measures at a cost of about $1.2 billion.

Australian Labour Market Programs: What have they Cost?

The key characteristic of LMP is that they are a form of government spending in the area of employment assistance directed to the unemployed and as such are a cost to the Budget. In recent years, LMP operations have often been used to counter downward business cycle swings. More resources are provided for an expansion of LMP during recession, as in the early 1980s and again in the 1990s. During upswings, governments tend to curtail
spending on these programs. In doing so, public finances can move more readily from deficit to balance and/or surplus. The Government may then redirect public resources into other areas.

To ensure that LMP expenditures are best utilised, the OECD recommended in the early 1990s that social welfare benefits for the unemployed be balanced within an active employment strategy. Such a strategy would direct assistance away from 'passive' income support spending to 'active' forms such as the provision of job-search training, skills upgrading, literacy and numeracy training, or geographical relocation. The active employment strategy counters 'passive' welfare receipt, which, in earlier times, provided minimal obligations (and opportunities) on recipients to either find work or upgrade skills to make job matching easier.

LMP spending (including provision of the national employment service but excluding social welfare payments) have absorbed about 0.7 per cent of Australia's GDP according to statistics of the OECD, although the trend is trending down below this. Commonwealth outlays on active measures (ie, labour assistance measures such as wage subsidies, job-matching and others as distinct from passive social welfare payments to the unemployed) have ranged at or below $2 billion, and have been less than one per cent of GDP, as shown in the table below:

Table 1: Labour Market Programs—Australia

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Measures % GDP</td>
<td>0.75</td>
<td>0.72</td>
<td>0.84</td>
<td>0.66</td>
<td>0.52</td>
</tr>
<tr>
<td>(Cost in $ Billion)</td>
<td>1.5</td>
<td>1.62</td>
<td>2.1</td>
<td>1.29</td>
<td>1.09</td>
</tr>
<tr>
<td>Passive Measures % GDP</td>
<td>1.88</td>
<td>1.62</td>
<td>1.29</td>
<td>1.3</td>
<td>1.17</td>
</tr>
<tr>
<td>Total: as % GDP</td>
<td>2.62</td>
<td>2.34</td>
<td>2.10</td>
<td>1.94</td>
<td>1.69</td>
</tr>
</tbody>
</table>

(Source: OECD Employment Outlook, June 1998, p. 211 and June 1999 p. 245, and annual reports of the Department of Employment Education Training and Youth Affairs. The dollar cost of LMP is confined to Commonwealth programs until November 1998 administered under Program 4 of the Department. It therefore excludes vocational education and youth support costs met by the Government since not all beneficiaries are 'unemployed'. Also excluded are administration costs. An explanation of what costs the OECD uses in its LMP estimates for Australia can be found in Restoring Full Employment by the Prime Minister's Committee on Employment Opportunities, December 1993, p. 121)

The table below outlines the major (but not all) individual Commonwealth programs operating over the past few years, the cost of the program and the numbers assisted. The operations of the Commonwealth Employment Service (CES, and other administrative costs) are not included.
## Table 2: Key Labor Market Programs—Numbers assisted and cost

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>JobStart</td>
<td>236.0</td>
<td>101000</td>
<td></td>
<td>280.3</td>
<td>92414</td>
<td>165.3</td>
<td>61866</td>
</tr>
<tr>
<td>NTW</td>
<td>63.0</td>
<td>33000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JobSkills</td>
<td>273.0</td>
<td>27000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NWO</td>
<td>498.0</td>
<td>49000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEAP</td>
<td>89.0</td>
<td>13000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>860.0</td>
<td>89000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JobTrain</td>
<td>165.0</td>
<td>93000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATY</td>
<td>9.2</td>
<td>1700</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AEMP</td>
<td>5.1</td>
<td>3800</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIP</td>
<td>194.0</td>
<td>90000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job Clubs</td>
<td>30.0</td>
<td>45000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MAS</td>
<td>20.0</td>
<td>49000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>8400</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SkillShare</td>
<td>182.0</td>
<td>165000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TAP</td>
<td>37.0</td>
<td>11900</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NEIS</td>
<td>104.0</td>
<td>12000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>1905.3</td>
<td>702800</td>
<td></td>
<td>1217.3</td>
<td>424839</td>
<td>590.1</td>
<td>296764</td>
</tr>
</tbody>
</table>

* indicates programs which were regrouped in October 1996 under Special Employment Services, but for which separate data on placements is available.
Changes to Employment Assistance: More or Less Effective?

