



Supplementary evidence for Senate Education and Employment Committee jobactive inquiry.

Australian Council of Social Service, November 2018

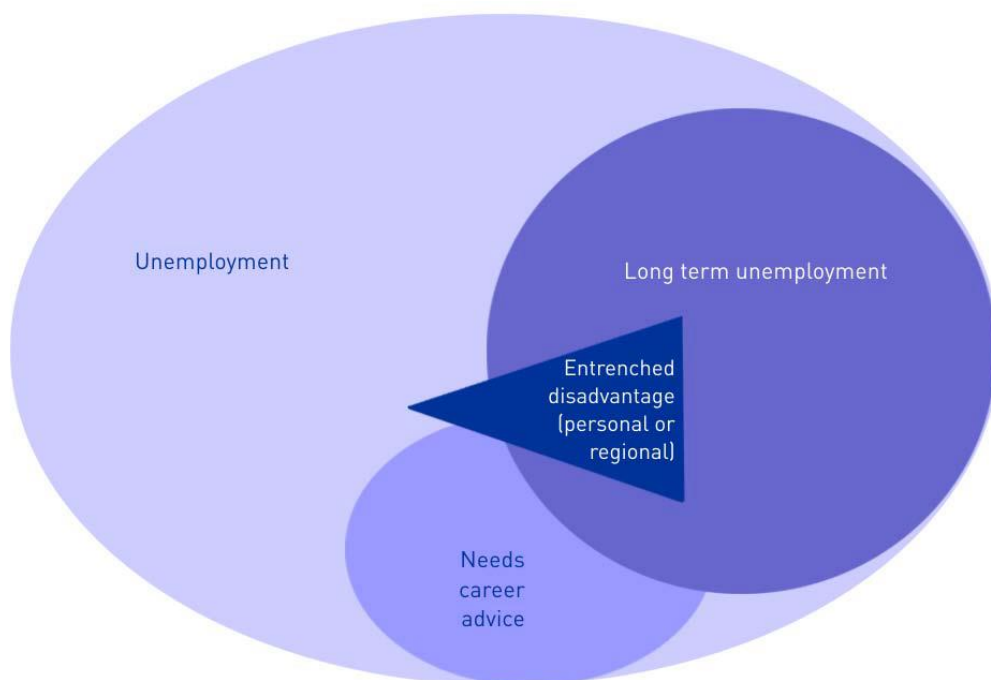
1. A profile of labour market disadvantage

The profile of unemployed people according to relative distance from employment is illustrated schematically in Figure 1.

Approximately half of those receiving unemployment payments through the year (that is, those unemployed at the start of the year plus new entrants throughout the year) have been unemployed for less than 12 months and the other half are unemployed long-term. A small share of those unemployed long-term (plus a smaller share of those unemployed 'short-term') face 'entrenched disadvantage' due to either their individual circumstances and characteristics (for example, a mental illness) and/or the state of the local labour market where they live (for example, unemployment is high in the region and has been for many years, or employers are reluctant to engage people with mental illness).

Many recipients were out of paid work for a long time before becoming unemployed, (including many sole parents), have little or no paid work experience (especially young school leavers), or have worked in the same occupation for many years and need to upskill (including many retrenched low-skilled blue-collar workers). They need a career orientation service coupled with appropriate training, in addition to a standard employment service.

