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**False promise or false premise? Evaluating the Job Network**

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“What motivates people and leads them to high endeavor is not fear but hope.”

Arthur Altmeyer (1968)

## **1. Introduction**

Franklin D. Roosevelt called Arthur Altmeyer ‘Mr. Social Security’ in recognition of his pivotal role in creating the US welfare state. Altmeyer finished his doctorate under John R. Commons and thus held the ‘Wisconsin World View’, “a liberal social policy tradition, emphasizing a positive and vigorous role for government” (DeWitt, 2002: Chapter 1). Upon his death in 1972, the New York Times said “His death last week ended a life that brightened existence for millions who never heard his name.” In this paper we argue that modern day proponents of ‘social security’ in Australia will not be judged nearly as generously as was Altmeyer.

We demonstrate this point by evaluating the performance of the Job Network, which we argue is a refinement of the trend towards mean-spirited government that has seen the abandonment of a commitment to full employment and the retrenchment of a comprehensive welfare state.

We begin by asking on what basis we should evaluate the performance of the Job Network? It would be easy to conclude that it has wholly failed to provide a non-inflationary solution to unemployment and a path back to full employment. However, the goal of full employment is alien to the Job Network agenda and to a society content to pursue the diminished goal of full employability. The government no longer ensures that employment growth matches labour force growth but focuses, instead, on getting individuals ‘work ready’, should there be jobs available (Mitchell, 2001a).

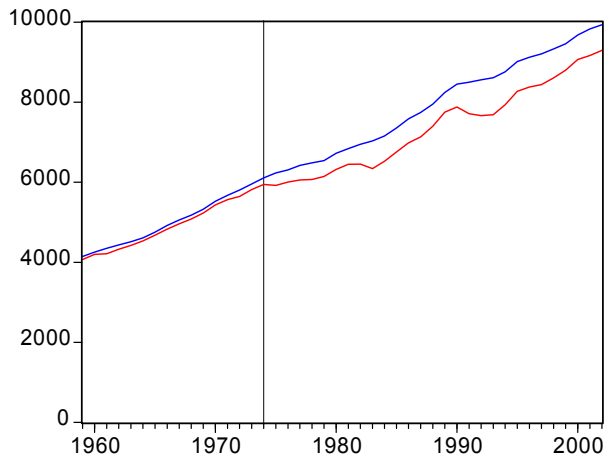
While we are critical of government for abandoning the goal of full employment, we recognise that the Job Network should also be evaluated on its own terms. We thus consider the extent to which the Network has ensured the ‘full employability’ of the unemployed individuals it is funded to assist. Its performance against this reduced objective is less clear-cut. However, in the end, we conclude that whether the Job Network is evaluated against macro or micro criteria, it has failed to deliver a reasonable return on investment.

Section 2 argues that supply side measures are ineffective if the economy does not produce enough jobs. Section 3 traces the movement in policy making from a commitment to full employment to the present state. Section 4 refocuses the discussion on microeconomic issues and examines the evolution of the Job Network. In Section 5, we question its ‘market’ credentials and outline the ways in which market failure has prevented it from working as planned. We argue that inherent design faults have produced sub-optimal outcomes quite apart from the macro constraints outlined earlier. Section 7 advances our critique of active participation models. Section 8 provides a constructive and plausible alternative focusing on job creation.

## 2. Indisputable facts

The dimension of the task confronting Job Network providers is principally determined by the macroeconomic environment in which they operate. The policy making horizon in this environment is dominated by the concept of the Non Accelerating Inflation Rate of Unemployment (NAIRU) which effectively leads to economic policy that uses high unemployment rates to control inflation (Mitchell, 2001a)

Figure 1: The Employment Gap, Australia, 1960-2001



Source: ABS, *The Labour Force*, 6203.0.