The table confirms the reductions in outlays and placements as the 1996 Budget cuts took sway. It is also important to understand the interpretation of costs for individual programs. Many were surprised to find in 1996, that the cost of finding a job for a person placed under the (then) New Work Opportunities (NWO) program was cited in the media at over $140 000\textsuperscript{23}. In fact, the actual cost to the Government of placing an unemployed person through the NWO program was $10 009 (according to Dr Wendy Jarvie).\textsuperscript{24}

The $143 000 figure is a good illustration of the concept of deadweight costs, based on the notion that some of those assisted would have found work without assistance and therefore the 'cost' of successful employment as a result of the assistance is accentuated. The exercise uses a comparison of employment outcomes for 'similar' groups of unemployed persons. For those assisted, 21 per cent had a chance of being in employment three months after the New Work Opportunities placement finished. However 17 per cent of a non-subsidised comparison group (with similar personal and employment characteristics) were in a similar employment situation. The 'net impact' of assistance was therefore around four per cent. The cost per net impact is derived by dividing the unit cost, $10 009, by the net impact percentage (21 per cent minus 17 per cent equals 4 per cent, but 7 per cent the 'upper statistical limit', was used).\textsuperscript{25} Hence, the $143 000 figure. This is not an actual cost of placing a person under that program, rather it is an estimate of the effectiveness of the LMP expenditure, or 'bang per buck'.

Assessing LMP Effectiveness

Working Nation Programs

It is generally accepted that Working Nation (WN) programs incurred significant costs to the Budget, (although these were later intended to fall\textsuperscript{26}) and that the new employment services market is likely to operate at about half that cost in real terms. What can be said of the benefits of the former programs?

Essentially the camps are divided between those who argue that the previous group of LMP were ineffective because either the costs of the scheme were not offset in low unemployment or the job prospects of 'hard-to-place' clients were not adequately considered in light of the cost of employment, resulting in a waste of funds.

On the other hand, those who argue that the programs were successful are relying on evidence showing that they met the targets set for them, particularly in reducing long term unemployment.

In respect of the first negative critique (unemployment hasn't fallen, or not fallen beyond the level which it would have anyway), it remains valid only if the reduction in unemployment...
Changes to Employment Assistance: More or Less Effective?

overall, is the primary goal. However this paper has pointed to the prime object of LMP expenditure being a re-allocation of employment chances to the long-term unemployed.

The second negative critique invokes notions that the provision of employment opportunities for hard to place clients via programs can mainly be justified if employment continues (presumably elsewhere) after the assistance finishes. Dr Wendy Jarvie of the (former) Department of Employment, Education, Training and Youth Affairs (DEETYA) has noted the results of departmental studies indicating an overall improvement to job search success of the unemployed gained by program participation; however she has cautioned against allowing indiscriminate access to programs without estimation of the potential for the participant to hold employment subsequently:

In general, evaluations show that LMPs improve employment outcomes of the long-term unemployed and highly disadvantaged groups. Their main measurable benefit is in the 'shuffling' of the unemployment queue particularly by getting the LTU into jobs and keeping them engaged in the labour market ... Labour market assistance is worthwhile. However, for implementation to be successful, there has to be a paramount concern to match assistance to the needs of the individual ... (DEETYA) pushed people through NWOs and other short-term programs regardless of their capacity to maintain their employment beyond the program.

Such criticism questions the fundamental principle of the 'Job Compact', which was to give the LTU (in this case more than 18 months unemployed) either an employment or a training position. In terms of bureaucratic efficiency, the criticism makes considerable sense by preferring the allocation of resources towards those who are more easily employed. Indeed the approach has become fundamental to the current employment services arrangements. However, without innovative employment schemes such as for example the CDEP schemes for aboriginal employment, it is likely that LTU numbers would be higher than they are now. This initiative suggests that those whom the administration considers hard to place can be found alternative employment arrangements or solutions.