Figure 1: A simplified profile of labour market disadvantage



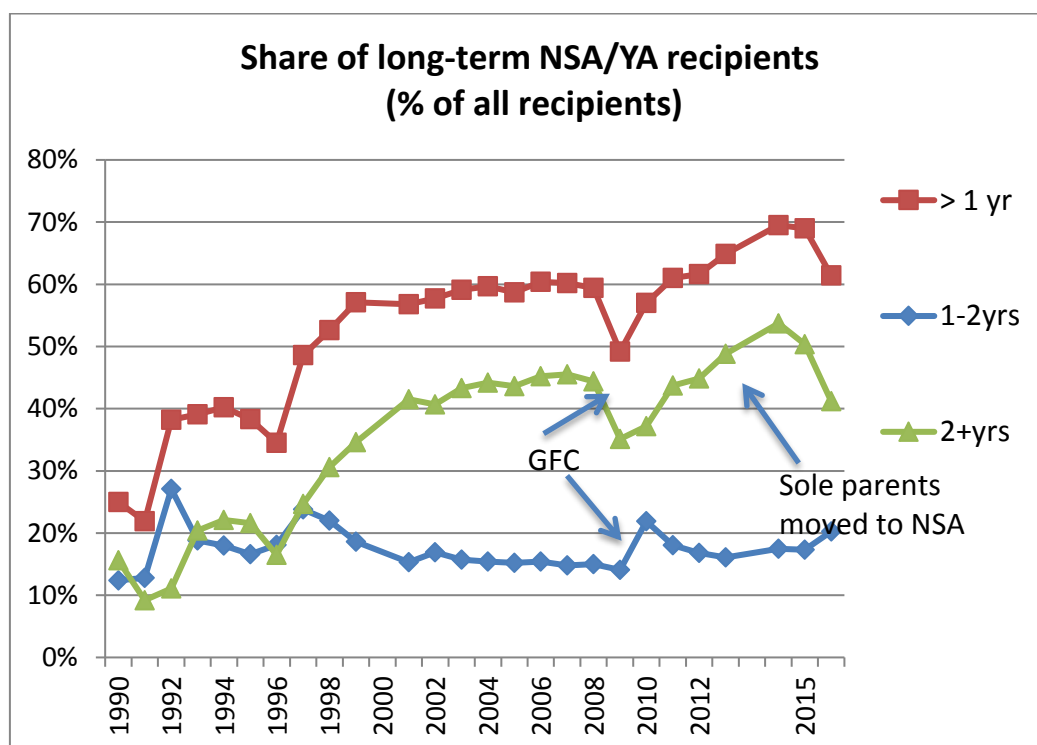
Over time, people move from short to long-term unemployment, and from long-term to entrenched disadvantage, so prevention of these conditions is needed as well as services to assist people with labour market disadvantaged to overcome it. Those with labour market disadvantage need qualitatively different services to those who are likely to move quickly into employment without substantial help.

2. Long-term unemployment

A growing share of unemployed people are unemployed long-term

High rates of long-term unemployment are becoming entrenched. In December 2017, 518,700 people (61% of unemployment payment recipients) received unemployment payments for more than a year, similar to the 62% in 2016 but well above the less than 40% rate in the early 1990s (Figure 2). Of deep concern, in December 2017 44% had received unemployment payments for over two years and 15% for more than five years.

Figure 2: Long term reliance on unemployment payments has become entrenched



Source: Department of Family and Community Services (various years) Statistical profile of social security recipients; social security statistics at www.data.gov.au

Why is long-term unemployment so high?

A major reason for prolonged unemployment (even at times of 'skills shortages') is the mismatch between the skills and capabilities of people who are unemployed and those sought by employers. Many unemployed people have been left behind by structural change in the labour market such as the higher skills required by employers and the long-term shift from manual to service employment. People who are unemployed are twice as likely to have not completed high school than the broader labour force, and the share of jobs that are low-skilled is declining.⁴

People's employment prospects are often limited by where they live. For example, Queensland and South Australia have much higher unemployment (7% and 6.8% respectively) than The ACT or Northern Territory (at 4.1% and 4%).

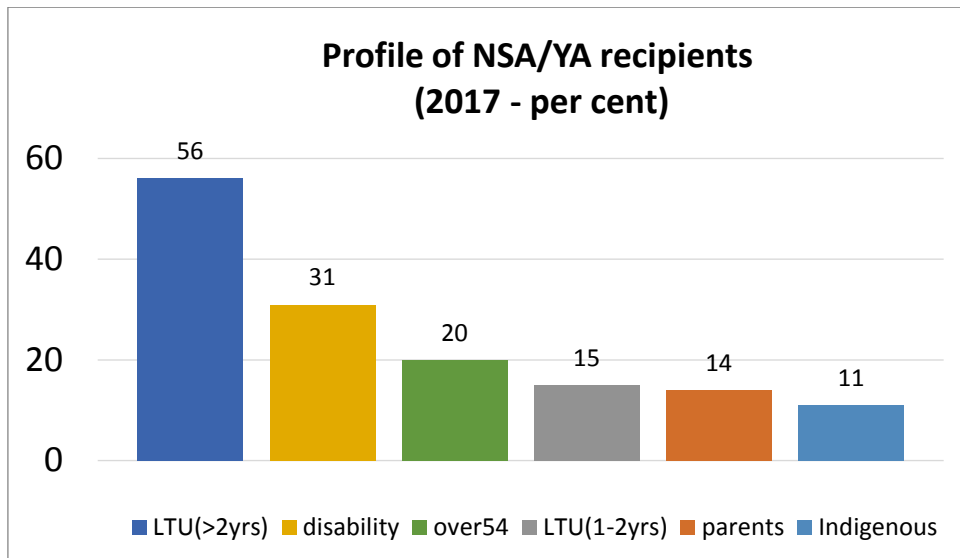
Another reason for high levels of long-term unemployment is that a growing share of those on unemployment payments are people who would previously have received pension payments: people with disabilities and sole parents with school age children. The welfare 'reforms' of the mid 2000s and 2010s were designed to boost their workforce participation, but in many cases they simply shifted people from higher to lower social security payments.