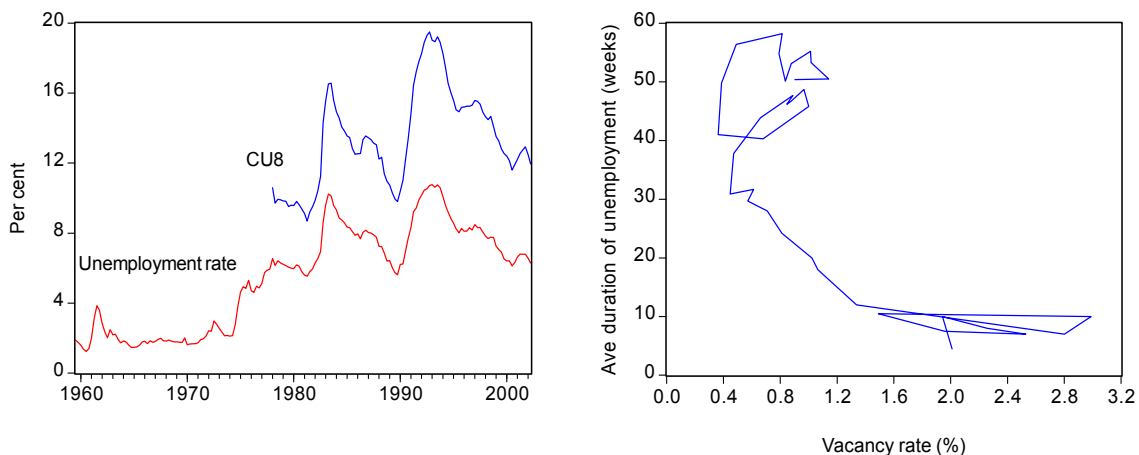
Mitchell and Muysken (2002) outline several stylised facts about the Australian economy, which they argue confound the orthodox NAIRU models. To understand the macroeconomic constraints on the effectiveness of the Job Network, two of these facts are noteworthy. First, the Australian economy has failed to generate sufficient

employment since 1975 to match the preferences of the labour force. Second, gross flows data reveal large inertia in all labour force categories and average unemployment duration is now 52 weeks and inversely related to the demand side of the labour market.

The most salient and empirically robust fact about the performance of the Australian economy over the last 25 years is that actual GDP growth has not been strong enough to achieve and sustain full employment. As a consequence, the low point unemployment rate has steadily ratcheted upwards over successive economic cycles. The employment gap traced out in Figure 1 clearly shows that Australia does not generate enough jobs.

The problem of labour underutilisation in Australia is more severe than is portrayed by official unemployment (or the employment gap of Figure 1). Mitchell and Carlson (2001, 2002) show that while the official rate averaged 8.4 per cent between December 1991 and June 2002, the average total labour wastage approximated 15.4 per cent once hidden unemployment and underemployment were considered (see Figure 2a).

Figure 2: Labour Underutilisation, Australia, 1960-2002



(a) Unemployment rate and CU8

(b) Average duration and the vacancy rate

Source: See Figure 1. CU8 is taken from the CofFEE Labour Market Indicators computed by Mitchell and Carlson (2002) and adds estimates of hidden unemployment and underemployment to unemployment as a percentage of the total adjusted labour force all expressed in hours.

For those who argue that unemployment does not constitute a major problem because labour market flows ensure that few workers remain unemployed for very long, Figure 2b is instructive. The average duration of unemployment, which was 3 weeks in 1966, is now 52 weeks and is inversely related to the vacancy rate. In 2002, Job Network

providers seeking job opportunities for disadvantaged workers compete on a macro landscape in which there are 6.2 unemployed persons for every job vacancy.

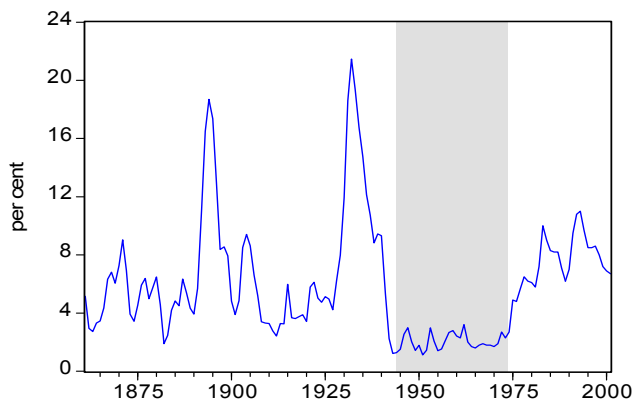
### 3. Ignoring the macro constraint – a potted history

The data presented in Section 2, beg the question of why policy attention has been directed to finessing the roles of the public, private and not-for-profit sectors in the provision of employment services, rather than on the alleviation of the macro-economic constraint. In this section we consider how the ‘full employability’ agenda has emerged.

While the Great Depression taught us that, in the absence of government intervention, capitalist economies are prone to lengthy periods of unemployment, the Second World War experience proved that full employment could be maintained with appropriate use of budget deficits. From 1945 until 1975, the emphasis of macroeconomic policy became firmly focused on maintaining full employment. Inflation control was a second-order issue and governments used fiscal and monetary policy to maintain levels of overall spending sufficient to generate employment growth in line with labour force growth.