In respect of the positive side to WN programs, there are now a number of econometric studies endorsing the former policies. A study by ANU economists Junankar and Kapuscinski has modelled unemployment outcomes over the period that WN programs operated. In essence, it found that long term unemployment (particularly for males) would have remained high and the rate of decline of LTU less than it would have without the policies. To the extent that that the WN policy was designed to reduce long term unemployment, it can be looked on as a success.

Another study by Stromback, Dockery and Ying has evaluated the employment outcomes of certain individuals assisted under WN programs in 1995. They relied on data of assisted and non-assisted individuals compiled by the ABS in its Survey of Employment and Unemployment Patterns where the same groups are monitored over time in respect of their employment successes (or failure).
Their study, using the SEUP data, looked at the likelihood of LMP participants and non-participants being in work after the assistance finished. They found that participation in programs coming under 'Employment Training' (including New Work Opportunities) raised the predicted probability of working for a person who had participated in this type of program to be 25 percentage points higher than for persons who did not participate.

It is important to keep in mind the role of different data sets. Dr Jarvie in her criticisms of NWO cited DEETYA's post placement monitoring survey. These later results using the SEUP evaluate employment outcomes over a slightly longer period than those previously used by DEETYA, and these are publicly accessible. The conclusion of Stromback, Dockery and Ying was:

... several DEETYA spokespersons have explicitly or implicitly dismissed New Work Opportunities as either having no effect and/or being very costly [DEETYA (1996), Jarvie pp. 190–1 in Productivity Commission (1997)]. In contrast, according to the estimates in this paper, Employment Training Programs (which include New Work Opportunities) is associated with a larger increase in the probability of being employed than any other program type. 30

An International Perspective on 'What Works'

The Working Nation programs were clearly of the traditional LMP form. A review of national assessments of such programs collated and analysed on a cross country basis by John Martin of the OECD and published last year in an OECD Occasional Paper has attracted wide interest. 31 It is based on the experiences of OECD member countries which have used these programs. His survey of the international experiences on the use of wage subsidy programs such as the JobStart program, concludes:

These measures accounted for 11 per cent of total spending on active measures in the typical OECD country in 1996. Subsidies to private-sector jobs may have a number of objectives other than creating additional jobs. They may seek to enhance effective labour supply by helping individuals to keep in contact with the world of work, thereby maintaining their motivation and skills. For equity reasons they may also be intended to provide the long-term unemployed with jobs, even if this happens at the expense of the short-term unemployed. These other goals of wage-subsidy schemes may still be important even if the net employment gains of these programs are very small or zero. Indeed, most evaluations show that subsidies to private-sector employment have both large dead-weight effects (i.e. employers use the subsidy to hire workers they would have hired anyway) and displacement effects (many subsidised hires displace others who would have been hired in the absence of the subsidy). 32

For job search schemes such as the JobClubs program and indeed the assistance provided currently under 'Flex 2' (see below), Martin found the following evidence:
Unfortunately, it is not possible in the OECD database at the moment to separate out spending on job-search assistance from the administrative costs of running the public employment service (PES): in 1996, the average OECD country devoted 21 per cent of active spending to PES administration, but much of this comprises the fixed costs of running the service. Job-search assistance comprises many different types of services, for example initial interviews at the public employment service, in-depth counselling at some stage in the unemployment spell, re-employment bonuses, jobs clubs etc. Such services may also be combined with increased monitoring and enforcement of the job-search requirements for receipt of unemployment benefits. Job-search assistance is usually the least costly active labour market program and the good news is that evaluations from several countries show consistently positive outcomes for this form of active measure.

It seems that investment in active placement and raising the motivation of the unemployed, as well as taking steps to encourage and monitor their job-search behaviour, pay dividends in terms of getting the unemployed back into work faster.\(^\text{33}\)

For the training schemes such as JobSkills and SkillShare, the evidence found:

They (the programs) usually account for the largest share of spending on active measures: on average, OECD countries devoted 27 per cent of their total public spending on active measures to training programs in 1996, up from 23 per cent in 1985 (see Table 5). But evaluations of public training programs in OECD countries suggest a very mixed track record. Some programs in Canada, Sweden and the United States have yielded low or even negative rates of return for participants when the estimated program effects on earnings or employment are compared with the cost of achieving those effects.

