



## Submission to the Victorian Legislative Assembly Economy and Infrastructure Committee

### *Inquiry into sustainable employment for disadvantaged jobseekers*

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#### About us

The Public Service Research Group in the School of Business at UNSW Canberra<sup>2</sup> has a strong record of research on the implementation of social policy in Australia and overseas. We welcome the opportunity to contribute to the Committee's inquiry into sustainable employment for disadvantaged jobseekers.

In 2016 Dr Sue Olney conducted a detailed study of the effectiveness of Australia's employment services system in tackling long-term unemployment.<sup>3</sup> The findings of that study, and our group's research into public service reform, the marketisation of social services, and stewardship of public service markets<sup>4</sup> underpin this submission. We address the following issues being investigated by the Committee:

- the social and economic benefits of seeking to place disadvantaged jobseekers into sustainable employment
- the jobseekers who may be considered as being 'disadvantaged' in the labour market and the types of barriers to employment they face
- how well current efforts, programs or activities meet the needs of disadvantaged jobseekers and employers looking for workers, and potential improvements

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<sup>3</sup> Olney, S (2016) *False economy: New Public Management and the welfare-to-work market in Australia* University of Melbourne

<sup>4</sup> Olney S & Gallet W (2018) 'Markets, Mutual Obligation and Marginalisation: The Evolution of Employment Services in Australia' in Cahill D & Toner P (eds) *Wrong Way How Privatisation and Economic Reform Backfired*, La Trobe University Press/Black Inc.; Olney, S (2017) 'Should Love Conquer Evidence in Policy-Making? Challenges in Implementing Random Drug-Testing of Welfare Recipients in Australia' *Australian Journal of Public Administration*, 77(1), pp. 114-119; Carey G, Dickinson H & Olney S (2017) 'What can feminist theory offer policy implementation challenges?', *Evidence and Policy*; Craven L, Dickinson H & Carey G (eds) (2018) *Crossing Boundaries in Public Policy and Management: Tackling the Critical Challenges* Routledge; Carey G, Dickinson H, Malbon E & Reeder D (2018) 'The Vexed Question of Market Stewardship in the Public Sector: Examining Equity and the Social Contract through the Australian National Disability Insurance Scheme', *Social Policy and Administration*, vol. 52, pp. 387 - 407; Dickinson H & Sullivan H (2014) 'Towards a general theory of collaborative performance: The importance of efficacy and agency', *Public Administration*, vol. 92, pp. 161 - 177

## The social and economic benefits of seeking to place disadvantaged jobseekers into sustainable employment

Australia's mutual obligation requirements for income support are built on the premise that moving unemployed people into *any* form of paid work quickly will improve their chances of staying attached to the labour market, and produce public benefits by lowering welfare costs, reducing pressure on public services, stimulating economic activity and promoting social cohesion.<sup>5</sup> However, evidence suggests that churning disadvantaged jobseekers through precarious low-paid jobs, interspersed with long periods of unemployment with activity requirements that do little to improve their prospects of finding work, can have the opposite effect.

Twenty-five years ago, the OECD warned governments not to ignore people who had difficulty adapting to the requirements of advancing economies, as "their exclusion from the mainstream of society risks creating social tensions that could carry high human and economic costs."<sup>6</sup> Australian governments' efforts to bridge that divide are still patchy. The message that people who are persistently unemployed or at risk of long-term unemployment have to be forced to prepare for and search for work has been pushed by both Coalition and Labor governments and the mainstream media since the 1990s.<sup>7</sup> Whether that message reflects or shapes public sentiment is open to debate, but the unintended consequence is that employers are reluctant to hire those jobseekers because of concerns about their reliability and work ethic.<sup>8</sup>

There is a clear economic imperative in Australia to engage people in the labour market who have been excluded from it, or avoided it, in the past. By 2055, the proportion of the population participating in the workforce will have declined dramatically as a result of the population ageing.<sup>9</sup> But even in times of skill and labour shortages, there are people with particular characteristics who struggle to find work – early school leavers, Aboriginal and Torres Strait Islander people, people with mental health issues, people with substance use issues, people living in unstable housing, people living in areas with concentrated unemployment, people with a history of contact with the justice system, people with dependents with complex needs, people with disabilities, and people with a non-English speaking background.<sup>10</sup> The negative **economic impact** of these jobseekers' persistent unemployment includes public spending on income support, employment services, education and training that fails to lead to employment, monitoring and enforcing compliance with welfare activity requirements, other services drawn into compliance activity, and flow-on pressure on the health system, human services, housing and justice; the opportunity cost of that spending (much of which impacts on state government budgets); the loss of those jobseekers' potential contribution to the economy as consumers, producers of goods and services, and taxpayers; and deterioration of skills and motivation to work in the pool of labour available to industry.<sup>11</sup>

