

The New World of Australian Labour Market Programs: An Evaluation of the Howard-Reith Labour Market Reforms

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ABSTRACT

The labour market reforms of the Coalition government in the second half of the 1990s are compared with those of the former Labor government in the first half. Though economic growth was the same for both governments, the improvement in aggregate, male / female, long term, and youth unemployment appears significantly better under the former Labor government.

Keywords

Labour Market Programs, Long Term Unemployment

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ISSN 1443-8607

Volume 1, Number 1: July 2000, 15–27

The Drawing Board: An Australian Review of Public Affairs

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1. Introduction

In 1996, the newly elected Coalition government immediately revoked the former Labor government's *Working Nation* labour market programs and introduced major changes in the operation of the Australian labour market. Under Prime Minister John Howard and Minister for Workplace Relations Peter Reith, the government introduced Centrelink, the Job Network, Work for the Dole, and the *Workplace Relations Act* of 1997 that, *inter alia*, introduced the Australian Workplace Agreements. Given that the economy has been growing consistently since March 1992 at a fairly rapid rate, we would expect that the labour market would have shown employment growth and significant falls in unemployment and long term unemployment.

This paper assesses the impact of Howard-Reith labour market reforms on unemployment and long term unemployment outcomes. It shows that the reforms did not appear to lead to a faster decrease in unemployment or long term unemployment despite an unprecedented period of sustained economic growth¹.

2. The Howard-Reith Reforms: Background and Overview

In 1994, after several months of research and consultation, the former Labor government introduced *Working Nation*, an expansive set of labour market programs targeted at the long term unemployed, Commonwealth of Australia (1994 a, b), Crean (1995). A key element of Prime Minister Keating's *Working Nation* White Paper was the Job Compact, which provided the framework for delivering program elements including case management of the unemployed, the Youth Training Initiative, training wages for all trainees (including adults), direct job creation under the New Work Opportunities scheme, and changes to the social security system. The Job Compact aimed to offer any person who had been on unemployment allowances for over 18 months a job, typically full time and in the private sector, for at least 12 months. Delivery would involve subsidies to employers, "encouragement and moral suasion" (to be supervised by NETTFORCE), and case management (to be supervised by the Employment Services Regulatory Agency, ESRA), to make the unemployed "job ready". In return, the Job Compact participant would have to "accept any reasonable job offer", and would have a case management officer, a "minder". Case management services were provided by private agents or non-governmental bodies: private enterprise had entered the world of labour market programs. The activity test (for eligibility to social security benefits) was strengthened.

With the Coalition government taking office in March 1996 we saw the end of *Working Nation*. The Howard government introduced major changes to the administration of unemployment benefits and the services delivered to the unemployed. Although some changes continued the previous government's policies under a different guise, Coalition reform of the provision of labour market assistance to the unemployed was an innovative and pioneering change in the OECD.

¹ I am grateful to an anonymous referee for helpful comments.

In the 1996-97 Budget, the Coalition government announced a new delivery system for labour market assistance. Centrelink was established as a statutory body in July 1997 and financed by several government departments to provide a range of community and employment services. The new system was formally implemented on 1 May 1998 and consisted of Centrelink (a one-stop shop for accessing government income support) and a contestable market for publicly funded employment services via Job Network. Employment services that had previously been provided by the Commonwealth Employment Service (CES) were now to be tendered out to the private sector, non-government agencies, and a government corporatised body called Employment National.

From May 1998 government funded labour market programs and assistance were carried out under the following targeted, three tiered system:

- **Job Matching** took over the role of the CES, which employers had notified of vacancies and where job seekers were provided vacancy information, and matched with relevant employers.
- **Job Search Training** was the successor to the Job Clubs in which the unemployed were given access to computers, help with writing *curriculum vitae*, etc.
- **Intensive Assistance** replaced the former labour market programs. Under the new program, agents (private, non-governmental, and one government agency) provide training and employment services to the unemployed, and are paid according to whether the unemployed find unsubsidised employment and retain it for a certain period of time. Payment is based on a fee for service where the service was provided in a contestable market.