Public sector job creation played the important and implicit role of ‘employer of the last resort’ (Mitchell, 2001a). The economies that avoided high unemployment in the 1970s all maintained a sector of the economy that served this function (Omerod, 1994). The shaded area in Figure 3 shows that throughout this period unemployment rates rarely rose above 2 per cent. Prior to, and after, this period the Australian economy rarely achieved unemployment rates below 5 per cent.

Figure 3 An historical view of the unemployment rate in Australia, 1861-2001.



Source: Mitchell and Carlson (2001).

By the 1950s, the positive focus on jobs gave way to ‘full employment’ being seen through the prism of the Phillips Curve, which proposed a formal relationship between unemployment and inflation, and posited sharp policy tradeoffs.

The economic dislocation following the oil price rises in 1974 provided the conditions necessary for the paradigm shift in macroeconomics toward neo-liberalism. Governments reacted to accelerating inflation with contractionary policies designed to quell rising prices, and unemployment rose. The Keynesian notion of full employment was redefined in terms of a unique, and demand-invariant, unemployment rate (the NAIRU) where inflation is stable. The NAIRU could only be reduced by policies that tackled microeconomic constraints such as institutional arrangements in the labour market (wage setting mechanisms and trade unions) and/or faulty government welfare policies, which have encouraged people to engage in inefficient search or to embrace welfare dependence.

The Reserve Bank of Australia (RBA) has been captured by this paradigm. Its 1996 *Statement on the Conduct of Monetary Policy* argues that its priority on inflation control is consistent with full employment (defined as the NAIRU). The Statement also emphasised the need to target inflation and inflationary expectations and the complementary role that "disciplined fiscal policy" had to play.

Further, when private spending wanes the economic outcome depends entirely on the policy response by government. If demand for private production falls but people still desire to work then there is no valid reason not to switch them to public goods production until private demand recovers. Unemployment results when the policy response inhibits this switch. Surprisingly, most commentators and public officials fail to realise that the unemployed, supported by welfare measures, are already ‘in the public sector’. In the past, the ‘employer of the last resort’ capacity provided by various sections the public sector ensured that the surplus labour would be absorbed into paid employment. However, the decline in public employment shares over the last 25 years coupled with the desire to push the public budget into surplus and implement national competition policy has taken this capacity away (Mitchell, 2001b). The unemployment buffer now absorbs the fluctuations of private sector spending rather than public sector employment.

In this context, the government would emphasise that active labour market policy is predicated on the belief that the long-term unemployed represent a structural bottleneck that can only be addressed by supply initiatives like training and welfare reform (OECD, 1994, 2001). However, empirical studies of labour market dynamics in Australia cast doubt on the efficacy of the supply-side measures advocated by the OECD. Mitchell (2001a) reports empirical work, consistent with a number of studies, which shows that long-term unemployment is not a separate problem from a rise in unemployment *per se*. Mitchell and Muysken (2002) use gross flows analysis to show that the cyclical behaviour of short-term and long-term unemployment is very similar. Further Mitchell and Carlson (2002) and Mitchell and Muysken (2002) show that the long-term unemployed do not put pressure on inflation yet their employment prospects respond to demand stimulus. Ball (1999: 240) says, “Hysteresis is reversible”. A demand expansion can reduce the NAIRU because employers would rather absorb training costs than leave jobs vacant (Ball, 1999: 230). A similar observation underpins the hysteresis models in Mitchell (1987, 1993).

While, debate on the performance of the Job Network continues to ignore the problem of insufficient employment opportunities, it is highly probable that long-term unemployment responds to exogenous (policy-driven) demand expansion. The evidence from the 1990s expansion in Australia and the USA shows that while trend inflation remained low the proportion of long-term unemployment fell in lock step with the declines in official unemployment (see Mitchell and Carlson, 2001). The strong demand-led contraction in long-term unemployment provided no adverse inflationary impacts.

It is in this context, that the Job Network has evolved. In the next section we evaluate the Job Network ‘on its own terms’.

#### **4. Job Network – evolution and rationale**

The creation of a competitive market for the provision of employment assistance began with the *Working Nation* White Paper of 1994. Under the Keating Labor Government, one third of the public assistance effort for the long-term unemployed was given to contractors in both private and not-for-profit agencies. This quasi-market was subject to oversight by an independent government regulator and agencies were paid on a ‘fee-for-

success' basis (Considine, 2000: 278). The Government argued that a competitive model would improve the quality and flexibility of services provided to the most disadvantaged job seekers (Commonwealth of Australia, 1994: 127). Agencies provided individual case management and were able to refer the long-term unemployed to a range of jobs and subsidised work and training programs provided under the government's *Jobs Compact*<sup>2</sup>.