However, all is not black on the front of public training programs. A recent comprehensive review of public training programs for disadvantaged groups in the United States by Friedlander et al. (1997) highlights quite a number of successful programs in terms of earnings gains and positive rates of return for participants. It is noticeable that the most consistently positive results were recorded for adult women. The findings were less optimistic with regard to adult men: some programs gave positive results, others not. The most dismal picture emerged with respect to youth: almost no training program worked for them. Even for those groups for whom participation in the programs yielded a positive rate of return, Friedlander et al. (1997) note that the estimated earnings gains are not large enough to lift most families out of poverty.\(^\text{34}\)

On direct job creation in the public sector, such as the New Work Opportunities program, it was found:

Spending on this measure exceeds spending on subsidies to private-sector jobs in many countries: on average, the typical OECD country devoted 14 per cent of its spending on active measures to public sector job creation measures in 1996. The evaluation literature shows fairly conclusively that this measure has been of little success in helping unemployed people get permanent jobs in the open labour market. As a result there has been a trend away from this type of intervention in recent years but it appears to be
making a comeback now in some OECD countries, usually as part of a 'reciprocal obligation' on the unemployed in return for continued receipt of benefits. And although programs to assist youth were not addressed in this paper, the evidence reviewed by John Martin, found that such measures, particularly disadvantaged youth either into training or employment were not successful in any country's experience:

On average, OECD countries devoted 12 per cent of spending on active policies to these measures in 1996. One of the most disappointing conclusions is that almost all evaluations show that special measures are not effective for disadvantaged youths. This holds not only for public training programs (see above) but also for targeted wage subsidy measures too. Given the depth of public concern about youth unemployment and the large public spending devoted to special youth measures, a high priority must be assigned to discovering the reasons for the dismal track record of such measures and designing and implementing more effective programs.

Martin's conclusions on what works recommended firstly the use of in-depth counselling, job-finding incentives (e.g. re-employment bonuses) and job-search assistance programs. These measures needed to be combined with increased monitoring and enforcement of the work test. Public training programs needed to be small in scale and well-targeted to the specific needs of both job-seekers and local employers. Early interventions, reaching back to pre-school, can pay dividends for disadvantaged youths.

For youth, measures are needed to reduce early school-leaving and be targeted on at-risk students combined with policies to ensure that they leave the schooling system equipped with basic skills and competences that are recognised and valued by employers. It is also important to improve poor attitudes to work on the part of such young people and adult mentors can help in this regard.

As the duration of unemployment spells lengthens, various forms of employment subsidies may serve to maintain workers' attachment to the labour force. However, employment subsidies should be of short duration, targeted and closely monitored. Subsidised business start-ups for the minority among the unemployed who have entrepreneurial skills and the motivation to survive in a competitive environment are useful. Finally, John Martin's review recommended that more countries should evaluate their labour market programs are to expand the knowledge on 'what works' and 'why' among active labour market policies.

**Coalition Policies: Work for the Dole**

Although the Coalition Government has brought about radical changes to the delivery of employment assistance since 1996, its most visible scheme, Work for the Dole, has not been in operation for much more than 18 months and the Job Network, has been operating for 12 months. This makes assessment difficult. As noted, a certain number of other LMP, such
as NEIS continue to be funded by DEWRSB, others such as WELL remain in DETYA. However, the current spearhead of policy appears to be expansion of WFTD. One assessment of whether the WFTD scheme can work has been made by Fred Argy. The criteria he suggests for assessment include that:

The work is of benefit to the community and such that it would not otherwise be done (e.g. provision of community, environment or charity services that are now being neglected because of absence of volunteers or fiscal constraints) and does not merely shift jobs from other low income workers;

If the working conditions are in line with community standards;

If it does not make the unemployed worse off in the short term (e.g. by expecting them to bear higher transport and clothing costs within the same social security benefit

If it does not inhibit them in their job search; and

If it allows the LTU to obtain work experience and enhances their self-respect, morale and confidence and provides on the job structured training or skills

But if they meet most of these conditions, WFTD schemes are hard to distinguish from the previous governments’ LMP. (If) many of the conditions are not met (e.g. if participants are compulsorily dragooned into projects and given neither productive work experience nor training nor counselling), the exercise could prove self defeating—and even counter productive—because the implicit notion that they lack a work ethic or integrity can cast a slur on the unemployed who participate in the schemes.