Further, discrimination on the basis of age, racial or cultural background is widespread in the labour market.

For all of these reasons, the profile of recipients of unemployment payments has become more disadvantaged, with 56% of people receiving unemployment payments on those payments for over two years, 31% with disabilities, 20% over 54 years old, 14% sole parents, and 11% with Aboriginal or Torres Strait Islander background (Figure 3)

⁴ For more information on the profile of unemployed people, see ACOSS (2018), *Faces of unemployment*. Among unemployed people in November 2017, 24% had less than Year 12 qualifications, compared with 12% of the overall labour force. ABS (2018), *Labour Force, Australia, Detailed, Quarterly*, 6291.0.55.00. In November 2017, 25.6% of all jobs were in the lowest three skill levels (labourer/sales/machinery operators and drivers), up from 25.2% in 2015 but down from 27.3% a decade ago. 'Low skilled' refers here to positions at skill levels 4 and 5.

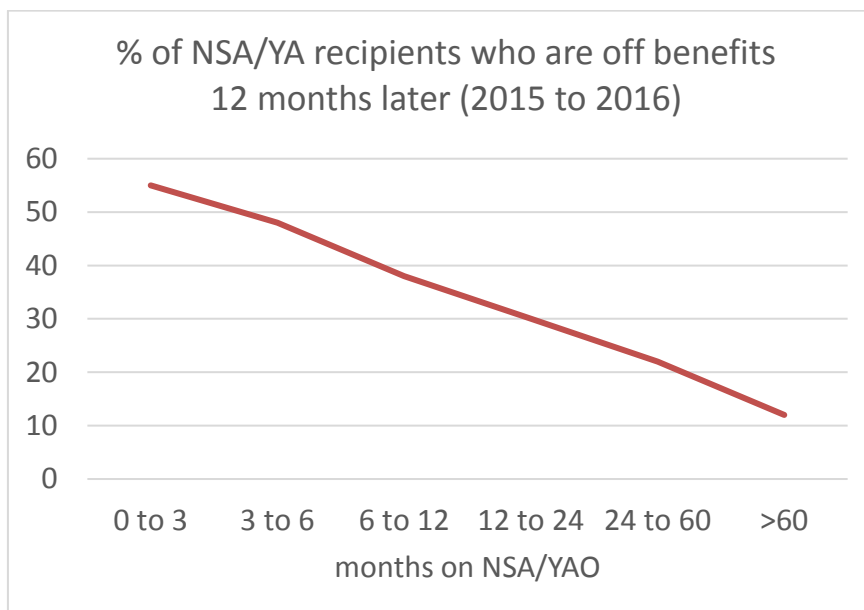
Figure 3: The profile of unemployment payments is more disadvantaged



Source: Department of Family and Community Services (various years) Statistical profile of social security recipients; social security statistics at www.data.gov.au

Long-term unemployment itself reduces people’s employment prospects, as employers worry about large gaps in their resumes and unemployed people lose confidence and skills. Figure 4 shows that on average, the chances that a recipients of unemployment payments will be off benefits 12 months later decline progressively from 55% within the first three months of unemployment to 8% after 5 years’ unemployment.

Figure 4: People’s employment prospects diminish as they are unemployed for longer



Source: McGurk E (2016), Analysis of long-term unemployed income support recipients, Long-Term Unemployed Conference, Brisbane December 2016.

3. What works to help people secure a job?

International research is reasonably clear on what unemployed people, especially those out of paid work for a long time or otherwise disadvantaged in the labour market, need to secure paid work.

The first requirement is strong demand for workers, including people who are not generally regarded as highly-skilled.

