The role of active labour market programs within a flexibility framework

A discussion paper for the Brotherhood of St Laurence Roundtable on Flexicurity

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Michael Horn
Research & Policy Centre

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1 Introduction

This discussion paper seeks to offer an overview of the important role performed by active labour market programs (ALMPs) as a key component of labour market policy. A brief summary of the flexicurity approach is followed by an assessment of Australian ALMP provision as a precursor to suggesting potential areas for further strengthening ALMPs as a part of a coherent flexicurity framework suited to Australian circumstances.

Flexicurity

The concept of flexicurity has developed in Western Europe as an organising framework from the 1990’s initially to respond to ongoing limitations of labour market policy levers that were increasingly viewed as inadequate in improving economic productivity and reducing social and economic exclusion. The word ‘flexicurity’ represents the bringing together of the two historically opposed positions of employers who seek a flexible labour market and unions who seek job security and decent conditions for workers (Wilhagen & Tros 2004; Viebrock & Clasen 2009).

Whilst there are differing versions of the flexicurity approach across Europe reflecting national interests, the Danish model provides a typical representation of the dynamic relationship and complimentarity between three key components of labour market policy:

a) A flexible labour market with employers encouraged to invest in up-skilling

b) A generous benefit system for the newly unemployed to enable social and economic participation

c) Active labour market policies to motivate and reskill workers and support pathways into work (cited in Belchamber 2009)

There have been significant variations to the conceptual three component model often used to describe Danish flexicurity. For example, a fourth component may be added to emphasise the importance of labour market regulation, that may include legislation on basic entitlements for all workers (paid leave, minimum wages, etc); provision for enterprises bargaining systems and non-statutory regulations; gender equality strategies (such as work-life provisions); provisions to protect or encourage participation by minority or disadvantaged groups; and entitlements to increase portability of rights to pensions, accrued leave and training.

Whilst all countries have specific policy levers within the above three domains, the potential advantage of a flexicurity framework is to ensure a balance of these policies over the life course resulting in a closer match of labour demand and supply across economic cycles. The role of active labour market policy and program design is therefore critical to this balance, especially in light of the long run changes in OECD labour markets and economies.

The European Commission describes these as measures to ‘help unemployed back to work through job placement services and labour market programs, efficient job search support and good work incentives.’ (European Commission 2007:11) In practice a wide range of other program types have been implemented across OECD countries under this category: for example, work subsidies and job creation approaches, supported employment aimed at vulnerable groups and self-employment programs.
The role of ALMPS within a flexicurity framework

Australia is in a similar position to most OECD countries in that we have an array of policy levers that control or influence the labour market in various ways. However they are not designed in an integrated way to complement each other in order to maximise the security of work for all those in the labour force according to individual aspirations and needs over the life course or to deliver a highly skilled flexible supply of labour to meet the needs of employers. The lack of a coherent framework has resulted in a largely reactive silo-centric approach to policy setting, despite the commitment to a social inclusion agenda and a strengthening of the COAG policy process between states and the Commonwealth.

2 Active labour market policy

In discussing the role of labour market policy, it is important to distinguish passive forms of assistance from active interventions. The former have traditionally included income support benefits, pension payments and concessions that may have universal coverage, be time limited or targeted on particular eligibility criteria.

The array of active labour market programs can be grouped as follows:

i. Job search and self-help assistance, including basic labour exchange services

ii. Training programs to develop soft or foundational skills, strengthen vocational skills of job seekers or retrain displaced workers with redundant skills or qualifications

iii. Job placement services

iv. Intensive support aimed at disadvantaged job seekers who may be considered not ‘job ready’

v. Job creation strategies such as intermediate labour market (ILM) or transitional employment programs using social enterprises to deliver work experience

vi. Job subsidies to stimulate demand from public and/or private employers.

ALMP developments

ALMPs have of course a long history both in Australia and overseas in a wide variety of forms. There is over a half a century of experience of active labour market policies and programs with their origins rooted in the development of the welfare state in post war Western Europe. According to an OECD review, the first version of ALMPs was developed by Swedish economists in the 1950’s to increase ‘occupational and geographical mobility in order to avoid labour market bottlenecks, alleviate inflationary pressures and maintain a high growth potential in the economy’ (Lönnroth 2000: 175).

Overlaying the usual economic cycle of spells of growth and recession, there have been a number of higher order events or changes affecting the global economy and in particular the industrial economies of the OECD over the past 40 years. In addition to the underlying changes mentioned above, specific events have included the two oil crises, the 1990’s economic crisis and of course the current GfC (Lönnroth 2000).
Any glance at the long term trends in unemployment over this period shows the cumulative effects of each downturn with the emergence of structural levels of aggregate unemployment. After each cycle, a rapid increase in unemployment is then followed by a long recovery period characterised by slow declines in long term unemployment (over 12 months). Lönnroth’s (2000) appraisal of the development of ALMPs describes how they have evolved internationally in response to these events and their consequences at a regional and local level, into a broad range of interventions with specific objectives. Australia’s experience summarised below has been no different in this regard. ALMPs therefore cover a range of strategies that seek to **smooth out the adverse consequences of economic downturns** at a macro-level through a mix of supply and demand side measures.