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<sup>5</sup> Mead, L (1997) 'The rise of paternalism' in Mead, LM (ed) *The New Paternalism: Supervisory Approaches to Poverty*, Washington, Brookings Institution Press

<sup>6</sup> OECD (1994) *The OECD Jobs Study* Paris p5 <http://www.oecd.org/els/emp/1941679.pdf>

<sup>7</sup> See for example Liberal (2019) *Our Plan: Welfare to Work* <https://www.liberal.org.au/our-plan/welfare>; Australian Labor Party (2019) *A Fair Go for Australia* [https://www.alp.org.au/media/1539/2018\\_alp\\_national\\_platform\\_constitution.pdf](https://www.alp.org.au/media/1539/2018_alp_national_platform_constitution.pdf); Keating, PJ (1994) *Working nation: the White Paper on employment and growth*, Australian Government Publishing Service, Canberra; Junankar, PN (2000) 'The New World of Australian Labour market Programs: An Evaluation of the Howard-Reith Labour Market Reforms', *The Drawing Board: An Australian Review of Public Affairs* vol.1, no. 1, July 2000, pp. 15-27; Marzalek, J (2014) 'Dole bludgers: Thousands exploiting unemployment benefits system', *Herald Sun*, 6 September 2014

<sup>8</sup> Department of Social Services (2019) *Encouraging Lawful Behaviour of income Support Participants*, Canberra <https://www.dss.gov.au/publications-articles-corporate-publications-budget-and-additional-estimates-statements/encouraging-lawful-behaviour-of-income-support-recipients>; Department of Education, Employment and Workplace Relations (2012) *Employment Services – building on success Issues Paper*, Australian Government, Canberra, p16; Olney, S (2017) 'Should Love Conquer Evidence in Policy-Making? Challenges in Implementing Random Drug-Testing of Welfare Recipients in Australia' *Australian Journal of Public Administration* Volume77, Issue1, pp. 114-119

<sup>9</sup> Commonwealth of Australia (2015), *2015 Intergenerational Report: Australia in 2055*, Canberra p16

<sup>10</sup> Olney S & Gallet W (2018) 'Markets, Mutual Obligation and Marginalisation: The Evolution of Employment Services in Australia' in Cahill D & Toner P (eds) *Wrong Way How Privatisation and Economic Reform Backfired*, La Trobe University Press/Black Inc; Department of Education, Employment and Workplace Relations (2012) *Employment Services – building on success Issues Paper*, Australian Government, Canberra, p17; Fowkes, L (2011) *Long-term unemployment in Australia*, Australian Policy Online <https://apo.org.au/node/26955>; Vinson, T (2007) *Dropping Off the Edge: The Distribution of Disadvantage in Australia*, Jesuit Social Services and Catholic Social Services Australia; Organisation for Economic Co-operation and Development 1982, *The Challenge of Unemployment: A Report to Labour Ministers*, OECD, Paris; OECD (1988) *Employment Outlook 1988: Steps towards an Active Society*, OECD, Paris

<sup>11</sup> Mavromaras, KG, Sloane, PJ & Wei, Z (2015) 'The Scarring Effects of Unemployment, Low Pay and Skills Under-utilisation in Australia Compared', *Applied Economics*, 2015, 47(23), pp2413-2429

The economic impact is compounded by the **social impact** of growing disparity in wealth, political influence, income, civic participation, mental and physical health, life expectancy, access to housing, access to secure work and access to education, which can fuel intergenerational disadvantage, crime, discrimination, and detachment from mainstream norms and values among people who feel marginalised and excluded.<sup>12</sup>

Discussion about access to sustainable employment is often clouded by industry citing growing demand from workers for less structured employment conditions.<sup>13</sup> Sustainable employment and flexible work arrangements are not mutually exclusive. Jobseekers in single-income families may need flexibility to manage responsibilities outside work, but they also need secure employment to find stable housing, to plan and pay for childcare, to avoid disrupting their children's education through relocation, and to accumulate superannuation - the lack of which can generate significant long-term public costs.