Employment services cannot succeed on a large scale without solid growth in jobs, and for the most part they do not 'create' jobs. Nevertheless, they play a vital equity role by bringing to the front of the jobs queue people who would otherwise remain unemployed for a long time. A given level of unemployment is much less socially and economically harmful if people move out of unemployment quickly. They can also reduce unemployment by improving the match between unemployed people and employers, for example by boosting the skills of unemployed people or by connecting employers with people who have the right skills for the job.

The international evaluation evidence on employment programs suggests that:⁵

- While many people will secure employment following simple low-cost interventions such as assisted job search, this is not sufficient in most cases to end prolonged unemployment;
- Reasonable and relevant activity requirements combined with positive supports help keep people engaged with the labour market, and link them with other services they need to improve their employment prospects;
- Activity requirements (such as work-for-benefit schemes) that are mainly designed to deter benefit claims or push people to leave benefits sooner (whether or not they obtain paid work) may have the desired effect, but at the expense of impoverishing people with no private means of support and eroding trust in employment services.

⁵ Hasluck C & Green A (2007), *What works for whom? Review of evidence and meta-analysis*, Department for Work and Pensions Research Report No 407; Grubb D & Martin J (2001), *What works and for whom: A review of OECD countries' experiences with active labour market policies*. Swedish Economic Policy Review, No 8 (2001) pp9-56; Card D, Kluve, J, & Webber, A (2015), *What works? A meta-analysis of recent active labour market program evaluations*, NBER Working Paper 21431, Cambridge MA. Markusson S & Roed K (2014), *Leaving Poverty Behind? The Effects of Generous Income Support Paired with Activation*, IZA Discussion Paper No. 8245, Bonn; Johri M et al (2004), *Evidence to date on the working and effectiveness of ALMPs in New Zealand*, Ministry for Social Development, Wellington.

Participation in these programs is usually of limited help in overcoming barriers to employment due to the low quality of the work experience on offer.

- People who are unemployed long-term or otherwise disadvantaged in the labour market are likely to need a diversity of supports, from wage subsidies and 'demand-led' approaches (assisting employers to meet their recruitment needs) to vocational training, basic education (especially literacy), practical assistance with the costs of job search and training, and in some cases employment assistance combined with intensive personal support services;
- Where people face labour market disadvantage, the role of the 'case manager' or employment consultant in career counselling, job search assistance, confidence-building, and assessment of the need for more substantial assistance than regular interviews is critical;
- Successful employment services work closely with employers and are conscious of their recruitment needs.

The effectiveness of the main kinds of employment assistance generally offered to people who are unemployed is compared in Table 1 below, which is based on a meta-analysis of major international quantitative evaluations of labour market programs.

These evaluations typically use regression analysis or randomised trials to estimate the 'net impact' (increase in the probability of employment over a period of time arising from the program) of employment programs.

Table 1: Average impacts of different programs internationally on the employment prospects of unemployed people

Program:	Description:	Average employment impacts (%): ¹
Wage subsidies in private sector	6-12 months' partly-subsidised employment in regular jobs	High (21.2%) Stronger in long term, but there is a degree of selection bias ('cream-skimming')
Vocational training	6-24 months' training in college or work setting	Medium (9.7%) Weaker in short term Stronger in long term Wide variation in impacts

Sanctions and the 'threat' of referral to programs such as work-for-benefits schemes	Referral to programs to test compliance; sanctions for non-compliance	Medium (13.7%) Stronger in short-term Weaker in long term
Compulsory, assisted job search	Monitored job search and job search training; often an entry point to other programs	Low (3.8%) Stronger in short term Weaker in long term
Public sector wage subsidies	6-24 months' fully subsidised employment in 'additional' jobs	Low to negative (-0.2%) Weaker in short term Stronger in long term

Sources: Card D, Kluve, J, Webber, A (2015), 'What works? A meta-analysis of recent active labour market program evaluations', NBER Working Paper 21431, Cambridge MA., tables 3a and 8.

Department of Employment (2015), 'Work for the Dole evaluation.'

1. Estimated average increase in the probability of employment after program commencement, divided by the standard deviation of the employment rate of the comparison group. 'Short term' = < 1 year; 'Medium term' = 1-2 years; 'Long term' = >2 years.