The election of the Coalition Government in March 1996 saw the abolition of the *Jobs Compact* programs and thoroughgoing reforms to labour market assistance. The *Working Nation* strategy was derided as an expensive policy failure unduly concerned with process, and the continuing role of the central bureaucracy (the CES) was seen as antithetic to innovation and the tailoring of interventions to meet the needs of heterogeneous job seekers.

The Government identified cost cutting and the tighter targeting of support as explicit objectives of reform (Vanstone, 1996: 7) implying an ability to deliver both better and cheaper assistance. Appropriations for Labour Market and Training Assistance were cut from \$2.16 billion in 1995-96 to \$1.2 billion in 1997-98 (Senate Committee, 2002: Question W186). However, the principle goal of reform was defined as delivering better and more sustainable employment outcomes for job seekers underwritten by a more competitive, flexible and performance-based approach to the delivery of employment assistance (Vanstone, 1996: Chapter 3). In 1998, the focus on outcomes and the use of competition to drive greater efficiency and choice underlay the dismantling of the CES and its replacement by Centrelink and the Job Network.

## **5. (Quasi) market failure**

The Productivity Commission has described the Job Network as a 'managed' or 'quasi' market for the provision of subsidised employment services, which aims to mimic the activities of competitive markets by allowing scope for competition, flexibility in service delivery, rewards based on outcomes and some degree of choice for job seekers (2002: 3.2). The system would appear to embody the attributes of a quasi market as defined by Le Grand and Bartlett (cited in Considine, 2000: 281). First, the Job Network comprises multiple independent agencies, each having a share of a common system of public service provision. Second, the agencies will be a mix of profit and not-for-profit organisations;



and third, job seekers do not purchase services but have services purchased on their behalf by government. Under the Job Network, the government is a purchaser and regulator of employment services, not a direct provider. The role of government is to award contracts through a competitive tender process, regulate providers, determine standards, and to collect and disseminate performance information. However, a quasi market is not immune from market failure, and we will now consider why the benefits presaged by the market model may not be realised.

We would argue that there is policy schizophrenia in expecting an outcome-based funding model for employment services to deliver 'better and more sustainable employment outcomes' in the absence of concomitant policies to alleviate the macroeconomic constraint and create real employment opportunities. In a highly demand-constrained labour market, characterised by persistent unemployment and marked regional disparities, it is unclear how the supply-side focus of the Job Network can be effective. One of the risks associated with the creation of a quasi-competitive market for employment services is thus a loss of policy coherence. Haughton et al (2000: 679) argue that for all the self-evident futility of raising employment-without-jobs, program failures are now more likely to be pinned on local delivery agencies than on the (central government) architects of the policy itself.

It is also the case that a system centred on outcome payments in which providers have discretion with respect to the level and nature of assistance afforded to job seekers creates incentives for 'creaming' and 'parking'. The Productivity Commission's *Independent Review of the Job Network* found that the payments structure to Job Network providers has led to a substantial proportion of Intensive Assistance recipients being 'parked' (2002: Chapter 9). Job seekers with the greater chance of achieving a payable outcome are targeted while those in greatest need of assistance (with low employment probabilities) are left unsupported. For example, just 20 per cent of the current cohort of Intensive Assistance recipients will undertake some training activity while participating in the program (Senate Committee, 2002: Question W105). In contravention of equity objectives, there is an incentive to provide fewer services to those with greater needs.

The lack of correspondence between needs and services reflects the difficulties associated with specifying objective outcomes and performance indicators that will allocate resources according to an ordering of societal needs; and relate to both the quality of assistance provided and the quality and sustainability of jobs attained. Nor do the prices attached to employment outcomes adequately reflect all the costs of unemployment which include not only income and output loss, but the deleterious effects on self confidence, competence, social integration and harmony, and the appreciation and use of individual freedom and responsibility (Sen, 1997: 169).

In addition, there is little public information about ‘how’ providers generate performance outcomes. Indeed the methods used are widely referred to as the ‘black box’ (Productivity Commission, 2002; 3.16). The International Labour Organisation argues that the collection and dissemination of sophisticated labour market information, particularly with regards to that part of the labour market most gainful to employment services, is an important role for government and critical to the planning and management of labour market programs (Thuy, Hansen and Price, 2001: 59). With little understanding of what processes are most effective, the scope to diffuse best practice among Job Network providers and to allow client choice based on the nature of assistance is highly constrained.