The majority of long-term unemployed people and people at high risk of long-term unemployment in receipt of income support in Australia are not finding sustainable work.<sup>14</sup> In return for income support they are compelled to engage in activity that does little to improve their employment prospects – activity that has increasing cost and diminishing value the longer they cycle in and out of the employment services system.

### **Jobseekers marginalised in the mainstream labour market and the types of barriers to work they face**

The environment in which jobseekers are competing for work has shifted. Successive welfare reforms have pushed people facing complex barriers to work from other benefits on to Newstart and into the queue for available jobs. There are many more jobseekers than advertised job vacancies, so employers can be more selective in recruiting staff than they would be in a tighter job market.<sup>15</sup> Businesses are increasingly seeking qualified, skilled, portable, contingent and 'work ready' workers. Technological change is affecting how and where work is done, and increasing automation is expected to reduce employment in both unskilled and semi-skilled professions by 10 to 40 per cent in the foreseeable future<sup>16</sup> - considerably higher than projections offered in the Australian Government's 2015 quinquennial Intergenerational Report, which assumes a constant rate of unemployment of around 5 per cent over the period from 2015 to 2055.<sup>17</sup> The gig economy and contracts without minimum hours are blurring boundaries between self-employment and employee status, and provide irregular and uncertain income. Entry level, unskilled and low-skilled jobs have become less secure, offering low wages and limited prospects of career advancement, leaving young jobseekers particularly disadvantaged. There has also been a rise in contingent, part time or ad hoc employment in some skilled industries, including health, allied health and post-compulsory education, which have high levels of female workforce participation.

Changes in the nature and conditions of work and changes in the characteristics of jobseekers mean that many jobseekers now work episodically, move in and out of self-employment in the gig economy, or hold multiple short-term jobs concurrently. This sits uneasily with a welfare-to-work model founded on the premise that jobseekers will move from income support into a job providing regular documented income. Current transition arrangements between welfare and work are cumbersome for government, jobactive providers and jobseekers and expose jobseekers to risk of financial hardship through human or algorithmic error. They are a (rational) deterrent for jobseekers with dependents to trade the security of income support and contingent access to subsidised housing, health services, transport and childcare for precarious, transient, low-paid work.

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<sup>12</sup> Australian Council of Social Service (2018) *Poverty in Australia Report* [https://www.acoss.org.au/wp-content/uploads/2018/10/ACOSS\\_Poverty-in-Australia-Report\\_Web-Final.pdf](https://www.acoss.org.au/wp-content/uploads/2018/10/ACOSS_Poverty-in-Australia-Report_Web-Final.pdf); OECD (2015) *In It Together: Why Less Inequality Benefits All*, OECD, Paris, <http://www.oecd.org/australia/OECD2015-In-It-Together-Highlights-Australia.pdf>; Piketty, T (2013) *Capital in the 21st Century*, Harvard University Press; Stiglitz, J (2012) *The Price of Inequality: How Today's Divided Society Endangers Our Future*, WW Norton, USA; Atkinson, A (2015) *Inequality: What Can Be Done?*, Harvard University Press

<sup>13</sup> Manpower.com (2016) *Work, for Me* <https://www.manpowergroup.com.au/news/work-for-me/43841/>

<sup>14</sup> Parliament of Australia (2019) Senate Standing Committee on Education and Employment inquiry into the appropriateness and effectiveness of the objectives, design, implementation and evaluation of jobactive *Jobactive: failing those it is intended to serve*

[https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Education\\_and\\_Employment/JobActive2018/Report](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Education_and_Employment/JobActive2018/Report)

<sup>15</sup> Davidson, P & Whiteford, P (2012) 'An Overview of Australia's System of Income and Employment Assistance for the Unemployed', *OECD Social, Employment and Migration Working Papers*, No. 129, OECD Publishing

<sup>16</sup> Chalmers, J. and Quigley, M. (2017) *Changing Jobs: The Fair Go in the New Machine Age*. Carlton, Black Inc.