In addition to responding to specific economic downturns, European governments introduced policies to build a bridge between the unemployed and jobs on the understanding that labour markets are not efficient and therefore intervention is necessary and, if well targeted, will deliver net benefits to the whole society in terms of social and economic participation, and hence improve productivity of the economy.

In essence, **ALMPs provide an intermediary function** that matches the excess pool of workers to emerging work opportunities, taking into account locational variability in labour markets. It may be argued that this variability is a particular challenge in Australia characterised by its geography, distribution of the population and locational diversity of industries.

ALMPs fulfill an increasingly important role in the new service based economies that have grown out of the old industrial ‘advanced’ economies. The latter were characterised as providing a much higher proportion of ‘jobs for life’ across all skill levels with relatively high rates of single employer careers. Whereas in the post-industrial service economies, including Australia, the labour force is increasingly mobile with high proportions of casual and part-time jobs and much higher job turnover. As technological change has increased, the availability of low skilled manual jobs has declined, leaving a large pool of underutilised labour. The increasing proportion of small and medium sized businesses, particularly in growth sectors, further exacerbates the mismatch between job opportunities and job seekers. These changes necessitate an expanded intermediary role for ALMPs.

There is inevitably a level of policy tension between generous **passive** LMP measures - unemployment benefits (level, duration, conditionality) - and **active** LMP interventions: the former may introduce disincentives to job seeking (attachment effects) which are contrary to the aims of the latter. As evaluations of labour market policy settings have shown, there are significant positive net impacts in the form of employment outcomes achieved by ALMP’s, even in countries having strong passive measures (for example in Sweden: Sianesi 2004). One of the challenges is to strike the best balance that minimises deadweight and attachment effects, through appropriate assessment and matching of job seekers to the right level of employment assistance.

**Australian investment in ALMPs**

Australian government intervention in the labour market in a substantial way is not new. In response to the Great Depression, labour intensive public works were implemented following the lead from the USA and parts of Europe. In contrast, the post World War II period saw a switch in policy, whereby, ‘..labour market programs did a complete turn around from their established tradition of doing something with the unemployed to doing something about labour shortages.’ (Webster 1997: 5) Policy measures became focussed on immigration programs to meet the need for manual labour and improved education and vocational training provision to deliver skilled labour.
The rise in unemployment (especially in rural areas and amongst young adults) in the mid 1970’s resulted in a substantial shift to labour market policy settings – with increased expenditure on training programs for the unemployed and job creation initiatives (Regional Employment Development Scheme) (Webster 1997).

Until the GfC, successive governments over the past 30 years have largely adopted a reactive response to recessions using a mixture of fiscal stimulus measures and active labour market interventions (Webster 1997; Quiggin 2001). Webster’s review of the 1974-1996 period shows the degree of experimentation through economic cycles with different forms of ALMPs, shifting emphasis between training provision, wage subsidy/job creation approaches and later targeted job placement programs (eg JobClubs from 1998). However, a clear underlying trend is apparent through this period – as the structural level of unemployment became entrenched, overall government expenditure across an increasing array of ALMP’s increased from $52m in 1973-4 to over $2b in 1995-6 under Working Nation (Webster 1997).

Working Nation, introduced belatedly in 1994 to address the impact of the 1990-91 recession, included an expanded range of ALMPs including the JobStart wage subsidy program and the job creation program (New Work Opportunities) as well as pre-existing job search assistance, placement and intensive support models (JobClubs and SkillShare).

The election of the Howard Government in 1996 led to major reform of the Commonwealth Employment Service and employment assistance with the creation of Centrelink and the implementation of the Job Network in early 1998. These were planned as a part of wider reforms to industrials relations policy, the fiscal position and micro-economic reforms (Vanstone 1996). The new approach replaced the Working Nation suite of programs, which had been in operation for less than two years. The rationalization of employment assistance was based on the principle of the competitive market that would deliver job seeker choice, building on developments introduced through Working Nation. The Howard government retained a focus on case management to provide a higher level of assistance based on an assessment of job seeker barriers. These reforms were accompanied by a tightening of eligibility requirements and stronger penalties for breaches of participation requirements reflecting the ideological shift in favour of individual behavioural explanations for poverty and unemployment. They were also followed by broader measures to deregulate the labour market and reduce welfare dependency over the following decade.

The initial version of the Job Network (JN) specified three categories of assistance available to the unemployed based on an assessment of their labour market disadvantage through a new Job Seeker Classification Instrument (JSCI):

- **Flex 1**: job matching
- **Flex 2**: job search assistance, including short training to develop job search skills (aimed at those unemployed for over 6 months)
- **Flex 3**: intensive assistance aimed at the long term unemployed.

A range of private businesses and not-for-profit community agencies together with a corporatized government agency (Employment National) were contracted through a national tender to deliver Job Network services with differentiated payment structures that included a shift to client outcome based payments. A robust accountability and performance system (Star Ratings) was introduced to incentivize providers and re-allocate business during and between contracts.
An array of reforms to all aspects of the core JN model were implemented through contract renewal, guideline changes and new measures to address emerging weaknesses or gaps, for example, the Personal Support Program aimed at the unemployed who were not ‘job ready’.