We will now consider the extent to which these sources of market failure are reflected in evaluations of what the Job Network has delivered.

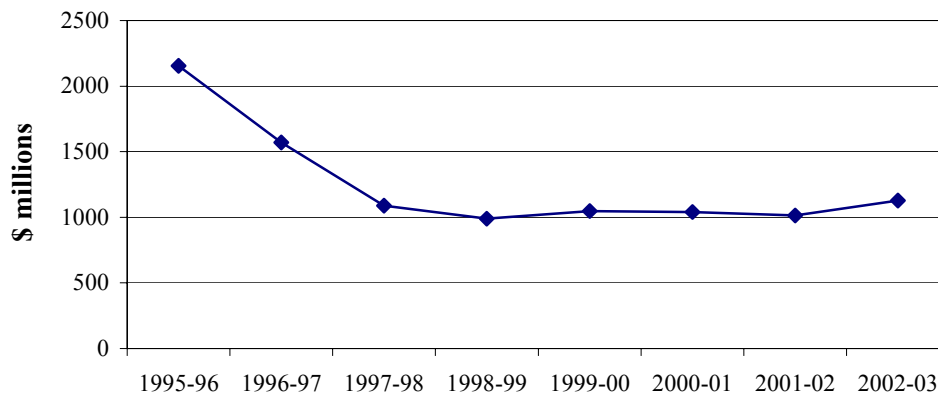
## **6. What has the Job Network delivered?**

As noted earlier, the razing of *Working Nation* and the introduction of the Job Network were associated with significant cuts to Commonwealth expenditure on employment assistance (see Figure 4). Between 1995-96 and 2001-02, funding for labour market programs fell by 58.9 per cent in real terms.

Under the Job Network, the costs per employment outcome in Intensive Assistance (\$5,440 in 2000-01) are substantially lower than the cost of each job outcome in the programs that Intensive Assistance replaced (\$12,100 in 2000-01 prices) (DEWR, 2002b:

126). However, these gains flow from cost-cutting ‘efficiencies’ and not from improvements in the ‘effectiveness’ of labour market assistance.

Figure 4: Expenditure on Labour Market Programs, 1995-96 to 2002-03



Source: Department Annual Reports and Portfolio Budget Statements. Figures for 1995-96 to 2001-02 refer to actual administered program costs. The figure for 2002-03 is a budgeted appropriation.

In September 2002, the Department of Employment and Workplace Relations released the findings from Stage 3 of their Job Network Evaluation, which assessed the Network’s ‘effectiveness’. The evaluation presented preliminary estimates of the ‘net impact’ of referral to, and participation in, Intensive Assistance on an individual’s employment prospects. The ‘net impact’ has been estimated using a new methodology that attempts to measure the cumulative impact of compliance, program and attachment effects<sup>3</sup>. It is argued that the estimates are likely to be conservative, as they do not present a pure comparison between an intervention and no intervention; but compare an intervention to a combination of no intervention and other forms of assistance (DEWR, 2002b: 3).

The Department estimated the employment net impact of Intensive Assistance for job seekers who *commenced* the program in May 2000 at 0.6 of a percentage point – the difference between the actual employment rate (25.6 per cent) and the estimated employment rate of the control group (25.0 per cent). The employment net impact of Intensive Assistance for job seekers *referred* in May 2000 was 2.2 percentage points (DEWR, 2002b: 80)<sup>4</sup>. These very modest results are consistent with international evaluations of the employment impacts of labour market programs (see Martin and Grubb, 2001) and suggest that a majority of job seekers who attained employment after

being referred to, or participating in, Intensive Assistance would have found a job anyway.

Results from the Department's most recent Post Program Monitoring Survey<sup>5</sup> are also instructive. Three months after completing Intensive Assistance, just 16.3 per cent of individuals were in full-time work while 51 per cent were not employed or studying (either full-time or part-time). For the most disadvantaged Job Network participants (Intensive Assistance Funding Level B) just 11.2 per cent had attained full-time work while 61.3 per cent remained in unemployment or had left the labour force (DEWR, 2002a: 4). Unpublished Department data highlights the precarious nature of work attained with 60 per cent of employment exits from Intensive Assistance between 1 July 2000 and 30 June 2001 being to temporary, casual or seasonal work (Senate Committee, 2002: Question W71).