In addition to this assistance the government retained the previous government's New Enterprise Incentive Scheme, which helped the unemployed to set up independent businesses. New Apprentice Centres were also set up to support traineeship schemes.

A key feature of the new system was the establishment of the *Job Seeker Classification Instrument*, similar to the *triage* system in hospitals². Job Seekers are classified into groups according to their difficulty in finding employment and then allocated to Job Matching, Job Search Training or Intensive Assistance.

Another significant change was the tightening up of the operation of the Activity Test: all job seekers were required to keep a *Jobseeker Diary* or the Dole Diary where the dole recipient has to show that they have applied for at least "x" jobs each fortnight (where "x" depends on several variables). Breaches of the Activity Test can lead to disqualification from benefits for a certain length of time.

² This was based on American experience.

In May 1997 the government announced that it would be trialing Work for the Dole (WFD), which began in November 1997. Work for the Dole was initially targeted at 18-24 year olds in receipt of full income support and who had been unemployed for at least six months. Subsequently, WFD was extended to year 12 school leavers who had been unemployed for three months or more. This was extended to the long term unemployed (in receipt of benefits for greater than 12 months) for 25-34 year olds. It is sometimes forgotten that WFD is similar to the long running Community Development Employment Programs (CDEP) for Aboriginal people where an Aboriginal community is provided with social security benefits and unemployed Aboriginals are required to work for these benefits on community projects. WFD is simply an extension of the CDEP to non-indigenous people.

This program was based on the concept of Mutual Obligation (Keating's "reciprocal obligation" under a new guise) where the unemployed had to (in return for social security benefits) demonstrate their mutual obligation to society by accepting training, voluntary work, or WFD. In fact, the concept of reciprocal obligation or mutual obligation has a relatively long history: it was part of the Scandinavian system of welfare and was discussed in various OECD documents and in the Cass review of Social Security, see Cass (1988), and OECD (1994). This idea was to provide the unemployed with some concept of "belonging" or not being alienated from society and was incorporated in the Newstart program in 1991. In some ways this idea of mutual obligation can be seen as "policy appropriation" by the Coalition government of a social democratic policy which came via the Scandinavian countries like Sweden and Denmark.

Even though this was a major leap in the dark³, there has been no serious attempt by the government to set up independent evaluations of these major reforms, although there are plans to carry out evaluations in the future by the Department of Employment, Workplace Relations and Small Business (DEWR/SB, or better known as Dewsbury). There have been some in-house evaluations by the Department of the Work for the Dole programme and of Job Network. Not surprisingly these internal evaluations have sung the praise of these programmes. An independent evaluation of Centrelink and Job Network by the Australian National Audit Office (ANAO), unfortunately, did not assess the success in terms of the labour market outcomes in any significant manner: its main focus was on the processes followed by Centrelink in the tendering process etc. The ANAO was not directed to evaluate the outcomes of this brave new experiment.

So far there have been no attempts to carry out independent evaluations of the outcomes of these significant changes to the delivery of labour market programs although the government has a discussion paper to set up an evaluation strategy for the employment services market, see DEETYA (1998). Early evaluations of labour market programs include Chapman, Dowrick and Junankar (1992), Stretton and Chapman (1992), Jarvie

³ Most public policy specialists would probably argue that, before such a major change is introduced in the provision of labour market assistance, a pilot project should be trialed.

and McKay (1993), and a discussion in Kenyon et al. (1993). The former Newstart program was evaluated, see DEETYA (1994), and found to be successful in helping the long term unemployed. *Working Nation* was evaluated internally, see Crean (1995), DEETYA (1996, 1997) and in general was found to be improving the outcomes for especially the long term unemployed. In a previous paper we had carried out an evaluation of Working Nation, see Junankar and Kapuscinski (1999). In an interesting paper, Piggott and Chapman (1995) discuss the costing of the Job Compact under the previous government. These independent evaluations give greater credence to the policy outcomes of governments.