An evaluation of the WFTD Pilot Program has been released by Minister Abbott which essentially reviews the work experiences of a number of participants after participation in the scheme finished. This evaluation correlates with an earlier report to Parliament in which the Minister commented that WFTD placements had reached 18 000 since the scheme was introduced at the end of 1997. As well, 32 per cent of those assisted held on to unsubsidised employment three months after the placement had finished. However 10 per cent undertook further training after the placement finished. Other data does show that by January 1999 less than 7000 young people were in WFTD schemes suggesting that the scheme has had limited coverage.

Job Network

Since its commencement on 1 May 1998, the Job Network has borne the brunt of adverse criticism and unfortunate circumstance as a few of the successful tenderers decided to quit the system due to financial stress. Minister Kemp announced the first significant wave of reforms to the Job Network system on 25 August 1998. The reforms provided an injection of $50 million by way of grants of $10 000 to JN providers. Other reforms included
opening access to JN providers for some classes of ineligible jobseekers (such as those with redundancy packages and the partners of employed persons).

Minister Abbott announced enhancements to the Job Network in December 1998 and in April 1999.

The first package of measures relaxed the eligibility criteria for access to placement fees, such that unemployed people not on benefits could have the cost of the service provided by a JN member paid by the Government. Secondly development grants worth up to $10 000 were to be given to JN members. These measures were meant to ease the relationship between the Job Network provider and DEWRSB by improving the income and cash flow of Job Network members. 41

The second wave of additional assistance provided:

- Upfront retainers of 30 per cent of expected job matching places for each contract monitoring period.

- Additional payments of $100 per successful job matching placement to ensure the provision of a wider range of services to unemployed people (such as the preparation of resumes).

- An additional $45 per successful job matching placement in regional areas in recognition of the extra costs involved in servicing these areas.

- Funding of $25 per successful job matching placement for those Job Network members leasing touchscreen job search facilities.

- Funding of up to $1000 to each job matching site for local marketing activities to increase Job Network members' reach to employers and unemployed people.

- Administrative changes to promote referrals to Job Network members plus speedy payment for successful outcomes.

- Extending job search training services to women returning to the workforce irrespective of whether they are receiving an unemployment allowance.

- Extending the current contract for Job Network members by three months so that they will now expire in late February 2000. This is to enable the lessons of the current tender round to be fully assimilated.

- Job Network members who did not want to continue in the employment services market will be offered an exit package of up to $15 000 per site to help cover the costs of withdrawing from the market. 42
Changes to Employment Assistance: More or Less Effective?

The most recent enhancements announced in April 1999 are intended to limit full price competition for Intensive Assistance (Flex 3). Other measures include:

- a $250 bonus for network members when Job Search Training Participants stay in jobs for 13 weeks

- The provision of specialist intensive assistance providers for job seekers with a disability, indigenous job seekers and the young unemployed and in particular circumstances replacement of outcome based payments with fee for service (remote rural areas).43

In essence, the reforms have attempted to address the following criticisms of the arrangements:

- The tendering process favoured the lowest bidders (a point effectively acknowledged in a report of the Job Network tender by the Australian National Audit Office44), overlooking more reputable organisations with extensive contacts.

- Centrelink had trouble meeting the new workload due to cuts in its staffing and other weaknesses in the relationship between Centrelink, the Job Network provider/s, and the client and prospective employer.

- Payments for Flex 1 job search services (initially signalled to be around $250) in practice appear to have fallen to $190 meaning that providers who do not win Flex 2 and 3 contracts face severe financial difficulties.

- Employers can be faced with a charge for a service, which was formerly provided free, especially where the person referred is not an 'eligible' client, thus has been a reluctance by employers to use the service.

- Ineligible clients can comprise a large percentage of a provider's caseload for which no fee is necessarily payable, however some formerly ineligible clients are now assisted.

- Initially, there was no obligation on unemployed job-seekers to register with a Job Network provider. There have been a number of cases where large employers have sought to develop internal mechanisms for screening and searching for people to fill vacancies having been disappointed with the Job Network service, and no doubt the Internet will accentuate this possibility.