<sup>17</sup> Commonwealth of Australia (2015), *2015 Intergenerational Report: Australia in 2055*, Canberra

Valid concerns have been raised about the transparency and rigour of current processes for assessing jobseekers' capacity to work and their barriers to work – the Job Seeker Classification Instrument (JSCI) and the Employment Services Assessment (ESAT).<sup>18</sup> Given that a jobseeker's assessment determines their obligations in return for income support and their access to assistance to prepare for and find a job, jobseekers' capacity to understand the ramifications of disclosure or non-disclosure in their assessment - for example in cases of cognitive impairment, undiagnosed disability, language and literacy issues, or substance use issues – should be closely examined, and questions should be asked about the state's duty of care to vulnerable citizens. Those with the most to lose in terms of mutual obligation for income support are the least equipped to navigate the assessment process. Even with tiered incentives, in a service environment built on payment by results, a jobseeker's stream in jobactive has a significant impact on their odds of moving from welfare to work.

While there have been differences in the approaches of federal Labor and Coalition governments to tackling long-term unemployment, both concentrate on diagnosing and treating 'deficits' in individuals to enhance employability. However, the process of trying to define core employability skills in the education and training system since the 1990s<sup>19</sup> highlights the extent to which values-based attributes and externalities factor into a jobseeker finding and keeping a job. The weakness in welfare to work initiatives focused on individual jobseekers lies in overlooking evidence of strong links between demand for labour, systemic barriers to work outside individuals' control, and reliance on welfare. Attributing unemployment to individual inadequacies implies that every Australian who is "capable of working" or "willing to work" can find a job, despite overwhelming evidence to the contrary.

### **How well current efforts, programs or activities meet the needs of disadvantaged jobseekers and employers looking for workers, and potential improvements**

Australia's approach to tackling long-term unemployment fails to acknowledge and address the complex and intertwined combination of demand and supply side factors that exclude or equip people to enter and remain in the workforce; the extent to which the design of employment services policy, its performance measures and its funding model can marginalise 'hard to place' jobseekers in the labour market; and the pressure the persistent unemployment of those jobseekers places on the economy and society. Our research, together with the Australian Government's recent inquiry into jobactive,<sup>20</sup> suggests that much of the effort and investment devoted to helping people who are persistently unemployed or at risk of long-term unemployment to overcome barriers to work is misdirected, and that the real cost of failing to move the most disadvantaged jobseekers in Australia into work is not adequately factored into policy design, service provider incentives or system metrics in the welfare-to-work market.

Changes to Australia's welfare system over time have pushed people who would have been economically inactive in the past into the employment services system.<sup>21</sup> But what has been consistent is that there are people deemed capable of working by the government who cannot find work after more than a year of active engagement with the employment services system, and the proportion of unemployed people who have been out of work for a year or more is rising.<sup>22</sup> The employment services system continues to treat long-term

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<sup>18</sup> Parliament of Australia (2019) Senate Standing Committee on Education and Employment inquiry into the appropriateness and effectiveness of the objectives, design, implementation and evaluation of jobactive *Jobactive: failing those it is intended to serve*

[https://www.apf.gov.au/Parliamentary\\_Business/Committees/Senate/Education\\_and\\_Employment/JobActive2018/Report](https://www.apf.gov.au/Parliamentary_Business/Committees/Senate/Education_and_Employment/JobActive2018/Report)

<sup>19</sup> Mayer, E (1992) *Key competencies: report of the Committee to advise the Australian Education Council and Ministers of Vocational Education, Employment and Training on employment-related key competencies for post compulsory education and training, (Mayer report)*, Australian Education Council and Ministers of Vocational Education, Employment and Training, Canberra; Departments of Industry, Innovation, Climate Change, Science, Research and Tertiary Education; and Education, Employment and Workplace Relations (2013) *Core Skills for Work Developmental Framework*, Canberra <https://docs.education.gov.au/node/37103>

<sup>20</sup> Parliament of Australia (2019) Senate Standing Committee on Education and Employment inquiry into the appropriateness and effectiveness of the objectives, design, implementation and evaluation of jobactive *Jobactive: failing those it is intended to serve*

[https://www.apf.gov.au/Parliamentary\\_Business/Committees/Senate/Education\\_and\\_Employment/JobActive2018/Report](https://www.apf.gov.au/Parliamentary_Business/Committees/Senate/Education_and_Employment/JobActive2018/Report)