In contrast to countries like the United States and Norway which use administrative panel data to enhance their knowledge of labour market dynamics and the career paths of the unemployed, Australian policy makers have a very thin understanding of the dynamics of labour market participation and benefit receipt for job seekers who have engaged with the Job Network. As part of its Stage 3 Evaluation, the Department examined off-benefit exit rates over a thirty-month period for a cohort of job seekers referred to Intensive Assistance in June 1999. After 15 months, 31 per cent of those who exited after referral to Intensive Assistance had returned to income support, rising to 50 per cent after 30 months. The corresponding proportion for job seekers who commenced Intensive assistance was 45 per cent after 30 months<sup>6</sup> (2002b: 75). Any evaluation of the effectiveness of the Job Network clearly needs to consider the sustainability of employment and off-benefit outcomes.

Data on repeat episodes of Intensive Assistance suggest that the assistance provided to a significant number of job seekers has not served to improve the individual's employment prospects or resulted in sustained employment outcomes. In June 2002, half of the individuals participating in Intensive Assistance had commenced the program at least once before, while 23 per cent had at least three earlier episodes of Intensive Assistance (Senate Committee, 2002: Question W104). The Productivity Commission found that the

gross effectiveness of the program (with respect to interim outcome rates achieved<sup>7</sup>) was 30 per cent lower for repeat users, 80 per cent of whom are not achieving an interim outcome through their participation in the program (2002: 9.32).

Empirical evidence on the limited assistance provided to many Intensive Assistance recipients, has prompted both the Department and the Commission to examine whether 'parking' is a 'rational' response on the part of Job Network providers, within a short-term profit maximising framework. The modelling (described in DEWR, 2002b: Attachment B and Productivity Commission, 2002: Appendix D2) compares the cost of achieving an increase in outcomes (above the level that would have occurred without Intensive Assistance) with the revenue received from doing so. The Department examined two forms of assistance, wage subsidies and skills training, and concluded that, even under optimistic assumptions, the fee structure for Intensive Assistance provided little incentive for providers to invest in these forms of support<sup>8</sup> (DEWR, 2002b: 170). Thus the profit-maximising strategy is to provide a small level of assistance to recipients who will achieve an outcome with minimal, but not zero, support while not investing in recipients who are perceived to have little chance of obtaining an outcome.

Before we consider whether changes proposed for the third Job Network contract, and the Productivity Commission's recommendations for reform, will improve the effectiveness of Job Network programs, it is important to ask why we should expect other than the current parlous performance in the absence of policy measures designed to address the quantum of jobs and issues of job security? Improving employability does not increase the level of aggregate labour market demand (Cowling and Mitchell, 2002: 15).

## **7. The more things change ... an active participation model**

The 2002-03 Budget detailed arrangements for the Third Employment Services Contract (ESC3) due to commence on 1 July 2003. Allocations to the *Improving Employment Services – Active Participation Model* will deliver savings against the previous forward estimates of \$64.7 million over the period 2003-04 to 2005-06. A discussion paper on the model was released by the Minister for Employment Services in May 2002.

The Government argues that the Active Participation Model will “further increase the effectiveness of services to assist job seekers move from welfare dependency to paid employment” (DEWR, 2002c: 1). Its modulations reflect the findings of the Productivity Commission’s *Independent Review of the Job Network, Draft Report* (2002) and the OECD’s *Innovations in Labour Market Policies: The Australian Way* (2001). The unstated premise is that improving the effectiveness of the employment services system depends on changes to the system itself, and not on the expansion of employment opportunities. ‘Effectiveness’ is endogenously determined and will be enhanced by a reconfiguration of the payment structure and greater integration between Job Network services and mutual obligation activities. The impact of the business cycle is considered by the Productivity Commission, but only in assessing whether cyclical variations in revenue will threaten the viability of providers in an economic downturn (2002: 10.38).

Under the proposed arrangements for ESC3, the current ‘Job Search Training’ and ‘Intensive Assistance’ programs will be recast as ‘Intensive Support’ and ‘Customised Assistance’. A job seeker who remains unemployed after 12 months will receive Customised Assistance (CA) for a six-month period. The rationale for reducing the duration of the intensive assistance period is to limit any negative attachment effect arising from participation in the program. Immediate entry to CA will be available to job seekers identified as being at very high risk of long-term unemployment<sup>9</sup>. Customised Assistance will include the development of a Job Search Plan, which could include training, job search assistance, work experience, career counselling or subsidised employment (DEWR, 2002c: 3, 18).

If the individual has not found work after their first episode of CA they will undertake another Mutual Obligation activity. A second episode of CA may be offered to job seekers after 24 months of unemployment but only when they are assessed as having reasonable job prospects (DEWR, 2002c: 19).