Many of the systemic problems, such as the initial absence of a need to register with a Job Network member, have been addressed in the three waves of reforms mentioned above. Minister Abbott reported on the performance of the Job Network in its 'End of Year One Report Card'.45 The data reported there includes:
Changes to Employment Assistance: More or Less Effective?

**Job Network 1998–99: Key Indicators**

<table>
<thead>
<tr>
<th>vacancies notified</th>
<th>500 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flex 1 placements (including Flex 2 and 3 placements)</td>
<td>240 000</td>
</tr>
<tr>
<td>Flex 2 (Job Search Training)</td>
<td>12 500</td>
</tr>
<tr>
<td>Flex 3 (Intensive Assistance)</td>
<td>70 000</td>
</tr>
<tr>
<td>Cost</td>
<td>Est $860.8m.</td>
</tr>
</tbody>
</table>


In January 1999 the system placed 16 000 on benefit into work which, it was alleged, was 50 per cent better than the outcomes achieved by the CES a year earlier. Also in January 43 000 vacancies were registered with the Job Network by employers which was supposedly double the result achieved by the result achieved by the CES a year earlier. The Minister also informs that comparative job placement data for the CES has been discounted by 40 per cent to exclude temporary and casual jobs, since these sort of jobs are not considered eligible under the Job Network. On the other hand, Job Network eligibility allows work arrangements of 15 hours duration spread over five days (which to many would be considered as both casual and, in all likelihood, temporary).

Are such comparisons fair? As noted, from May 1994 the operations of the CES were significantly altered through the diversion of a section of its workload (and staffing) into case management—through either Employment Assistance Australia, or the Employment Services Regulatory Authority. For 1992–93, the CES had the following performance indicators:

**Commonwealth Employment Service 1992–93: Key Indicators**

<table>
<thead>
<tr>
<th>Registrations of unemployed</th>
<th>2 025 912</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job Vacancies received</td>
<td>706 261</td>
</tr>
<tr>
<td>Placement into jobs</td>
<td>538 835</td>
</tr>
<tr>
<td>(LTU number)</td>
<td>(150 611)</td>
</tr>
<tr>
<td>Placement into LMP</td>
<td>490 000</td>
</tr>
<tr>
<td>(LTU number)</td>
<td>(313 855)</td>
</tr>
<tr>
<td>Staff Employed</td>
<td>8 700</td>
</tr>
<tr>
<td>Administration and Salaries</td>
<td>$400m.</td>
</tr>
</tbody>
</table>

Changes to Employment Assistance: More or Less Effective?

As noted, the greatest change introduced by the Coalition Government is the abolition of specific programs. The provision of a wage subsidy to a prospective employer under Flex 3 (intensive assistance) is one of a number of options available to Job Network members. Centrelink will have made an assessment of the client under the JSCI. However in his letter to the Prime Minister (3 December 1998), Minister Reith observed that Job Network members appeared not to be offering job subsidies to assist disadvantaged long-term unemployed:

... the minimal use currently being made by Job Network providers of their scope to offer wage subsidies, as part of intensive assistance to the LTU may also need review.47

This suggests that the former mix of wage subsidy and training assistance schemes have been considerably blurred under the 1998 arrangements, since it is possible under intensive assistance to provide wage subsidies for example.

These results seem to fly in the face of the criticisms of the Job Network mentioned earlier; how are the comparisons made? Criticisms of this comparison method raised by the Sydney Morning Herald include that the CES operation was run down from 1997 and particularly in early 1989 in preparation for the start of the new system (as well as its partial restructuring into Employment National). CES figures have been discounted by excluding casual work, but the Job Network is considered to have found someone a job if hours worked are greater than fifteen. The placement of long term unemployed under the CES was calculated by reference to the total numbers of job seekers placed in work. The Job Network percentage was only by reference to the percentage of 'eligible' job seekers placed in work, estimated to be roughly half of those who used the Job Network.48

The positive side to the assessment is that the Government's fiscal and monetary policies have assisted in expanding employment (8.7 million employed in May 1999 compared to 8.3 million March 1996), and the unemployment rate has fallen to 7.4 per cent in trend terms for May 1999. The signals seem positive for further reductions in unemployment, except that such an assessment tends to overlook issues to do with the composition of unemployment (noted at the beginning of this paper), and in recent months both the fall in unemployment and the growth of employment appears to have stalled. On the other hand there have been spectacular gains in monthly employment statistics earlier in the year.