4. Work experience programs

Programs which offer work experience to people unemployed long-term have mixed results, depending largely on the quality of the work experience and its proximity to regular paid employment. These programs come in four broad types:

1. Wage subsidies for temporary employment in a regular job (typically for 3 to 12 months), sometimes linked to related vocational training (traineeship models).
2. Work for benefit schemes, where people are required to work for their income support payment, typically for a community organisation, in low-skilled activities.
3. Voluntary work with a community organisation.
4. Internships, where people work without pay in a regular job in the hope that the employer will take them on permanently, or to gain work experience and skills.⁶

Wage subsidy schemes

As indicated, wage subsidies are very effective if well targeted and managed. A recent evaluation of wage subsidies in Australia found that they increased the probability of

⁶ Traditionally, internships were part of a professional training course, where a candidate for a degree or diploma must undergo an unpaid placement in their field of work.

(unsubsidised) employment one year after commencement of the subsidy by an average of 14 percentage points.⁷

Wage subsidies give employers an opportunity to 'trial' an unemployed person they would not otherwise consider (for example, due to prolonged unemployment) before committing to employ them permanently. They compensate employers for the (apparent or real) lower productivity and greater on the job support needs of unemployed people targeted by the schemes. Participants also gain work experience in a regular job setting where they are treated (and paid) as employees.

The main challenge for wage subsidy schemes is recruitment of employers prepared to trial people with labour market disadvantage. Wage subsidies (of less than 100% of the wage) work best for unemployed people who face labour market disadvantage, but not of a deep or entrenched kind. For example, many people unemployed long-term are able to work productively with minimal support and training. Once they are employed with a wage subsidy, employers are likely to keep them on. This gives rise to a common problem with the targeting of wage subsidies: a tendency to 'cream skim' the 'best' applicants. This problem can be avoided by targeting wage subsidies strictly to people who are already unemployed long-term, or to groups in the population that are highly likely to face labour market disadvantage or discrimination such as Aboriginal and Torres Strait Islander people. Wage subsidies that are too loosely targeted (for example based on age alone) typically have high 'deadweight costs', where the person would have been employed without the subsidy.

Another challenge for wage subsidy schemes is their abuse by a minority of employers as a source of cheap temporary labour, without keeping people on when the subsidy expires. While there are many other reasons that wage subsidies fail, careful monitoring and management of placements to ensure that employers do not repeatedly terminate employment when subsidies expire, and to prevent displacement and substitution of existing employees, is essential.

Combinations of paid work experience and training for people needing to upgrade their skills are effective as a pathway to ongoing employment for apprentices and trainees, and shorter placements and training courses can also work for people unemployed long-term, as evidenced by the former *Jobskills* program.⁸ In our view and that of employer organisations, a major weakness of the Youth Jobs Path scheme is that its employability skills training

⁷ Department of Education Employment and Workplace Relations (2012), *Employment Pathway Fund Wage Subsidies Evaluation Paper*; di Pietrantonio, Pancaldi, F & Kalocinska M (2014), *Stimulating job demand: the design of effective hiring subsidies in Europe*, European Employment Policy Observatory Review, Brussels.

⁸ Stromback T & Dockery M (2000), *Labour market programs, unemployment and employment hazards*; ABS *Occasional Papers* No. 6293.0.00.002, Canberra; Department of Employment Education Training & Youth Affairs (1996), *The net impact of labour market programs*, Canberra.

component is usually divorced from the work experience component. Employability skills are best taught in a regular work setting.

Work for Benefit schemes

Work for benefit schemes are typically designed for benefit compliance purposes. The motive for these programs is mainly to encourage people to either avoid applying for benefits (if required to join these programs when they make a claim) or to leave benefits once they are already unemployed long-term. A good example is the 'Fulltime Work for the Dole' scheme introduced in 2006 that was explicitly designed as a punishment for people referred to by Government as 'job avoiders'.⁹ The 'punishment' was a requirement to work for benefits for 25 hours a week (rather than the standard 15 hour a week placement) for most of the year (rather than the standard six months).

Work for benefits schemes typically provide a disincentive to stay on benefits rather than work experience or training that improves employability. Evaluations here and overseas indicate that they have significant 'threat effects' – that is, some people leave benefits before their placement is due to commence. However, they have limited or no 'program effects' – the impact on employability from participating in the program. As a result, many people leave benefits but return later so that the long-term impacts of the program are negligible.¹⁰

A recent evaluation of Work for the Dole found that the average net impact of the program on the probability of employment in six months' time was just two percentage points.¹¹

Further, many work for benefit placements have 'attachment effects' – where people reduce their efforts to find paid employment while in the program. Some Work for the Dole placements are attractive for people who lack work experience and are socially isolated. In these cases, participants may report that they benefit from social engagement, supervision, and work routines. However, if the placement delays effective job search without imparting new skills or stronger networks with employers who have jobs available, it is unlikely to lead to paid employment.