In addition to the above reforms to ALMP under the Howard government, the focus of effort (and expenditure) was changed from the previous Working Nation package. Under the latter, as a response to the high rate of long term unemployment, intensive assistance was offered to anyone unemployed for over 18 months. Under the Job Network, the priority was placed on improving assistance to the short term unemployed who were ‘job ready’ through increased access to job search facilities than had been available through the Commonwealth Employment Service. More important however, was the substantial cut to overall expenditure on ALMP provision by one half by the Howard government.

The main program within Job Network offering a form of work experience was Work for the Dole – introduced first for 18-24 year olds unemployed for 6 months, and later expanded as a main element of labour market policy. However, it was not designed as an intermediate labour market (ILM) approach, but as part of the mutual obligation measures to increase compliance in job search activities, strengthen motivation and improve employability while also contributing to local community amenity (DEWR 2006). Additional small scale programs incorporating job subsidy approaches were delivered as part of the complementary suite of assistance under the Howard Government: Wage Assist, the New Enterprise Incentive Scheme (self employment model), and the Indigenous Employment Program (including Structured Training and Employment Projects [STEP], Wage Assistance and Community Development Employment Projects [CDEP]). However, only a very small proportion of job seekers were able to take up places in these programs (DEEWR 2009a).

Evaluation of the effectiveness of these job creation programs in comparison with the other employment assistance measures has proved difficult. In part this has reflected the increasingly politicised policy environment which has restricted evaluation methodologies to narrow contract management objectives, as well as limited access to program data by independent researchers (see for example DEWRSB 2001; DEWR 2006). The continual adjustments to employment assistance contracts and rules over the past two decades has also limited research ability to evaluate with confidence the effectiveness of particular interventions.

Departmental evaluation of the core elements of the Job Network (the Active Participation Model introduced in 2003) concluded that the Australian approach compared well with international best practice in achieving net employment impacts ranging from 7 to 11 percentage points and outperformed Working Nation programs (DEWR 2006). The context in which these evaluations have been conducted (as outlined above) and methodological weaknesses, for example reliance on observation methods with selectivity challenges, makes it is difficult to draw defensible conclusions concerning the overall benefits of particular elements of ALMP provision. Although successive government departmental analyses have compared employment outcomes between ALMP programs, the above caveats together with external factors – such as the economic cycle and level of employment growth over time – do not enable robust comparisons of outcomes.

The election of the Rudd Labor government in late 2007 provided the opportunity to reform the Job Network and the array of complementary ‘gap-filling’ programs (such as PSP and JPET) in time for contract renewal in 2009. A review of employment assistance was undertaken in 2008 amidst growing criticism of the core model which was no longer suited to the emerging labour market (pre-GfC).
BSL’s critique drew attention to six main shortcomings:

- ‘Service providers have become burdened with ever-increasing regulation and contractual obligation;
- Disadvantaged and marginalized job seekers have become overwhelmed with compliance obligations and penalties;
- Clients with greatest need do not receive higher levels of resources;
- The service system has become increasingly fragmented, complex and inefficient;
- The complex payments structure has led to skewed incentives and perverse outcomes;
- The competitive quasi-market model has limited collaboration and partnership, stifling innovation.’ (BSL 2008: 4)

The Rudd Government implemented substantial changes to employment assistance through the tendering of contracts to deliver the new model, Job Services Australia (JSA), from July 2009 with funding of $4.9b over three years. Key changes included:

- Simplification of assistance through consolidation of programs,
- Reconfiguration of streams of assistance including a Work Experience phase,
- A stronger focus on LTU and disadvantaged job seekers through the payments system,
- Increased flexibility in assistance to overcome barriers via an employment pathways fund,
- Some softening of participation requirements with exemptions due to vulnerability expanded to focus on re-engagement rather than coercion.

A significant development was provision for an Innovation Fund to support new approaches to address highly disadvantaged groups through place-based interventions. However, the overall level of investment in ALMP’s through JSA was budgeted to deliver net savings to the government.

Following a review of disability employment assistance, the government maintained a distinct program through Disability Employment Services, contracted as an uncapped service from early 2010 comprising a simplified model of two programs:

- Disability Management Service for job seekers requiring assistance to gain employment who may need occasional support in the workplace, and
- Employment Support Service for jobseekers with a permanent disability requiring ongoing workplace support.

The reforms have retained the core principles underpinning the previous ALMP service delivery under the Job Network, DEN and VRS, whilst reducing the complexity and inflexibility of earlier arrangements. The government has also acknowledged the need for employer focused approaches to encourage take up of workers with disabilities through support for wage subsidies (Wage Subsidy Scheme and DSP Employment Incentive Pilot).

