

Speech to ACOSS Conference 2<sup>nd</sup> April 2009

## **Implications of Economic Crisis for Employment Services**

To understand the capacity of employment services to adapt to the current economic downturn, we need to look at the assumptions and ideologies that underpin it.

While the system will change from 1<sup>st</sup> July this year when the **Job Services Australia** program takes effect, many of the foundations that were laid by the previous Government will remain.

In 1997 the then new conservative Government privatised the delivery of employment services. It abolished the Commonwealth Employment Service and created a new Job Network program. It contracted delivery to both private and non profit providers.

When it created Job Network, it stripped approximately \$1 billion per annum in funding from the employment services system – something more possible when unemployment was on the wane.

Since then, the Job Network has operated in an environment of near continuous employment growth.

Over eleven years a buoyant labour market enabled the Government to sheet home much of the blame for unemployment to welfare recipients themselves.

In 2000, the Government commissioned to assist in program design and delivery which segmented unemployed people by their attitudes and motivation to work <sup>1</sup>.

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<sup>1</sup> Job Seeker Attitudinal Segmentation – An Australian Model at <http://www.workplace.gov.au/workplace/Publications/ProgrammeEvaluation/JobSeekerAttitudinalSegmentation-AnAustralianModel.htm>

Key segments included discouraged job seekers, the “cruisers” who were quite comfortable being unemployed and “selectives” who had unrealistic expectations of work. Then Minister Abbott summed up the prevailing philosophy on in his characterisation of unemployed people as ‘job snobs’. Anyone who couldn’t get a job in these strong times was simply not trying hard enough.

But even in times of strong growth, there has been enormous variability in job prospects for individuals depending on a range of factors including where they live, their educational status, health, age and Indigenous status. Overall strong employment growth has masked underlying unevenness in distribution of opportunities to work. It has made it possible for Government to blame unemployed people for their position.

The focus on job seeker attitude as a key cause of unemployment has been reflected in the structure of our labour market programs. Unemployed people must conduct mandatory weekly job searches. There are periods of mandatory intensive activity – where job seekers must attend a provider’s site full or part time. This is backed by a harsh penalty regime for cases of non compliance.

Work for the Dole is the most important of these mandatory activities. Work for the Dole has meant that anyone who has been unemployed for six months must participate in approximately 15 hours of activity per week for six months in every year<sup>2</sup>. Work for the Dole has elements which are relevant to employment and employability. But the exit to employment or training by a participant has actually impacted negatively on provider Key Performance Indicators. While individual Work for the Dole projects have delivered benefits for communities and for many job seekers, it is important to understand that for Government, its primary purpose was to address attitude by forcing beneficiaries to work in return for their benefits.

Most people receive very light touch assistance in the Job Network in the form of job search training, assistance with resumes and application letters. Case management services are available to people who have been unemployed for over 12 months, or who have otherwise been assessed as highly disadvantaged. But even where case management is available, the

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<sup>2</sup> Participation requirements vary depending on age and capacity to work.

most common forms of assistance are short term training, including motivational training, and incentives to employers to take on unemployed people.

Financial incentives and KPIs have meant that providers move participants as quickly as possible into work. So to, has the volume driven nature of the services. In the process of juggling limited internal staff resources, it rarely pays dividends to invest heavily in those for whom an employment outcome is a long way off.

At a macro level the Job Network has been highly effective at moving people into work, provided that they had the basic skills needed for the job and were relatively work ready. Close targeting of limited resources both at Government and provider level has allowed the Government to boast that each outcome has cost as little as one third of those achieved under previous systems.

Given this “quick fix” model of assistance, it is unsurprising that after eleven years of Job Network, there remain a significant group of people who have been in assistance for many years without achieving employment. Admittedly, in the last couple of years, we have started to make inroads into getting employment for this group – this reflects the fact in many locations the more employable have been taken into the workforce. We ‘ran out’ of the other clients.

### **Employment services reform – the current agenda**

The Labor Government’s new Job Services Australia program will take over from the current programs on 1 July 2009.

In establishing this program the new Government identified, and sought to overcome, two key failures of the current system.

First, its failure to adequately address the needs of the very long term unemployed, including those with mental health issues, the homeless and Indigenous people. Second, its failure to address the gap between the skills demanded by employers and the skills held by job seekers.

Key features of the new system include:

- Integration of programs so that Work for the Dole is no longer a standalone program and services for very highly disadvantaged people (JPET and PSP) are integrated into the mainstream employment program;
- Reallocation of resources to very highly disadvantaged job seekers; and
- Key Performance Indicators that emphasis longer term job outcomes and skills acquisition when it leads to a job.