A Renewed Interest in LMP?

A re-evaluation of the role of labour market programs can be found in references to employment strategies appearing in the media. The calls appear to be made on the (understandable) premise that a modern, information-based economy needs a skilled productive workforce both to produce wealth and enjoy the benefits this new richer society. Such views are often buttressed by overwhelming evidence of social disadvantage.

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being linked to poor education and inadequate life skills, as evidenced in Business Council's recent paper on rebuilding the safety net.\textsuperscript{49}

The debate is interesting because the move to the Job Network has in part limited the Government's ability to put back the programs. Any significant restoration of the schemes is likely to 'distort the market' for employment assistance. Information on local area labour markets collated (formerly) by DEETYA has also been made available for providers to make offers for Job Network contracts. It is true that there still a few discreet programs operating separate from the Job Network (above). However the emerging trend seems to be the delivery of employment assistance through the Job Network/WFTD.

The 'Five Economists' (Ross Garnaut, Peter Dawkins, John Freebairn, Michael Keating, Chris Richardson), co-authored a letter to the Prime Minister late last year proposing an award wage freeze to boost low-skilled employment. The letter also acknowledged a need to improve education, training and labour markets:

> Recent research at the OECD shows that no single policy can be expected to solve the unemployment problem. A range of policies will be required, acting on both the demand and the supply of labour. As well as tax reform and the award rates freeze, this should include the upgrading of education and training systems and a systematic approach to labour market programs.\textsuperscript{50}

Peter Dawkins, one of the 'Five Economists' has explained the rationale for the wage freeze, in terms of its effects on the demand and supply of labour, and in doing so, has also re-affirmed the role of training for the less-skilled:

> In the long run, the best response to strong growth in demand for high-skilled labour and weak demand for low-skilled labour is to expand the amount of high-skilled labour through education and training and to try to reduce the amount of unskilled labour. In the short-run however, getting less-skilled people into work is a priority.\textsuperscript{51}

Some media reports suggest the need for the restoration of some (not clearly specified) of the programs, as in the following editorial:

> (One) reform needed to ensure that the labour market in Australia remains cutting edge and able to keep up with the demands of global economy is to educate and train the labour force to ensure that they can meet the requirements of employers. An under-educated, under-skilled workforce means that the economy's ability to lower the unemployment rate will be severely constrained.

This where the Government erred in its attempts to repair the Budget position, particularly in the 1996 Budget, when increases to university fees and cuts to labour market programs delivered almost half of the savings. These policy changes, particularly the reduction of government sponsored training for the LTU, will lead to a less skilled workforce which, perhaps regardless of wage levels, will not be wanted by employers. If too many of the LTU remain unskilled, they are less likely to be able to find employment, whatever the pace of economic growth and regardless of the wage level.\textsuperscript{52}
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The editorial appears to conform with the consensus view that LMP should be designed to assist the LTU into employment (and not be assessed directly according to success in reducing unemployment rate).

Ross Gittins has argued the need for LMP along the lines raised in the introduction to this paper, that industry restructuring has generated what seems to be a class of losers from change:

It (the Budget cuts to LMP) represented a classic case of his (Mr Howard's) unwillingness to compensate the losers from micro-economic reform ...

Many reform measures—including the cuts in protection to manufacturing and the attack on over-manning in myriad public utilities—involve 'displacing' workers from their jobs ...

... Many of the middle-aged, male workers so displaced experience considerable difficulty finding re-employment (... (A) particular program (New Work Opportunities program) had been put there especially to assist the long-term jobless in country towns where 'real jobs' were thin on the ground. So, the burden of the decision to slash Working Nation fell disproportionately on regional Australia. The direct and indirect victims are threatening to vote for One Nation.53

John Edwards former adviser to Prime Minister Keating and now an economist with HSBC Markets also sees the need for training. This call however is in the event that the growth of the economy produces good jobs which our unemployed are not likely to be able to fill due to their separation from the workforce and their lack of relevant skills:

As a solution to general unemployment, durable economic growth will prove much more powerful. So powerful that if expansion continues, the most urgent policy issue will not be the demand for labour, but its supply. Within a few years the problem will be finding people for jobs, not jobs for people.