It is argued that referral to ‘mutual obligation’ activities will prevent repeat episodes of ineffective assistance (DEWR 2002c: 19). This is a somewhat disingenuous claim. Individuals who are being referred to programs like Work for the Dole or Green Corps after 18 months of unemployment will have already participated in at least one such

mutual obligation activity without attaining an employment outcome. Indeed, employment outcomes for the expanding Work for the Dole program are poor. Data on labour market assistance outcomes for the year to March 2002 show that three months after completing Work for the Dole just 11.6 per cent of participants were in full-time work. Half of the participants remained unemployed or had withdrawn from the labour force while one-quarter were in receipt of further assistance<sup>10</sup> (DEWR 2002a). In addition, unpublished data for the period 1 July 2000 to 30 June 2001 reveals that 65 per cent of employment exits from Work for the Dole were to temporary, casual or seasonal positions (Senate Committee, 2002: Question W71).

The Minister's Discussion Paper argues that improved integration between Job Network Services and 'complementary employment and training' programs is designed to increase the effectiveness of employment services. However, the paper does not discuss why churning individuals through mutual obligation activities, or between mutual obligation programs and CA, is more likely to generate employment outcomes for the most disadvantaged job seekers than repeat episodes of customised assistance. Similarly, no attention is given to the extent to which existing mutual obligation programs are equipped to assist individuals who face multiple or severe barriers to employment.

The Department has argued that the Active Participation Model will reduce the incidence of 'parking' and target assistance to the longer-term unemployed through changes to the fee structure and payment arrangements, including the introduction of a Job Seeker Account (Senate Committee, 2002: Hansard 145).

The fee structure proposed for ESC3 will both increase and variegate Job Network revenue. In the intensive phase of assistance, non-hypothecated commencement fees will be replaced by service fees and Job Seeker Accounts. Providers will be paid to deliver a specified set of services, including the negotiation of a Job Search Plan and Preparing for Work Agreement at a fixed hourly rate. The Department argues that this will guarantee a "minimum level of engagement" between provider and client during a defined support period<sup>11</sup> (Senate Committee, 2002: Hansard 133).

When a job seeker commences Customised Assistance under ESC3, \$935 will be credited to the Job Network provider's nominal Job Seeker Account (DEWR, 2002c: 24). The

Account can be used to purchase services and assistance for job seekers (such as fares, work clothing, interpreter services or wage subsidies) with the aim of helping the individual overcome barriers to labour market participation and obtain work. Providers are not required to spend any given amount on an individual job seeker and can thus allocate pooled funds to those job seekers who are deemed to be most responsive to assistance. There is no ceiling on the level of assistance, which a provider can purchase for a single job seeker by drawing down on the Job Seeker Account. However, if funds are not fully expended they remain with the Commonwealth and cannot be co-opted as provider profits.

The Department argues that by quarantining \$150 million<sup>12</sup> in Job Seeker Accounts it will “guarantee a minimum level of investment in disadvantaged job seekers” who have tended to be ‘parked’ under the current contract (Senate Committee, 2002: Hansard 133). However, as the Productivity Commission has pointed out there is no guarantee that individual job seekers will get access to Job Seeker Account funds or that the services provided under the proposed fee-for-service arrangements need amount to genuinely significant assistance (2002: 9.29). If the majority of job seekers who attain employment outcomes would have done so in the absence of assistance – and if the labour market remains highly demand constrained – it is unlikely that increased levels of contingent funding will make a difference to the majority of CA recipients. The nature of the support available to job seekers receiving customised assistance will remain largely at the discretion of providers. Beyond a mandated minimum service level, the support is unlikely to differ significantly from what is currently provided under the Intensive Assistance program.

With respect to outcome fees, these will rise under the Active Participation Model as the job seeker’s duration of unemployment increases. Higher outcome payments will also be available for job seekers at high risk of long-term unemployment<sup>13</sup>. While Customised Assistance is designed as a six-month program, providers will be able to claim outcome payments for CA recipients over a two-year period. Currently, outcome payments are only available if the client is placed and remains in employment or qualifying education while they are participating in Intensive Assistance.



The Productivity Commission argues that expanding the period in which providers may claim an outcome has “*significant benefits*” in terms of encouraging both re-referral and investment in job seekers (2002: 10.26). While, the Commission argues that outcome payments should increase smoothly with unemployment duration (to mollify perverse incentives arising when payments increase only at specified duration thresholds), it does not discuss whether changes to the structure and duration of outcome payments will be sufficient to alter provider behaviour.