<sup>21</sup> Department of Social Services. 2015a. *A New System for Better Employment and Social Outcomes - Report of the Reference Group on Welfare Reform to the Minister for Social Services*, released February 2015, Commonwealth of Australia p51, 57

<sup>22</sup> Australian Bureau of Statistics (2018) 6291.0.55.001 - Labour Force, Australia, Detailed - Electronic Delivery, Aug 2018 Unemployed persons by Duration of job search and Sex - Trend, Seasonally adjusted and Original



unemployment as a problem that can be solved by adjusting the skills and behaviour of individuals in the face of changing labour market conditions driven by economic policy, globalisation and technological change. The focus on producing value and reducing risk within narrow parameters and short timeframes in employment services are barriers both to defining the problem of labour market exclusion and finding the solution.

Employment services can improve the odds of someone finding a job, but they cannot directly produce that outcome. While there are tiered incentives in place for jobactive providers to move 'hard to place' jobseekers into work, research shows that jobseekers who need time and high levels of effort and investment to compete in the mainstream labour market with a low probability of success are relegated to the sidelines of the employment services system, referred to programs and other government services to meet activity requirements but making no real progress towards employment.<sup>23</sup> The costs of services to which jobseekers are referred are covered variously by the Employment Fund, the individual services involved (depending on eligibility requirements, with variations between jurisdictions), or in the case of deferred payment for education and training, jobseekers themselves. Given the employment services system's procurement and reporting framework, this result is unsurprising. Achieving employment outcomes for jobseekers not only generates income for jobactive providers but positions them for success in future tenders for government business. That is a powerful incentive for them to minimise the cost of servicing the jobseekers least likely to be employed in an over-supplied labour market, regardless of flow-on effects and cost-shifting.

In attaching income support for unemployed people to obligations to participate in active labour market programs, the Australian Government is attempting to move *discouraged* jobseekers (those needing encouragement and help to find a job), *disadvantaged* jobseekers (those needing help to overcome barriers to work outside their control), and *reluctant* jobseekers (those whose motivation to work might be weakened by benefit incentives) from welfare to work with the same governing instrument. In practice, encouraging and assisting disadvantaged jobseekers to overcome complex barriers to workforce participation, equipping them with skills needed by industry, encouraging businesses to hire them, and helping them stay in work is a challenge for all Australian governments - federal and state - spanning the employment, welfare, education, health, housing, transport and justice portfolios. There is no requirement or incentive for service providers within or outside government to consider the consequences of their interaction with unemployed people beyond their individual key performance indicators, and their efforts are not mutually reinforcing. Significantly, most state government employment initiatives like the Jobs Victoria Employment Network<sup>24</sup> duplicate or overlap the existing obligations of jobactive, addressing the employment services system's failure to move disadvantaged jobseekers into work to reduce pressure on social services in their jurisdiction while jobactive reaps the reward for outcomes. This is a key weakness in the institutional architecture of activation and employment services. Realising the full potential of Australia's human capital, and containing the social and economic costs of particular groups of citizens being excluded from or opting out of the labour market, calls for a coherent funding and performance measurement regime that rewards collective-action solutions and partnerships between employment services, industry and complementary service providers across jurisdictions to help disadvantaged jobseekers prepare for and find sustainable work, and participate meaningfully in the community while they are not in paid work.

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<sup>23</sup> Considine, M, Lewis, JM & O'Sullivan, S (2011) 'Quasi-Markets and Service Delivery Flexibility Following a Decade of Employment Assistance Reform in Australia', *Journal of Social Policy*, vol.40, no. 4, pp. 811-833; Australian Social Inclusion Board (2011) *Governance Models for Location Based Initiatives*, Commonwealth of Australia, Canberra; Australian Public Service Commission (2012) *Tackling wicked problems : A public policy perspective*, Australian Government, Canberra; Parliament of Australia (2004) *A hand up not a hand out: Renewing the fight against poverty* (Report on poverty and financial hardship), Commonwealth of Australia

<sup>24</sup> Jobs Victoria Employment Network <https://jobs.vic.gov.au/about-jobs-victoria/our-programs/jobs-victoria-employment-network>