The Government has also implemented changes to the compliance regime so that it is less punitive and better protects vulnerable people.

While there have been changes, some of the basic ideological underpinnings are still in place:

Firstly While services are more flexible than they have been, the **basic model of rationing assistance according to bureaucratically assessed need** remains. Job seeker disadvantage will be assessed by Centrelink and job seekers will be assigned to different service ‘streams’ that have different level of resources attached.

I should say here that I don’t have a problem with rationing resources per se. What I find troubling is the way that the system shunts people into boxes based on their characteristics. People’s lives are always more complex than the list of their so called barriers. My guess is that we could improve the targeting of resources if we gave people more opportunity to participate in decisions about their services.

Secondly **no more funding has been allocated to the system**, in fact savings have been achieved by combining programs. The Government appears to have bought the ‘cost per outcome’ line which means that pressure on providers to ration scarce resources across their caseloads and to focus on throughput will only increase.

Thirdly, Work for the Dole. The Government balked at getting rid of Work for the Dole. They have removed the current disincentives to employment, but the basic idea of requiring 15 hours per week activity – even if it doesn’t directly improve work prospects – remains. While other options are available to job seekers, the Government has made it clear that Work for the Dole will remain the primary destination for most.

It appears that JSA, like Job Network, will still run as a low cost service which will ration assistance and rely heavily on job seeker compliance to manage a high volume of people through the system.

In a buoyant labour market, this minimal change approach could have been expected to deliver results **at least on par** with what would have been achieved by Job Network. In a recession, I think more radical action may be required.

### **Labour market assistance in poor market conditions**

Once people fall out of work it is much harder to get them back in. Employers compete for workers with recent work experience discounting the long term unemployed as irrelevant to their needs<sup>3</sup>. While people with poor levels of education are more likely to be permanently displaced, even those with vocational qualifications find it hard to compete with people with recent work experience.

Analysis of the impact of the 1997 and 2001 downturns showed that a half to a third of workers made redundant either were unemployed for at least six months or left the workforce altogether.<sup>4</sup> This should sound alarm bells in what is likely to be a much more significant and prolonged downturn.

The exit of significant numbers of people from the workforce has serious long term consequences for our prospects of economic recovery. On both efficiency and equity grounds, we need to act to retain as many people as possible in work. If we don't stop people permanently exiting the workforce we will have a skills shortage that is deeper than before. The high cost of housing in places like Sydney and Perth will mean workers who are made redundant may be forced to leave – again, exacerbating the skills and labour shortage problem. Those permanently displaced, and their children, are likely to become the next generation of the socially excluded as the social, health, and economic effects of unemployment take their toll.

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<sup>3</sup> Chapman & Kapuscinski, "Avoiding recessions and Australian Long Term Unemployment", Discussion Paper 418, Centre for Economic Policy Research, ANU, July 2000

<sup>4</sup> Peetz cited in Wren p20

The Government has made some important and welcome moves to stimulate the economy and try to retain more people in work. These include significant infrastructure spending, with preference to contracting companies that undertake to recruit and maintain apprentices as well incentives to maintain existing apprentices.

Another area for government consideration could be the promotion of part-time work. If our goal is to maximise labour market attachment, then more people can be given this opportunity through part time work or job share. To achieve this, government would need to look at the impact of high effective marginal tax rates for Newstart recipients. It would need to rethink the weight of full-time versus part time work in incentives for employment providers.

Where it is not possible to keep people in work, we need an employment services system that maximises capacity to take opportunities that are there, and that ensures that people are ready to take advantage of new opportunities in a recovery.

The Government has announced that all retrenched workers will have immediate access to Stream 2 services in the new program. Normally, most of these job seekers would have gone straight to Stream 1 – where significantly less assistance would have been available. But at a maximum of \$885 in service fees for 12 months, Stream 2 is clearly insufficient to deliver a quality case management service.

This is not the first time a Government has fast tracked access to increased services. Mitsubishi workers received immediate access to case management services in the Job Network (the equivalent of new stream 3).

While there is some evidence that this service improved re-employment prospects for this group, a major study of the experience of these workers also highlighted some concerns about their relevance. There were complaints that Job Network staff were ill equipped to deal with people who had skills and were looking for skilled work.

Similarly, our own recent focus groups with newly retrenched workers highlighted a real concern at the lack of advice available through Job Network about skilled work and about opportunities to re-skill for other careers.

Many participants were worried about the prospect of being forced into work for the dole. They saw it as demeaning and providing little prospect of improving their chances of getting a job. These participants are highly motivated but bewildered and somewhat dismayed at the system that they have found themselves caught up in.