⁹ Australian Government (2005), *Welfare to Work*; Department of Education, Employment and Workplace Relations (2009), *Welfare to Work evaluation*. Interestingly, Job Network providers (who assessed people for referral to this program) rarely made referrals, judging that full-time Work for the Dole was less effective than engaging people who were long-term unemployed through the mainstream Job Network services. It is also notable that in recent years, the government has in effect reintroduced this scheme (without reference to 'job avoiders'), so that a majority of Work for the Dole participants are required to work 25 hours a week. In this case, payments are well below the hourly minimum wage.

¹⁰ Department for Work and Pensions (2012), *'Early Impacts of Mandatory Work Activity,'* Leeds; Department for Work and pensions (2013), *'Support for the very long-term unemployed trailblazer - longer term analysis of benefit impacts,'* Leeds

¹¹ Department of Employment (2016), *Work for the Dole 2014-15 Pilot Evaluation*.

There is a tension at the heart of work for benefit schemes: the closer the placement comes to regular paid employment the harder it is to justify the lack of payment and the greater the risk that existing employees will be displaced. Thus, most placements are in 'make work' schemes that are separate from, and additional to, regular employment. These are often low-productivity repetitive jobs (such as clothes sorting or weed clearing) that are unlikely to lead to regular paid employment.

Voluntary work

Voluntary work has mixed effects on future paid employment. Where an unemployed person undertakes it with a view to securing paid work in the same or similar organisation it can improve their job prospects. In other cases, where the unemployed person and their provider assess that their prospects of paid employment are poor, it may operate as a defacto early retirement scheme. Voluntary work also has social benefits, both for the participant and the organisation for whom they volunteer, but it is important to clearly distinguish between these benefits and the goal of assisting a person to secure paid employment. Further, these social benefits will only be realised if participation is genuinely voluntary.

Internships

Unpaid work experience or internships are typically offered as an alternative path to regular employment to a wage subsidy, where (unlike wage subsidies) the participant is not formally employed or paid a regular wage. Their objective is similar to wage subsidies (to de-risk employment of an unemployed person by giving the employer an opportunity to trial them on the job).

Since they are unpaid, these placements are typically shorter than wage subsidies: for example up to four weeks in the case of the long-standing but under-subscribed work experience scheme, and up to 12 weeks in the case of Youth Jobs Path internships.

Two arguments are given by proponents of internships for unemployed people. First, they are less costly than wage subsidies. Second, employer organisations argue that employers are often reluctant to offer paid work trials, as this commits them to a formal employment relationship and they believe (rightly or wrongly) that it may be difficult to terminate employment if the placement does not work out.

Unpaid work trials and internships for unemployed people involve a trade-off between the risk of exploitation (and related work health and safety concerns) and the possibility that people will secure paid employment with the employer at the end of the placement. The longer the unpaid placement, the greater the risk that the program will be overwhelmingly exploitative.

ACOSS does not support the Youth Jobs Path internships. Our detailed assessment of these internships is provided in a separate ACOSS publication (attached).¹² The Youth Jobs Path scheme also has a wage subsidy component.

5. Case management and contracted employment services

It is widely believed that effective case management greatly improves the cost-effectiveness of employment assistance for people disadvantaged in the labour market.¹³ A positive, enduring relationship with a case manager or consultant improves understanding of individual needs and aspirations, assists with job search, and is an effective triage system for referrals to more substantial (and expensive) assistance such as training or work experience.

Government and non-government providers

This case management or triage function is located in different settings in different countries. In many countries, the public employment services performs this role, but there is an increasing tendency to contract it out to non-government organisations (or local government) once people are employed long-term. Australia is unique, having privatised all functions of the public employment service for all unemployed people.

Australian experience suggests that a public organisation such as Centrelink is well placed to offer employment assistance to people who are unemployed for a short time and not disadvantaged in the labour market. A public bureaucracy is able to offer basic job search assistance and help with related expenses, both cost-effectively and at scale. This is likely to be more convenient for unemployed people, removing the need to engage with two separate organisations to receive benefits and employment assistance, which is the cause of many 'no shows' at employment service provider appointments early in the unemployment spell.