In recognition of the impact of the economic downturn on particular regions and local areas, as part of the stimulus package announced in April 2009, an investment in a Community Jobs Fund ($650m) aims to ‘support and create jobs and increase skills through innovative projects that build community infrastructure and increase social capital in local communities’ (DEEWR 2009b: 1). The approach seeks to assist disadvantaged communities vulnerable to high unemployment by generating employment opportunities mainly though social enterprises and by supporting local infrastructure through Local Employment Coordinators.
Social enterprises comprise a wide range of business models ranging from those that seek to maximize profits from trading which are then redeployed to support charitable or welfare related activities to those that focus on maximizing social return. The latter, including community enterprises, aim to build social cohesion or participation, to achieve environmental benefits or to provide work experience and training opportunities to disadvantaged job seekers. In the latter case, they often form a pivotal element of the Intermediate Labour Market (ILM) model in the form of transitional employment in a supportive environment while recipients are paid wages (Mestan & Scutella 2007).

In addition to Commonwealth government ALMP delivery, State governments have also invested on a smaller scale in targeted job subsidy and job creation programs, for example the New Workforce Partnerships program in Victoria (AFV 2010).

In some nations, ALMPs may be implemented to address social inclusion goals aimed at giving work experience to highly disadvantaged people in a supportive environment and to build social cohesion within disadvantaged communities and neighbourhoods. In Australia, the Community Development Employment Program (CDEP) has sought to provide meaningful work activities for indigenous people in remote and regional areas where open employment jobs were non-existent.

The emergence of social inclusion principles in Europe has strengthened the impetus for ‘joined up’ approaches – not just by government departments – but also at the program delivery level – recognising that to achieve a balanced and more efficient labour market, program delivery needs to be better coordinated and multi-faceted to ensure individualised training and skill building aimed at meeting job seeker and local employer needs.

International ALMP developments

The provision of ALMPs evolved through the 1990’s across the OECD in a number of key directions based on the growing evidence base (despite limitations in evaluation approaches):

- A greater focus on supply side programs to build job seeker skills
- Increased targeting of assistance through categorisation of job seekers to deliver ‘soft’ or foundational skills through personal support and job search assistance
- Shift away from universal models focussed on vocational training for the long term unemployed
- Emergence of locally delivered, individualised service delivery using community providers (such as through the social economy)
- Reduced use of large scale job creation programs on the demand side, shifting to indirect incentive or subsidy approaches
- Growth of mutual obligation measures, with a stronger focus on ‘activating’ the unemployed to search for work, and
- Design of assessment tools to stream income recipients based on work capacity and job readiness to better target assistance to job seekers. (Lönnroth 2000)
As mentioned above, Australia has played a leading role in some of these developments: the introduction of strong participation requirements with punitive measures for non-compliance, the contracting out of mainstream service delivery based on a transactional payment system with a weighting on client outcomes, the use of a classification tool to determine eligibility for levels of support, and the Work for the Dole.

More recent OECD analysis of labour market reforms have pointed to the success of, and necessity for a complementary suite of policy levers that include:

- Activation measures to encourage job search
- Effective employment assistance (job placement and integrated support models)
- ‘Make work pay’ strategies (aimed at low skilled job seekers and retirement age workers)
- Flexible working arrangements for women (parental leave and affordable child care access) (Martin 2008)

John Martin has highlighted that further gains in improving labour force participation rates, notwithstanding the impact of the GFC on the economy, will depend on strengthening the demand for what are described as ‘under-represented groups’ including women, those with disabilities, ethnic minorities and indigenous populations.

‘Promoting equality of opportunities in the labour market requires long-term investment in education and training, as well as interventions to promote access to productive and rewarding jobs. A persistent mismatch between skills acquired by individuals and those required by firms to navigate in a globalised and more competitive environment still represents a barrier to employability of certain groups.’ (Martin 2008: 12)

This challenge is more important for Australia due to the diversity of our population with high levels of migrants from non-English speaking backgrounds, the casualisation of our labour market and high level of small and medium sized businesses. Labour market discrimination requires strong measures and investment to encourage inclusive practices and behaviours by both public and private sector employers. There is a role here for specific ALMP strategies that encourage and support employers (especially SMEs) to take on and retain job seekers facing such disadvantage, over and above effective legislation and enforcement strategies.

3 Policy challenges

Having set the scene with an overview of Australian ALMP provision compared with OECD developments, the following challenges or weaknesses in current policy settings are identified:

1. There is insufficient investment in ALMP provision overall, but particularly in best practice approaches that support a transition to open employment for disadvantaged job seekers: targeted programs for job creation, supported employment and demand side subsidies. Over emphasis on supply side issues is misplaced – especially at these times in the employment cycle.
By international comparison, Australia has underinvested in both active and passive forms of labour market assistance (Figure 1). Using the latest OECD data, Australia spends the 8th lowest out of 26 countries with comparable data on ALMPs, which include public employment services, administration, training employment incentives supported employment and job creation and start-up measures (OECD 2009: Table J). This level of investment is well below the OECD average and may be contrasted against the core group of flexicurity countries, including Denmark, Sweden, Netherlands and Finland (see Bertozzi & Bonoli 2009). Thus, the top five ranking countries spend over 1.15% of GDP on active labour market programs, compared to 0.32% for Australia (using 2007/8 data).