The Federal Government has rightly identified this as a time when we should attempt to re-skill and up skill our workforce. Fewer than 15% of jobs in the Australian economy do not require qualifications, but 50% of the people in the workforce have no qualifications. The size of the skills gap means that, both in the short and long term, the development of vocational skills will be critical to maximising employment participation.

Employment services providers should be significant players in brokering opportunities to gain new skills. But the comments from our focus groups and the Mitsubishi workers highlight the inadequacy of current assistance to help job seekers make informed choices. To some extent this is a function of the focus in our services on the low skilled and hardest to place. It also reflects a funding model which is based on delivery of low cost/high volume services.

It is not just the structure of the employment services program that is at issue here. The bureaucratic delivery systems underpinning employment and training are very different and hopelessly siloed. On the employment side, contractual requirements to move people quickly conflict with the lead times of many training providers. Performance measurement systems and funding structures make it difficult to engage with employers or industry on any long term strategic basis.

On the training side the information available to Government or anyone else about emerging skills needs is extremely poor. A recent study of the Skills Councils conducted by the Nous Group highlighted the fact that information provided by these key players in the allocation of training dollars was patchy at the very best. The Productivity Places Program, which is a key strategy being employed by the Federal Government to address the skills gap, is being delivered based on inadequate advice and ad hoc delivery systems.

The devolution of PPP administration to State Governments, where it will be further removed from employment services provision, presents even greater risks to the integration of these functions.

There is strong evidence that, in order to be effective, training needs to be combined with job search/work focussed activities<sup>5</sup>. While skills development requires training, what employers really want is evidence of practical application of skills on the job. Qualifications alone, in the absence of proven on the job experience, will not equip job seekers to take up labour market opportunities. The lack of connection between employment services provision and training provision is a fundamental flaw in our support for unemployed people. This disconnect is most challenging for those whose experience of formal education has been poor and for whom learning is likely to be most effective if it is in the context of real work.

I have talked about the challenges in providing quality services for newly displaced workers. An even tougher challenge is for those people who have already been in the system for many years, and for young people looking for work for the first time. These people will be competing with others with higher skills and recent work experience. Employers will be looking for employees who need minimal support. Convincing them to give people who might be tougher to manage will be harder than it has ever been.

In the new Job Services Australia program the most highly disadvantaged will be accessing the same service providers as the most employable. Historically it is these short term unemployed people who argue most loudly for support. There is a real risk that the harder to place will lose out in the competition for limited staff time and resources.

I mentioned before the dismay that redundant workers in our focus groups expressed at the thought of being pushed into work for the dole. Many very long term unemployed people will move immediately into work for the dole on 1 July. Anyone not placed in work in the first year of assistance will almost certainly wind up in this stream.

Many participants enjoy work for the dole and would rather be doing something than nothing. But the most common complaint from participants is that it is not like work. And it isn't.

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<sup>5</sup> Refer, for example, Manpower Research Development Centre research eg. <http://www.mdrc.org/publications/158/policybrief.html>



Participation in 'real work' is earned, not required. Real work involves tangible outcomes with customers or end users. Real work means that there are consequences for all involved if outcomes aren't delivered. Receipt of a wage is a marker that what is being done is valued by the employer and by the community. Recent, proven capacity to perform in a real work setting is what will secure a future place in work. A mere qualification, or participation in a program that is required by law, is not enough. When you are in real work, you are not a case to be managed, you are a member of a team.

The Labor Government has just dismantled one of the most positive paid work experience programs that I have been involved with – the Green Corps program. Through that program 1700 young people each year, mostly early school leavers, experienced work in a team, with real job outcomes, with supervisors that helped them learn and achieve but didn't treat them as clients who needed to be fixed. Over ten years the program also delivered substantial and proven benefits to the environment. Green Corps remains in name only in Job Services Australia, as its fundamental features – its voluntary nature and its payment of an allowance - have gone.

My hope is that the new Communities Fund will enable us to create new initiatives that provide paid work opportunities for the most vulnerable in our community so that they are equipped to compete for new jobs.

### **Conclusion**

If there is a silver lining in the current economic crisis, it may be that those newly retrenched bring a new focus to those aspects of employment services that are demeaning, demoralising and strip people of their right to make decisions.

I hope that this Government, now that it has its new employment services system, finally addresses the disconnect between training and employment services. A disconnect that wastes so much time and money.

Finally, I hope that new opportunities will be created for those who cannot immediately access work in the mainstream economy to make a meaningful contribution through projects in which they are given training and the dignity of a wage.