## **8. Conclusion – the way ahead**

We conclude by returning to our opening theme. A return to full employment requires policy that can address the demand deficiency that constrains employment growth. The ‘scissors’ has ‘two blades’ and the Job Network cannot be effective without the demand blade being active.

We stated that when private spending wanes unemployment results if the policy response is inappropriate. In this context, appropriate means that only the government can ensure that spending levels are high enough to create the necessary labour demand (Mitchell and Mosler, 2002). The government can spend (at market prices) and stimulate demand in the private sector; expand public programs and purchase labour (at market prices) to administer them; and/or implement an ‘employer of the last resort’ policy by standing ready to employ labour displaced from the private sector at some fixed wage offer.

All three strategies have merit but the first two require a larger demand stimulus and thus raise the possibility of inflationary pressures mounting. Mitchell (1998) explains that the introduction of Job Guarantee (JG) would restore an employer of last resort capacity to the economy and thus maintain full employment in the face of private sector spending fluctuations. It would not be inflationary *per se* because the government would maintain an open offer of employment at the minimum wage and so would not be purchasing labour at ‘market prices’. Once the private spending recovered the JG workers would be bid back into the private sector. In other words, the JG becomes the buffer stock instead of unemployment.

Given that the unemployed are already welfare supported 'by the public sector' the JG is not only a low cost plan (Mitchell, 1998) but would also allow the idle labour to perform a range of useful activities oriented at community development. A number of papers have analysed the JG in detail. For a good summary see Mitchell and Watts (2002).

A government which treated its citizens in line with its UN human rights obligations to provide sufficient employment opportunities would then stand a chance of receiving the same accolades that the very humane Arthur Altmeyer received throughout his life.

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<sup>2</sup> The *Jobs Compact* was the nucleus of the *Working Nation* reforms and provided guaranteed access to employment or training for individuals who had been in receipt of unemployment benefits for 18 months or more.

<sup>3</sup> The compliance effect results from referral to the program and derives from some job seekers increasing search activity or reporting existing activities to avoid the requirements of participating in a program. The program effect represents the ‘value added’ by the program, as reflected in changes in the level and effectiveness of job search activity and employability that derives from participation. The reduction in job search activity that results from actual participation in the program constitutes the attachment effect (DEWR, 2002b: 3).

<sup>4</sup> For a detailed exposition of the net impact methodology see Department of Employment and Workplace Relations (2002b).

<sup>5</sup> Post assistance outcomes are measured three months after the job seeker ceases assistance and relate to job seekers who commenced Intensive Assistance between 1 January and 31 December 2001 and outcomes achieved by 31 March 2002.

<sup>6</sup> It is unclear whether the lower rate of return to income support for individuals who commenced Intensive assistance reflects a positive program effect or an attachment effect delaying the process of exit and return (DEWR, 2002b: 75).

<sup>7</sup> An interim outcome is defined as thirteen consecutive weeks of employment or one semester of education (Productivity Commission, 2002: 4.14).

<sup>8</sup> The modelling found that under the current fee structure, a \$3000 wage subsidy for an Intensive Assistance B client would need to have a net impact of 48 percentage points before any additional profits would be gained. Expenditure of \$1600 on skills training would require a net impact of 28 percentage points to improve profitability. The net impacts for Level A (less disadvantaged) job seekers would need to be even higher (DEWR, 2000b: 170).

<sup>9</sup> It is anticipated that 10 per cent of job seekers will be identified as being at very high risk of long-term unemployment (DEWR, 2002d: 21).

<sup>10</sup> ‘Further Assistance’ includes commencements in DEWR funded labour market assistance and DEST programs New Apprenticeships, Literacy and Numeracy and Advanced English for Migrants.

<sup>11</sup> The proposed fee structure for Customised Assistance (CA) in ESC3 will provide a service fee of \$834 for a job seeker who has been unemployed for between 13 and 24 months. It is assumed that the individual receives 11 hours and 10 minutes of service during CA and a further 75 minutes of job search reviews after CA at \$70 per hour.

<sup>12</sup> This represents 18.3 per cent of estimated Job Network expenditure for 2003-04 (DEWR cited by the Productivity Commission, 2002: K.2).

<sup>13</sup> An outcome fee of up to \$2,475 will be available for job seekers who have commenced Customised Assistance and have been unemployed for between 12 and 24 months, rising to a maximum of \$4,950 for those who have been unemployed for between 24 and 36 months or who have been identified as being at high risk of long term unemployment. Up to \$6,600 will be available to providers who gain outcomes for individuals who have been unemployed for more than 36 months (DEWR, 2002c: 32).