This paper is an attempt to provide a preliminary evaluation using aggregative data on unemployment and long term unemployment.

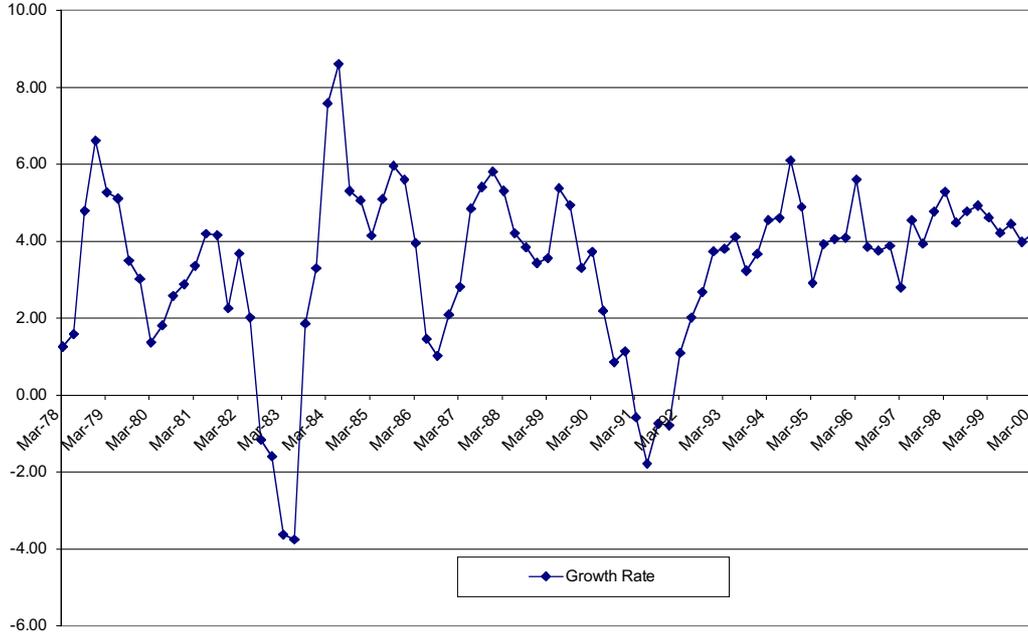
3. Comparison of Unemployment and Long Term Unemployment with Working Nation and with Coalition Reforms

To assess whether or not the Coalition labour market reforms have had a significant impact on the labour market requires us to have a clear *counter-factual*: how would unemployment and long term unemployment have behaved in the absence of the Coalition labour market reforms⁴. Since many things have been changing at the same time as the introduction of these Coalition reforms it is difficult to provide a definitive answer. In particular, the period of the Coalition government has seen an unprecedented period of growth in the US economy and a concurrent fall in the US unemployment rates to historically low levels. This rapid growth in the US economy has clearly provided, at best, a beneficent climate for Australian economic growth. The Australian economy has also had an unprecedented period of uninterrupted growth since March 1992 - see Figure 1. Obviously this augurs well for the Australian labour market. Or was there reverse causation? Did the Coalition labour market reforms lead to rapid economic growth? Given the economy had already been growing since 1992 it is difficult to believe that the Coalition reforms led to this growth rate continuing. This paper will simply take as given the rapid growth in GDP and see if the changes in the labour market outcomes are sufficiently positive.

The approach I follow is similar to that of an earlier paper on *Working Nation* (Junankar and Kapuscinski 1999), where we compared the outcomes of the labour market with an earlier period of a recovery from a recession. In this paper I shall compare the outcomes since the Coalition government came into power with the behaviour of the labour market under the Keating Labor government while the economy was coming out of the "recession we had to have".