Taking the example of Denmark, expenditure on supported employment and rehabilitation is eight times higher and on employment incentives is 10 times more than that by Australia (OECD 2009: Table J). In terms of coverage, 4.7% of Denmark’s labour force take part in ALMPs compared to 1.9% for Australia. The OECD unweighted average in the reported period (2007/8) was 4.3% showing the underinvestment by countries such as Australia.

**Figure 1: Public expenditure on LMP’s as % of GDP in OECD (2007/8)**

Source: OECD 2009: Table J
2. There is still underinvestment in effective integrated approaches aimed at highly disadvantaged job seekers – those flowing into Work Experience in JSA – that can deliver sustainable outcomes. Anecdotal evidence suggests that the current JSA funding model still allows ‘parking’ of disadvantaged job seekers with underutilisation of flexible brokerage resources. A perennial weakness since the introduction of the Job Network has been the inadequate investment and contractual disincentives to provide a sufficient level of intensive support to highly disadvantaged job seekers. Alternative approaches to the current Work Experience phase need to be supported.

In addition to ‘parking’ concerns, the current model prevents ILM approaches that offer integrated assistance, through personal support, soft and vocational skill building and meaningful work experience - that has a clear line of sight to open employment prospects. The experience from the Community Jobs Fund and Innovation Fund projects may usefully inform future developments from 2012.

In recent decades, social enterprises have played an increasingly important role in Europe, Canada and the United States in assisting job seekers with significant or multiple barriers to gain meaningful work and accredited training. Both overseas and in Australia, they have been shown to be successful in enabling such job seekers make the transition from long-term unemployment into paid work (see for example Mestan and Scutella, 2007; Mission Australia 2008) with claims made for better sustainable outcomes compared to universal approaches.

There are challenges in building a sustainable social enterprise sector that focuses on maximizing social returns without running budget deficits. However, the net benefits to the community warrant greater government support to make this approach an integral part of active labour market assistance. The prospects for the long-term unemployed finding paid work in the open labour market will remain relatively poor. Currently, there are 610,000 unemployed nationally compared to 169,000 vacancies (ABS 2010a & b). And this does not include the substantial level of underemployment at over 7%.

At a local level, the intermediate labour market model can be more responsive to community needs through individualised matching of skill development and paid work experience directly with prospective employers. Rather than allowing the long-term unemployed to languish on income support benefits with relatively limited prospects of employment, an alternative pathway could entail eligible job seekers moving off benefits into a paid traineeship (at minimum award wages) for up to 12 months in social enterprises. In addition to the direct effects of sustainable work pathways for highly disadvantaged job seekers and better alignment of vocational skills to local employer needs, there are net cost benefits to the community of reduced demand for health and welfare services in the longer term through lower levels of social exclusion and welfare dependency — the bane of past recessions.

There is evidence of the benefits of job subsidy approaches. For example, JobStart – a wage subsidy approach in Working Nation – was found to be the most cost effective program with relatively low expenditure per participant and low cost per net impact (Harding 1998; Stromback 1998). However, as with public sector job creation models, off-benefit and job subsidy approaches should be locally targeted to build pathways between newly trained workers and job opportunities in growth sectors and industries.
3. Integrated service responses and joined-up models of assistance aimed at highly disadvantaged cohorts and groups have been emerging for some time, but have lacked the support of government until recently (for example, YP for young homeless job seekers, Horn 2003). The combination of the GfC and high level support for social inclusion policy reform has led to a range of innovative projects aimed at joining up the range of services that already work with job seekers and their families. The Family Centred Employment Project has been developed by DEEWR (at the behest of the Social Inclusion Board) using Innovation Funds to trial new integrated approaches for jobless families at two sites. A place-based collaborative model has recently commenced in the City of Yarra focussed on an integrated approach to address joblessness in the local public housing estates (BSL 2010). A Centrelink trial (Local Connections to Work) has also just started to replicate the successful Community Link model in New Zealand, which will offer a collaborative and holistic approach to highly disadvantaged job seekers (young adults and unemployed > 5 years) across four customer service centres through the co-location of government and community service providers. Together these represent a potential new avenue of reform to focus on client centred models targeting highly disadvantaged groups.

4. What are the net benefits of contracting service delivery for employment assistance through a transactional outcome focussed payments model? Over the past two decades, a fundamental shift in the delivery of services aimed at the public good has occurred through the contracting out of program delivery to community not-for-profit, and increasingly, to commercial providers - amounting to a de-monopolisation of public services - with the goal of improving efficiency in key domains including employment assistance. Some policy analysts have raised questions concerning the efficacy of contracting out particular types of services as the competitive environment acts against local inter-agency collaboration and partnership (Lindsay & McQuaid 2008: 353).