However, there is a case for contracting out case management, together with the provision of more substantial assistance such as wage subsidies and training, for people unemployed long-term or otherwise disadvantaged in the labour market to not-for-profit organisations, especially those with strong connections to a local community or a population with special needs (such as homeless people or people with disabilities). If they are given sufficient scope to innovate and invest in people unemployed long-term, these organisations are more likely to offer a service that is tailored to individual and local community needs.

¹² ACOSS (2016), *Policy briefing – The Youth Jobs Path program*.

¹³ Hasluck C & Green A (2007), *op cit*; Grubb D & Martin J (2001), *op cit*.

Contracted services can then specialise in assisting people with labour market disadvantage into employment, including through the recruitment of employers willing to take them on and forging partnerships with local community services that can assist people in other ways.

Performance-based contracting

There is an increasing tendency for governments to promote competition among private (for and not-for-profit) providers to achieve specified outcomes (including employment outcomes) for users of human services.¹⁴ This 'New Public Management' idea is strongly promoted by the Productivity Commission.¹⁵

Competitive, outcomes-based models of contracting for employment services (as distinct from traditional 'grants' programs) have a mixed record in Australia and overseas. They are cost-efficient in the sense that they drive providers to achieve specified outcomes at the lowest possible cost. They are flexible in the sense that assistance is readily targeted towards those who need it and ineffective providers must make way for more effective ones.

However, the evidence indicates that these funding regimes discourage, rather than promote, innovation and patient investment in people who are further from paid employment.¹⁶ Where employment services are funded mainly to outcomes, providers tend to focus on low-cost job search assistance and motivational strategies and to avoid investment in more costly assistance such as training and paid work experience that often yields better results over the longer term. Overly competitive funding models also discourage collaboration and the formation of local partnerships that are often critical to assist people with complex needs. They are also a source of instability in employment services, as shown by the impact of large tenders on turnover among consultants.

Performance-based contracting also has unintended consequences, due to the inability of governments to accurately identify in advance those unemployed people least likely to secure employment without help, and the scale of the help they require. This has led to under-investment in people who are relatively disadvantaged, and attempts by providers to 'game' the system of performance management. This has led, in turn, to tighter regulation by government over the services provided and stringent administrative reporting requirements. While this is often necessary to respond to these unintended effects of performance-based contracting, they undermine its main purpose: to give discretion to

¹⁴ Considine M & O'Sullivan S (2014), *Markets and the New Welfare – Buying and Selling the Poor*, Social Policy and Administration, Vol. 48, No 2, April 2014, pp. 119–126.

¹⁵ Productivity Commission (2017), *Introducing Competition and Informed User Choice into Human Services: Reforms to Human Services*, Canberra.

¹⁶ Bredgaard T & Larsen F (2008), *Quasi-Markets in Employment Policy: Do They Deliver on Promises?* Social Policy & Society Vol 7 No 3, pp 341–352; Department of Employment and Workplace Relations (2000), *Job Network Evaluation Stage One*, Canberra.

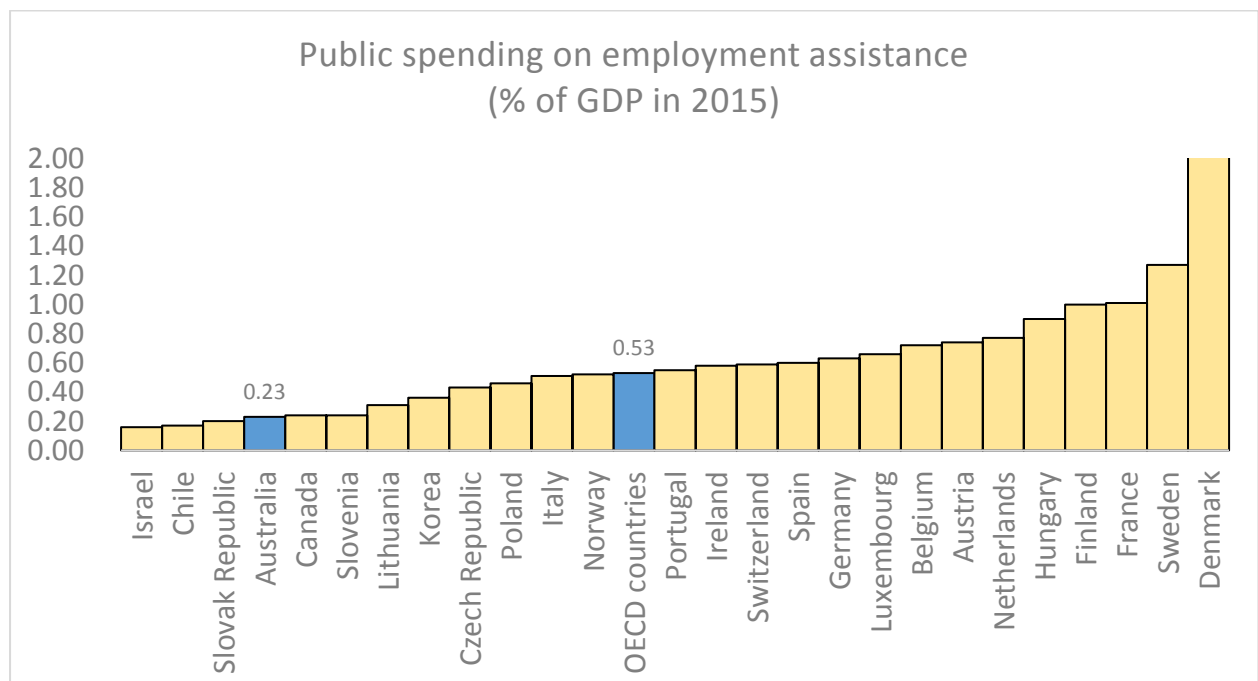
providers on the ground to decide how best to assist each individual while holding them accountable for results.