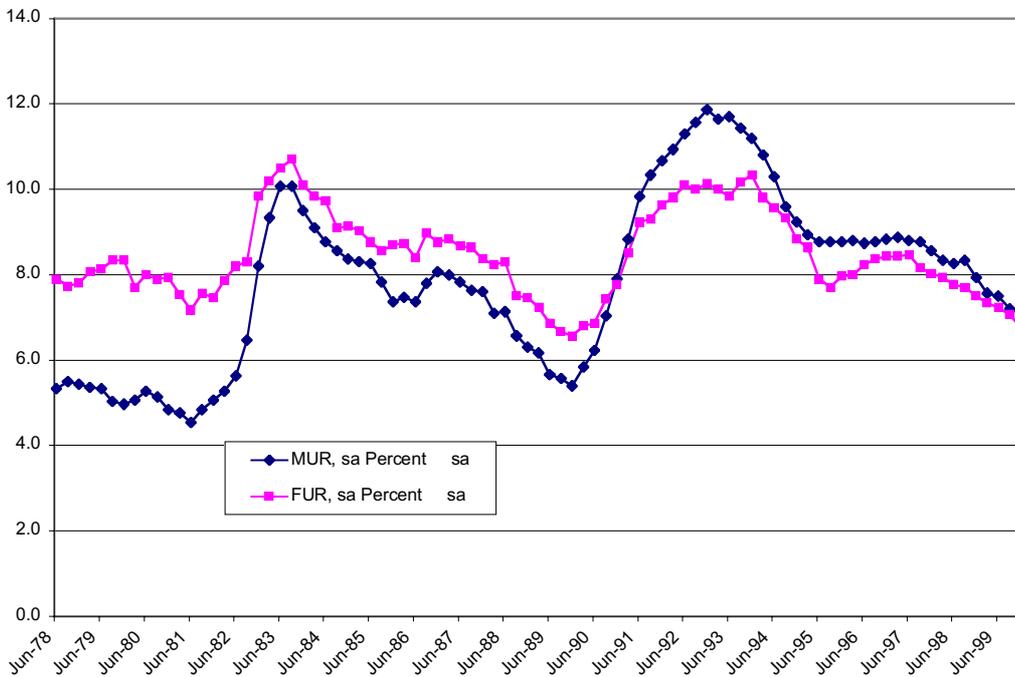
⁴ Unfortunately, there is no longitudinal data base which covers the period before and after the Coalition reforms. With unit record data it may be possible to carry out econometric estimation that controls for a set of variables and sets up so-called "natural experiments". That is a task for the future.

FIGURE 1: Growth Rate.



Source: DX data, seasonally adjusted.

FIGURE 2: Male and Female Unemployment Rates, Seasonally Adjusted.



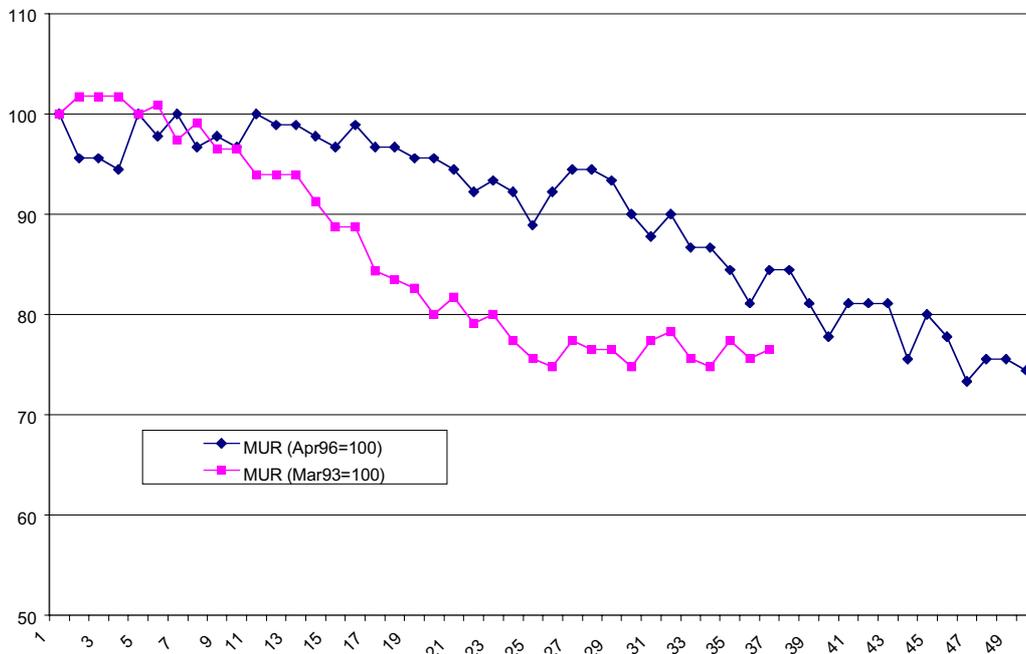
Source: ABS Time Series data, 6202_wks, seasonally adjusted.