Genuine effective partnership aimed at improving outcomes requires a level of trust between partners: but the intrinsic nature of competitive tendering and contract management through outcome payments runs counter to building trust at the local level between competing providers. Yet effective ‘activating’ OECD countries espouse the importance of inter-agency co-operation to better integrate service delivery tailored to individual job seeker needs. Lindsay and McQuaid have identified six potential benefits achievable through inter-agency co-operation:

- Localised service responses are necessary to galvanise integration of assistance to better match disadvantaged job seeker needs with local labour markets;
- Sharing of local knowledge and pooling of resources from different funding sources;
- Improved efficiency in use of resources;
- Joining up services through co-location and co-ordination for service users;
- Building capacity in the system through cross sector and multi-agency partnerships; and
- Government can gain support from community sector agencies for new policies. (Lindsay & McQuaid 2008: 354-5)
However, there are significant adverse risks in wholesale contracting out of public employment services, including loss of expertise and practical knowledge within *government* that are critical to policy development as has been the case in the Netherlands (Lindsay & McQuaid 2008: 363); and within *contracted providers* critical to maintaining consistency of quality service delivery in Australia (O’Sullivan et al 2009). There is evidence that privatisation has skewed resource allocation by providers away from service delivery to contract management, reduced worker expertise and skills and over time has resulted in a concentration of contracted providers – eroding competition and coverage (Eardley 2003: Table 1).

It may be argued that the benefits of contracting out may be more apparent than real – that is, there may be some efficiency dividend through driving down unit costs of delivery, especially for job ready unemployed. But, the contracting out of service delivery aimed at highly disadvantaged job seekers, especially in areas of joblessness, may result in false savings, as greater benefits in terms of *sustainable* outcomes could be achieved through integrated service responses at a local level, not easily orchestrated through current funding models. As Lindsay and McQuaid’s three country (UK, Denmark, Netherlands) study concludes,

‘Genuine partnership-working requires the ceding of authority and sharing of resources and responsibilities. Where implemented, such partnerships can deliver rewards in terms of enhanced knowledge sharing, improved efficiency and greater legitimacy for activation through a sense of shared ownership among stakeholders. Such shared ownership has proved difficult to establish and maintain in all three of these vanguard active welfare states.’ (Lindsay & McQuaid 2008: 363-4)

Australia has led the way in contracting out core ALMP programs leaving the government agency Centrelink as the entry point for income support claimants and assessment of eligibility for employment assistance. A key question is whether we have the right balance between efficiency and effectiveness in respect of disadvantaged job seekers. If local partnerships depend on pooling resources and working collaboratively at a local level, is the current JSA system able to deliver this level of integration?

Australia has gone further in its development of sophisticated streaming and contracting of assistance compared to most other OECD countries. It may be argued that we have gone too far with an overly complex and inflexible design ill suited to accommodate the dynamic nature of the modern labour market. Consideration of further simplification of the model is necessary to ensure its long term viability, continuity of service delivery and responsiveness to market changes, for example:

i. Consolidation of the 4 streams into 2

ii. Provision of initial job search activities for newly unemployed by a public provider (Centrelink)

iii. Enhancement of Work Experience phase as a complementary approach resourced to support integrated transitional employment approaches at the local level.
5. **Assessment for assistance** – is the right information collected at the right point of engagement with job seekers? Under the JSA model relatively minor changes were made to the ‘looking for work’ and job capacity assessment procedures (JSCI and JCA) despite their limitations under the Job Network. Full and accurate assessment of job seeker capabilities and barriers to work is the critical first stage in delivering effective and efficient employment assistance especially in a contracted transactional model.

Yet there were evident shortcomings in these assessment processes, including the lack of a skills audit, inaccuracies in basic information, poor engagement with job seekers to elicit disclosure of barriers (such as homelessness, substance abuse or family conflict) and inefficient review mechanisms.

The assessment processes were designed for high volume, job-ready income support recipients during a period of high unemployment and therefore penalise job seekers with multiple or complex issues. The labour market over the next decade will see the re-emergence of labour shortages following economic growth and demographic changes (ageing population) – making it more important to invest in simpler assessment and more effective engagement strategies aimed at disadvantaged job seekers.

6. The Rudd government has increased the emphasis on building the basic and vocational skills of the Australian workforce through a range of significant reforms to improve educational attainment, youth transition (Education Revolution and National Partnership on Youth Attainment & Transitions) and to increase the productivity of workers and job seekers (Productivity Places Program).

Policy analysts have tended to exclude government provision of core education and training in their consideration of labour market programs as a universal function of the state (see for example Webster 1997). It is usual for education and training provision to be grouped as ‘comprehensive lifelong learning’ (LLL) that includes primary, secondary and tertiary education but also the provision of up skilling during the working years - often with an emphasis on key risk points (European Commission 2007). LLL programs have thus become one of the four components of flexicurity adopted by the European Commission.

With the increasingly complex nature of the school to work transition, wherein students combine education with paid work in greater numbers, the separation of core education and post-compulsory training from targeted programs aimed at building foundational and vocational skills has become more difficult. Human capital development programs may be included within the ALMP domain if they build foundational capabilities and vocational skills of the unemployed that either directly or indirectly lead to a job. For example, skills development of new migrants and refugees require targeted initiatives outside the universal system.