Training and retraining are more important than wage cuts because the ability to take a job will soon be more important than the ability to offer it.54

Conclusion

This paper has reviewed some of the statistics concerning the provisions of (Commonwealth) labour market programs and has used these in the context of seeking to assess the effectiveness of the schemes. The econometric studies referred to suggest that the previous set of policies under Working Nation were effective, in the sense of assisting with the reduction of long term unemployment, which was the particular focus of the Job Compact. By contrast, employment assistance under the Coalition has been targeted to get more outcomes for lower outlays, i.e. it has a different focus and purpose.55 By providing services, possibly, at half the cost of the former scheme, the current grouping of employment services is more likely to win public support. It would not be difficult to
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guess that the performance indicators which will be used to judge the new employment services market will include: the unemployment rate, the long term unemployment rate, the overall cost, including cost per placement and numbers assisted. Professor John Freebairn has suggested that a period of 5–10 years may be required to assess the new employment services market. Other indicators such as client service quality differentials are likely to be harder to quantify, or a 'best guess' may substitute for harder data.

Nevertheless and despite these changes, there has been an informed call for some restoration of LMP, under the rubric of restoring the workforce on a knowledge-based, high productivity economy. The call reflects the increase in demand for skill and training and useful previous work experience. A skilled workforce can be developed through vocational, education and training programs which can be of either the private or public sector. LMP for the LTU may provide a basis for additional skills development (from a low base). Vocational training of the sort to lift national productivity and secure an individual’s employability is more likely to provide on-going skill development (compared to LMP). In this scenario, the media/academic call for the restoration of LMP schemes would seem to be misplaced, in the sense that education and training programs are more likely to provide the outcomes which are being sought (unless of course a strong link between LMP and ongoing, higher education and training and be shown). If this is the case, then to borrow from Argy, there is possibly not a lot of difference between the former schemes and the current WFTD scheme. However, where LMP can redistribute chances to unemployed who are likely to be continuously deprived of employment and training opportunity, there will remain a need.

Endnotes

1. ACCIRT Australia at Work: Just Managing? (Prentice Hall, 1999).
5. See for example John Freeland's review of the pros and cons of labour market programs in 'If labour market programs can't create jobs, why have them?' Values, Winter 1996.
7. See for example Alan Stretton and Bruce Chapman, An Analysis of Australian Labour Market Programs, centre for Economic policy Research, ANU, Discussion Paper No 247, 1990, p. 17. Note that in real terms LMP expenditures under the Fraser Government in 1982 were
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11. The Hon. Peter Reith, 'Employment Initiatives Canvassed' *media release*, 17 February 1999. In his letter (3/12/1998) to the Prime Minister attached to this media release, Minister Reith referenced the OECD's downward revision of Australia's structural rate of unemployment from 8.2 per cent in 1990 to 7.5 per cent in 1997. The NAIRU or Non Accelerating Inflation Rate of Unemployment has been understood as the level of unemployment which an economy can sustain without kicking off inflation. In other words the level of the NAIRU is (allegedly) the limit to which unemployment can be reduced. And to reduce the NAIRU, economists advocate micro economic reform measures such as labour market deregulation.


14. ibid. p. 147.


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25. ibid. p. 191.
26. See Budget Paper No.1 1994–95, p. 3. 185.
30. ibid. p. 48.
32. ibid. p. 20
33. ibid. p. 18.
34. ibid. p. 17.
35. ibid. p. 21.
36. ibid. p. 18.
40. 'Work for the dole not working for jobless', The Australian, 10 February 1999.
42. The Hon. Tony Abbott, 'Job Network, the Next Phase', media release, 16 December 1998.
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50. 'Dear John, how to create more jobs', *The Australian*, 26 October 1998.


55. As Dan Finn has observed: '...providers are under intense pressure to prioritise those unemployed people most likely to obtain jobs at least cost' in 'Job Guarantees for the Unemployed: Lessons from Australian Welfare Reform', *Journal of Social Policy*, Cambridge University Press, Vol.28, Pt.1 January 1999, (www.journals.cup.org) p. 65.

56. Professor John Freebairn, address to 'Rebuilding the Safety Net' Conference of the Business Council of Australia (BCA New Directions Conference), 29 April 1999.