A look at the unemployment rates over the past few decades shows that Australia went through two episodes of significant recession: one was in the early eighties and one in the early nineties. Even with the continuing and fairly rapid growth of GDP, the unemployment rates are just about getting to the lowest level as we came out of the eighties recession. A casual glance at Figure 2 suggests that unemployment since the Coalition government took office is not coming down as rapidly as during the period of the *Working Nation* labour market programs under Keating.

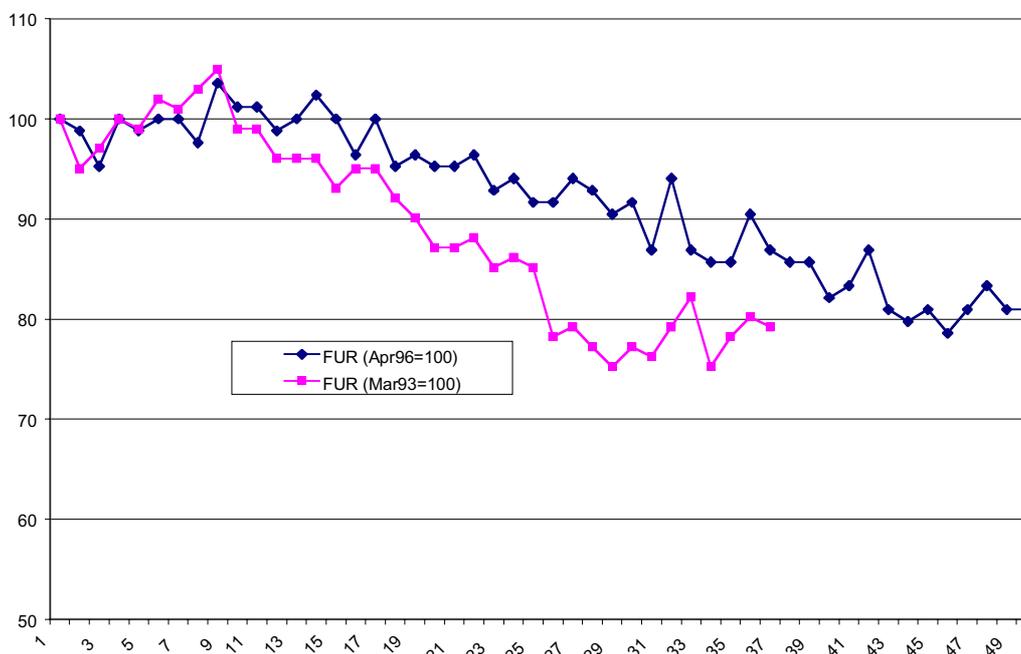
This can be shown by indexing the unemployment rates to be one hundred in March 1993 (when the economy began its recovery from the recession) under Keating’s labour market reforms and in April 1996 the month after John Howard’s Coalition government came into office to reform and deregulate the labour market. In fact many of the Coalition Government reforms did not come into operation until 1997. Figures 3 and 4 clearly show that unemployment rates came down more slowly under the Coalition government than under Keating’s reforms. In the Figures have indexed unemployment rates to be 100 at the start of the period and the horizontal axis measures the number of months from that date.