In many countries, the responsibility for skills policy may sit in a different department or jurisdiction, that is, within education and training portfolios, rather than in employment and labour market portfolios. This creates challenges for the implementation and governance of integrated policy measures aimed at a better match of labour having the right combination of skills and capabilities required by emerging growth industries and sectors in post-industrial economies.
Some categories of job seekers at key points in their working years (indigenous, humanitarian migrants, sole parents and mature aged) require targeted assistance to build their foundational and vocational skills. There is some risk that the emerging priority on what is in effect a ‘training first’ agenda may fall short for those groups who drop out of the learning system in the absence of more flexible options tailored to their circumstances and capacities. Flexible pathways that combine applied learning (on and off the job training) with work experience and welfare support are necessary to support those with significant personal and/or structural barriers to take up entry level job opportunities (Meager 2009; Mansour 2005). Strengthening the life and foundational skills of disadvantaged job seekers is also an important component to achieving employment outcomes (Graham et al 2010).

As we have already seen under recent employment assistance in Australia, ill-considered policy levers can result in training churn, through a ‘one size fits all’ provision that fails to match course selection to sustainable jobs and careers paths for the unemployed. The importance of individualised learning plans for vulnerable groups linked to local employment prospects should not be ignored.

7. Mutual obligation or conditionality provisions have been developed in response to increasing numbers of income support recipients (with resulting cost burdens for governments) to combat assumed welfare dependency by ‘activating’ discouraged job seekers to participate in training or job search. With the introduction of welfare-to-work legislation from 2005 in Australia, the coverage of compliance measures was extended to new groups as part of a broad set of reforms to eligibility for income support. These measures continued the policy focus on the supply side of the labour market. They also sought to engineer social change through the imposition of participation requirements on sole parents (usually women) once their youngest child reaches school age.

There is limited evidence in support of these approaches to activation, and arguably a larger body of research raises questions about their value especially in respect of young people, sole parents and disadvantaged job seekers (Scarpetta et al 2010; Cortis & Meagher 2009). In particular, the evidence suggests that a better balance of policy levers with positive incentives and support, through a more coherent framework (for example, ‘making work pay’ provisions: (Bodsworth 2010), is essential to support labour market participation through sustainable and good quality jobs.

8. The changes to employment assistance services implemented in 2009 with the contracting of Job Services Australia included the consolidation of a number of complementary programs including JPET and PSP into the new universal model. The implementation of the JSA model has taken some time to settle because of the large scale change in contracts - with new providers, significant staff turnover and job seekers having to change providers and caseworkers. However, the tendering arrangements have resulted in only limited coverage of youth specialist JSA providers across employment service areas. These providers have to accept referrals of other job seeker categories while generalist JSA providers are taking on young adult job seekers referred by the system. This appears to be an inefficient and possibly perverse outcome of the tendering process. The design of the JSA encouraged the entry of specialist youth providers into the market presumably on evidence that the prior JPET approach was valued and effective. It is a concern that not all disadvantaged young unemployed people are able to access a service that may be expected to be more responsive to their needs. Cohort analysis comparing JSA provider types against outcomes will be important to understand the effectiveness of the new JSA model and inform further reforms aimed at young adults.
9. As part of the youth participation and attainment reforms introduced last year, a number of Commonwealth youth pathways programs were consolidated into the new *Youth Connections* commenced in early 2010 aimed at 13-19 year olds. The ‘learn or earn’ policy principle has been welcomed to address the risk of disengagement of young people. The challenge lies in implementation to best effect. *Youth Connections* primarily aims to reengage young people into education and training. There remains an array of overlapping programs targeting vulnerable young people funded by the two levels of government. In many cases, these young people are clients of multiple services reflecting the fragmented nature of assistance in the youth transition domain. Some states are reviewing and trialing different ways to coordinate government policy and service delivery (for example, Victoria’s Vulnerable Youth Framework and Better Youth Services Pilots). It is suggested that a further reform agenda is still required to consolidate and strengthen the provision of youth transition support into a coherent and integrated approach, complementing mainstream education and training provision, that maximizes the economic participation of vulnerable young people facing multiple barriers.

10. Governments are seeking to reduce the number of *sole parents on income support payments* as part of welfare to work policy. Encouraging sole parents to gain skills and take up paid work in the longer term makes sense as both a pathway out of poverty and to improve economic productivity. However, current ALMP settings have been too narrowly framed – relying on dubious assumptions concerning parenting needs and family well-being. OECD comparative analysis suggests that a more coherent and balanced set of policies are needed in Australia covering employment assistance, adequacy of income support, availability of affordable child care and leave entitlements that put greater weight on family and caring responsibilities (Cortis & Meagher 2009).

11. The number of *people on Disability Support Pensions* has risen by 35% in the decade to 2007. Prior to the most recent changes to disability employment services, Australia compared very poorly with other countries in the employment of people with disabilities (DEEWR 2008). Of all the equity groups provided with intensive support under the Job network, job seekers fare worst – only 13% achieve full time jobs (DEEWR 2009b). The government has acknowledged the extent of this employment challenge. However, the level of investment in best practice models of integrated assistance and in *demand side measures* to encourage greater public and private employer take up of those who seek work needs to be increased to achieve a substantial impact.