Experience with contracted employment services in Australia suggests that the best purchasing model is a hybrid that combines outcomes-based funding and payments for service inputs (including up-front funding of establishment costs, and subsidisation of more costly employment assistance through an Employment Fund). While incentives to achieve employment outcomes often improve (at least short-term) results, excessive competition among providers and over-reliance on outcomes-based funding have a number of adverse effects. Those effects include destabilisation of employment services (increasing turnover of providers and consultants, especially in large competitive tenders), discouragement of local collaboration, reduced provider diversity (by making it difficult for smaller local providers to set up and survive), and discouragement of personalisation of services (since providers are more likely to economise on service provision and operate with large caseloads to minimise financial risk).

6. Expenditure on employment services

In 2015, overall spending on employment services and programs for unemployed people in Australia was less than half the OECD average level, and the eighth-lowest of 30 OECD countries (Figure 5).

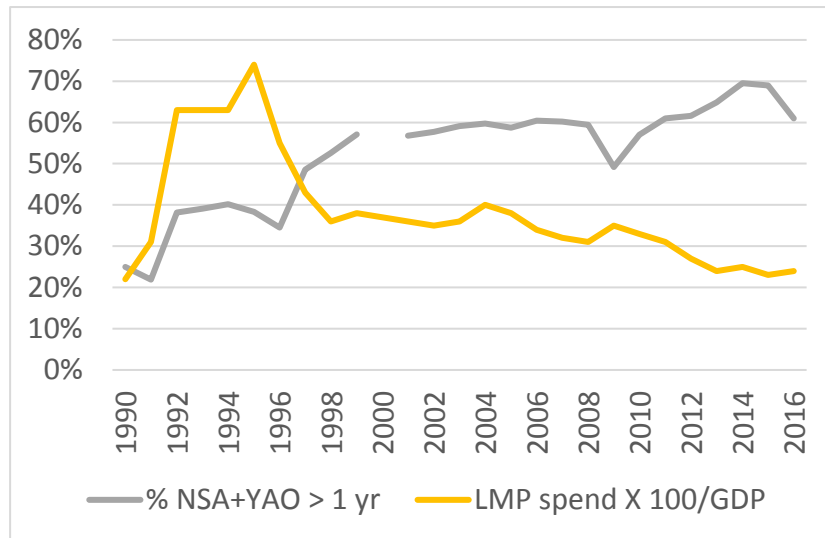
Figure 5: Australian government spending on employment assistance is well under half the OECD average



Source: OECD Social expenditure data base.

Spending levels declined with the abandonment of the 'Working Nation' policies in 1996 and declining unemployment, but have failed to take account of the rising share of people unemployed long-term in the wake of the recession of 1991 and the GFC in 2008 (Figure 6).

Figure 6: Long-term share of unemployment and LMP spending



Source: Department of Social Services and OECD

Note: LMP spending X 100/GDP = spending on labour market programs for unemployed people (multiplied by 100 for comparative purposes) as a % of GDP

NSA+YAO > 1yr = long term recipients of unemployment payments.