It should be emphasised here that for the Labor-Coalition comparison, the growth rate of real GDP averaged 4.35% in each window. Thus there should be no advantage to either from economy-wide growth effects.

FIGURE 3: Comparison of Male Unemployment Rates for Keating and Howard.

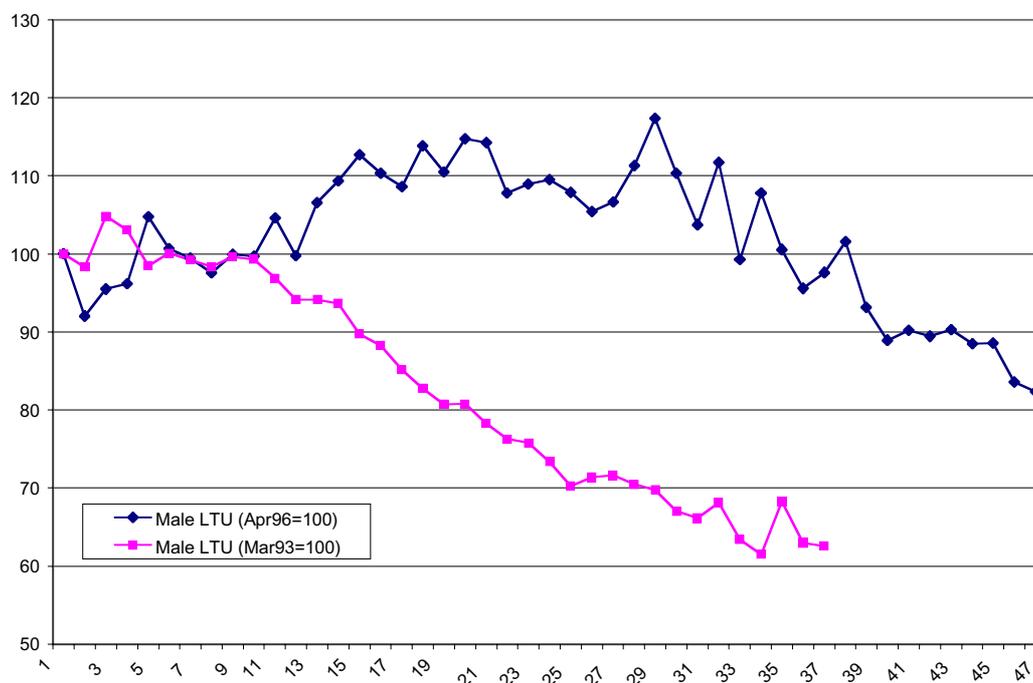


Source: ABS Ausstats Time Series data, ABS 620202_wks, seasonally adjusted.

FIGURE 4: Comparison of Female Unemployment Rates for Keating and Howard.

Source: ABS Ausstats Time Series data, ABS 620202_wks, seasonally adjusted.

One of the interesting aims of the *Working Nation* labour market programs was to target the long term unemployed (those unemployed for 12 months or more) as they were the most in need of help to get back into employment. Another feature was that assistance should be targeted at *those who were likely to become long term unemployed*. Under its Job Network scheme, the Coalition government introduced a Job Seeker Classification Instrument. Centrelink uses this instrument to assess job disadvantage and then refers job seekers to Job Network members who are paid more to help the more disadvantaged to find work. The long term unemployed are provided with Job Search Training (replacing the former Job Clubs) and Intensive Assistance (the former labour market programs). Given this targeting of assistance (as well as the stick of withdrawal of benefits via the activity test) we would expect that long term unemployment (LTU) should have come down, or at least the proportion of the unemployed who have been unemployed for more than twelve months (PLTU) should have come down. If these policies were meant to be an improvement on *Working Nation*, the rate of decrease of long term unemployment should have been faster. Again a look at the data suggests that the new policies are not working more efficiently than *Working Nation* policies. Figure 5 shows that male long term unemployment (in thousands, indexed) actually got worse after the Coalition government came into power and that when LTU did come down it did so very gradually. The data for females shows a similar picture and is therefore not reproduced here. If we look at the proportion of the unemployed who are long term, the PLTU, we again find that PLTU first increased under the Coalition government and then declined at a slower rate than under Keating's *Working Nation* labour market programs.