Finally, evaluation has tended to be narrowly focussed by previous governments on accountability and reporting of specific programs with an emphasis on net impact and (short term) employment outcome performance (DEWR 2006, DEEWR 2009a). There has been a focus on improving efficiency of programs – driving down unit costs – to manage budget expenditure under a ‘jobs first’ imperative. These policy drivers must be seen in the context of prior conservative government concerns with welfare dependency and overall government expenditure on public services. Broader questions concerning the sustainability of job outcomes, the efficacy of the mix of ALMP programs, adequacy of investment and the underlying policy elements, such as coercive activation strategies, contracting arrangements and integrated service models have been inadequately evaluated.

In addition, research is needed to consider how a more coherent and balanced set of policies across the key elements of the flexicurity framework can work together for particular groups such as sole parents, young adults and people with disabilities. There are positive signs for the prospect of more open and collaborative research into ALMP settings using the rich data sources already in place – this shift is critical to deliver a defensible evidence base to inform all stakeholders with an interest in strengthening labour market policies as part of a flexicurity framework.
4 Conclusions

A fundamental misunderstanding of the role of ALMPs has been the assumption that they exist to significantly increase the net number of jobs, that is, expand the labour market. Any effect of ALMPs on the macro-economy will at best be marginal.

Rather, in a dynamic and flexible economy, the aims of ALMPs should be to:

i. Compensate for the inefficiency in the labour market by better matching supply with demand,

ii. Build basic capabilities and skills of highly disadvantaged or excluded workers,

iii. Enable disadvantaged job seekers (sub-groups and in particular locations) to be more competitive in the labour market through training and transitional employment pathways,

iv. Provide meaningful work opportunities in areas where the market cannot provide sufficient jobs,

v. Support social inclusion goals, particularly in highly disadvantaged areas/neighbourhoods,

vi. Meet political imperatives and pressures from advocacy groups (employers, employment service providers, not for profit sectors) especially in response to peaks and troughs in the economic cycle, and

vii. Offer a more acceptable alternative to long term unemployment and welfare dependency.

Current Australian programs clearly play an important role in meeting these aims. However, it may be argued that we have over emphasised processes and contract management of core delivery to drive improved efficiency and targeting – at the expense of sustainability of outcomes for job seekers to reduce long term unemployment and maximise job retention and advancement.

As Australia seeks to improve its productivity over the next decade, it will be critically important that maximum utilisation of the labour force is achieved through an integrated workforce reform agenda. Skills Australia through its recent skill building strategy has advocated for further reforms to lift the participation rate in paid work to 69% by 2025 ‘to provide the required workforce and improve social inclusion’ (Skills Australia 2010). The Rudd government is rightly increasing the effort to raise the skills and competencies of the workforce in toto as Australia has lagged in this area compared to the OECD.

While their focus through COAG is on strengthening the universal skills and training systems to improve Australia’s human capital to world best practice, it will be essential that increased investment in effective active labour market interventions (demand and supply side approaches) is also made to ensure that the unemployed and underemployed are effectively assisted into sustainable work.

DPM Julia Gillard recently pointed to the mismatch between demand and supply of labour expressing her concern that we are having ‘a patch work recovery where localised unemployment at higher than the national average remains.’ (Gillard 2010: 4). In response to the GfC, the Rudd government introduced a range of stimulatory measures, in particular in this context the Community Jobs Fund as a short term job creation intervention. It will be important that the lessons learnt from this experience, and indeed the DEEWR Innovation Fund projects, are fully utilised in framing further reforms to ALMP from 2012 that prioritise local areas and regions of labour market disadvantage.
It may be argued that the current downturn has further reinforced the longer run trend in the casualisation of our labour market. While many full time employees lost their jobs, some were able to quickly obtain new jobs, albeit with reduced hours or casual work. This has been portrayed as a ‘soft’ effect of the downturn due to our flexible labour market. However, in the longer term, this trend may exacerbate weak job seeker attachment to sustainable work together with poorer prospects of upskilling by employers. Only a small percentage of disadvantaged job seekers assisted through the Job Network achieved full time jobs - 13% for IScA1; 9% for IScA2; 10% for WfD - three months after exit (DEWR 2009b).

As labour shortages remerge once again, there will be extra pressure on policy makers to reduce the current wastage in the labour market through both mismatch of skills to work and underutilisation of labour. Demand side approaches (such as wage subsidy programs) reduce the costs for potential employers in taking on a job seeker. They in effect reduce the burden on employers to spend on ‘in work’ training, supervision and support especially at the low skilled level. With an increasingly casualised and mobile workforce, there is arguably less incentive for employers to invest in upskilling their low skilled employees. Increasingly there will be calls for governments to provide this investment to ensure a ready supply of labour with the foundational skills and capabilities to be useable to employers. Again this will make it even more important to invest in effective ALMP interventions.

The potential of a flexicurity framework may lie in its ability to focus policy makers on developing a coherent and well integrated suite of policies across the key components of labour market regulation, a generous benefit system, lifelong learning and active labour market programs.
The role of ALMPS within a flexicurity framework

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