FIGURE 5: Comparison of Male Long Term Unemployment for Keating and Howard.

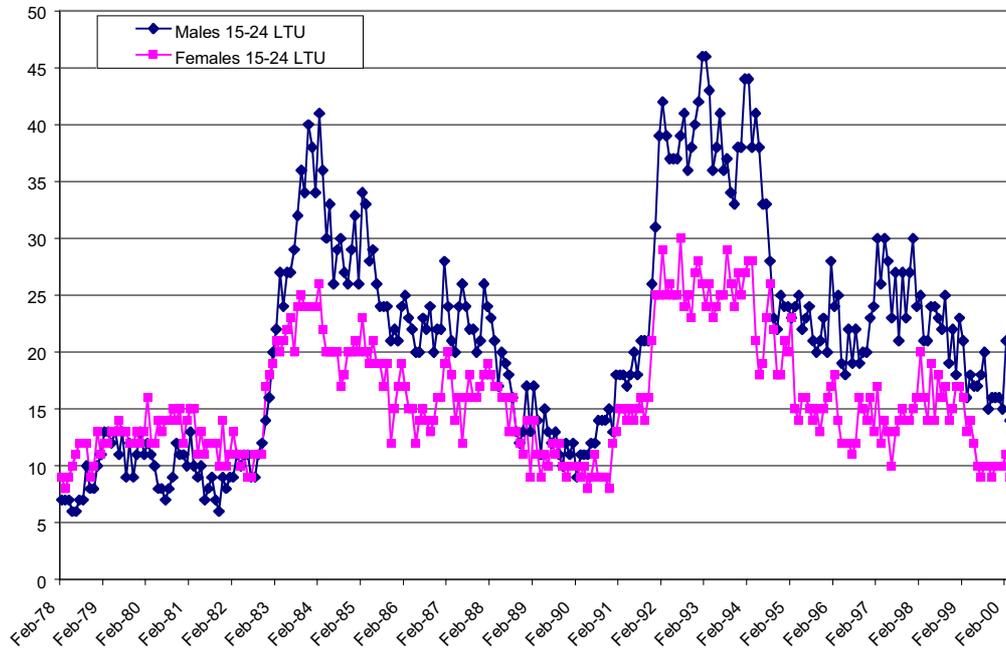
Source: ABS Ausstats Time Series data, ABS LABUN22_wks, seasonally adjusted.

Another major plank in the Coalition's labour market policies to tackle the problem of unemployment had been the introduction of Work for the Dole under their slogan of "mutual obligation"⁵.

I now look at long term unemployment of youths (aged between 15 and 24 years, data are available either for 15-19 year olds or 20-24 year olds but not 18-24 year olds). Again, the same pattern emerges: long term unemployment for youths came down rapidly after 1993 but then went **up** with the onset of the Coalition government and then came down very slowly thereafter, see Figure 6. Clearly the WFD program and the other programs under Job Network have not helped this critical group in society who may be "scarred" by this experience of long term unemployment. It is important to note that long term unemployment for young people may have more serious consequences on their morale, and on their mental and physical health - see for example Junankar (1987), Junankar and Kapuscinski (1992). These relative movements are easier to see when I follow the indexing procedure as before, see Figure 7 (the figure for females follows a similar pattern and is not reproduced here).

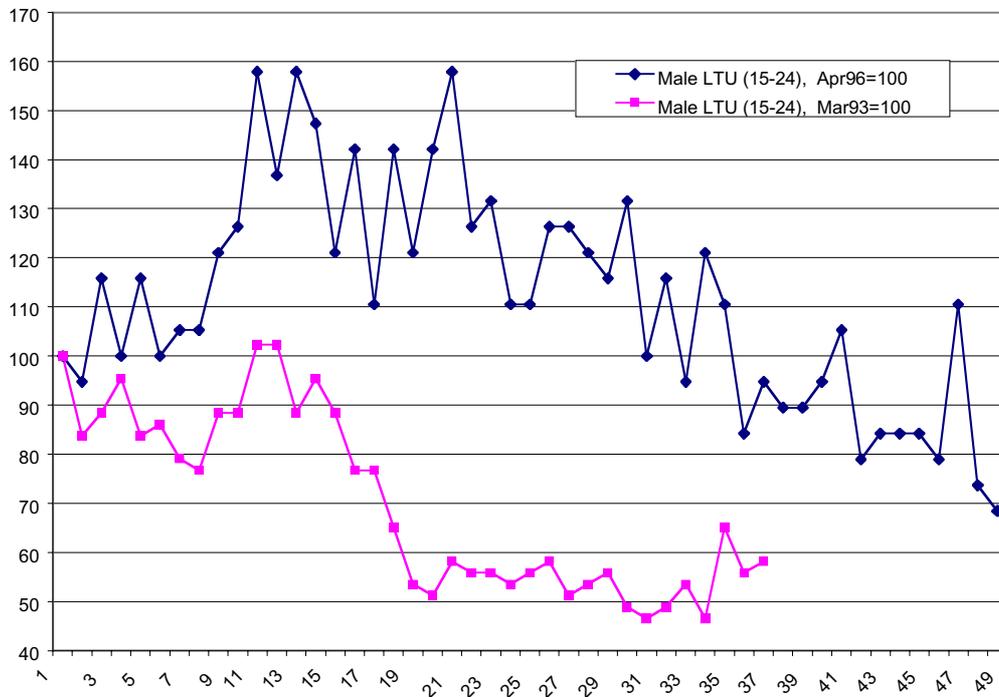
⁵ The concept of "reciprocal obligation" was introduced under Keating's Working Nation to persuade the unemployed to search actively or else be denied social security benefits. This was strengthened under the Activity test and called "mutual obligation" by the Coalition.

FIGURE 6: Youth Long Term Unemployment, Males and Females.



Source: ABS Ausstats data, Table U1.

FIGURE 7: Comparison of Male Youth LTU for Keating and Howard.



Source: ABS Ausstats data, Table U1.

4. Conclusion

In this paper I outlined the changing face of the Australian labour market programs and then provided a preliminary assessment of the achievements of the Howard-Reith labour market reforms. Although it may be too early to provide a proper assessment of the impact of the changes made to the provision of labour market assistance I believe it is too important an area to ignore. In this paper I have compared the labour market outcomes under the Keating government's Working Nation labour market programs with the outcomes since the Howard government came into power. I provided a simple graphical analysis to compare unemployment and long term unemployment of males and females separately and then of long term unemployed youths (15-24 year olds). Even though the economy was going through an unprecedented run of economic growth (equally shared by both governments), the unemployed and long term unemployed have not benefited from this growth as much as under the Keating government's Working Nation labour market programs.

There is much more work to be done to get a more definitive assessment of the impact of the labour market reforms under the Coalition government. A study using longitudinal data controlling for a range of variables including the agent providing intensive assistance (whether private sector, non-government, or government) in addition to demographic variables (e.g. age, education, migrant status, etc.) would be ideal. As the tendering process has unfolded, the government agency (Employment National) has a disappearing share of the contracts. Only time will tell whether this great experiment was worth the pain and suffering to many of the unemployed people.

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