



Joint research

on the application of mutual obligation in welfare and development assistance

Training for work is more effective than Working for the Dole

By Tim Martyn

Executive summary

This paper investigates Australia's 'mutual obligation' policies for the unemployed, and makes a comparison with the United States, the United Kingdom and Denmark. The focus of this investigation is whether 'work first' strategies or labour market training programs are more effective at reducing long-term unemployment. The findings of this paper suggest that policies that encourage greater social investment in the long-term unemployed, within an activity requirement framework, are the most effective at reducing persistent unemployment.

It concludes that emphasising individual responsibility is not in itself problematic; however, policies that increase individual responsibility without simultaneously improving individual capacity, fail to redress the real labour market barriers faced by disadvantaged jobseekers. In addition, by not addressing the real reasons for income support dependence, Australia's 'mutual obligation' approach, as typified by the Work for the Dole program, only further stigmatises those already on the social and economical margins.

Mutual obligation in Australia

‘Mutual obligation’ has its origins in liberal democratic philosophical traditions – in particular, in the idea of a ‘social contract,’ under which rights have correlative responsibilities or obligations.

The swift ascent of the ‘mutual obligation’ philosophy to the forefront of the international welfare reform debate has led to some significant changes to whom, and under what conditions, Governments provide income support. It has been used to define those ‘deserving’ and ‘undeserving’ of Government assistance.

For most of the 20th Century, the Australian welfare state placed only minimal obligations upon the unemployed. This was a consequence of the Commonwealth assuming responsibility for full employment. Where it failed to provide this form of social insurance, the Commonwealth was obliged to pay income support.

As Australia’s manufacturing base steadily declined as a result of deregulation and national tariff reform, unemployment began to rise. By the early 1990s, it was clear that Australia had a problem with persistent long-term unemployment.¹ In response, the Commonwealth Government abandoned its full-employment policy and in its place, began to stress that employment was no longer a right, but an individual responsibility.

The redistribution of this responsibility from Government to individuals was a pragmatic response to the escalating costs of supporting and retraining the unemployed; Australia’s mounting foreign debt, interest rates and poor credit rating provided additional motivation for reducing public expenditure. Drastic reform, however, is rarely politically popular; as a result, it became incumbent on the Commonwealth to re-conceptualise – for the voting public’s

benefit – the roots causes of structural unemployment. Thus, it became politically expedient to justify cutting the welfare bill by couching this reform in the language of ‘reducing welfare dependence.’ Through this lens, persistent unemployment was explained to be a product of laziness or low-motivation on behalf of unsuccessful jobseekers. The solution to moving these ‘job shy’ jobseekers from ‘welfare to work,’ therefore, was to hold them accountable for their lack of employment, give them additional responsibilities and to reduce the payments of those that failed to comply.

This set of ‘mutual obligations’ placed on the shoulders of welfare recipients signified, Prime Minister John Howard explained, that “people need to give back something to the community in return for assistance in times of need.”² The new policy reflected the populist sentiment that unemployed people are unemployed by choice and therefore getting something for nothing at the taxpayer’s expense. However, what was lost as a result of resorting to the politics of blame was the role played by human capital – skills – in finding the right person for the right job.

Long-Term Unemployment

The long-term unemployment is usually defined as persons who have been unemployed for 52 weeks or more.³ It is of special concern for the Federal Government because such unemployment is usually resistant to general economic and employment growth.

The long-term unemployed comprised less than a quarter of all unemployed in 2003 (22.1 per cent).⁴ However, this rate has been remarkably consistent, having only declined from 27.1 per cent since 1996.⁵ In addition, the number of people who have been on unemployment benefits for more than five years grew by 68 per cent, from 75,000 to almost 127,000 people, between 1999 and

2004.⁶ These are individuals who have failed repeatedly, despite job search assistance, to make in-roads into the Australian labour market.

Despite record economic growth throughout the 1990s, Australia has failed to make substantial inroads into long-term unemployment. Job opportunities for less-skilled workers in industries like manufacturing have declined significantly since the early 1980s, as a result of technological change and increased international competition.⁷ Subsequently, many people with limited education, skills and work experience, or personal and social barriers to employment such as a disability, have been left behind by these changes. Males aged 55 and over have been the group least able to make the leap back into the job market after being retrenched; however, the rate of long-term unemployment among young Australians is perhaps the most worrisome for policy makers.

While the restructuring of the economy has left many skill sets redundant or in less demand, the same process has contributed to a large number of Australians under the age of 25 never having held a full-time job, and with few prospects for gaining one.

The Dusseldorp Skills Foundation reports in *How Young People are Faring 2004* that making the transition from school to work is harder now than it has been since the recession of the early 1990s.⁸ Those most at risk of failing to find secure employment are early school leavers. The absence of transferable vocational skills among many early school leavers acts as a permanent barrier to their movement from 'welfare to work.' In years past, early school leavers had little trouble finding work in blue-collar occupations; however, the restructuring and subsequent decline of our industries has left those with few skills or an incomplete education in a precarious situation. The Business Council of Australia reports that seven years after leaving school, 21 per cent of young men and 59 per cent of young

women who failed to complete Year 10 remained unemployed.⁹

Newstart and Youth Allowance, the two programs that provide income support to the unemployed (as well as full-time students), run at a combined cost of around \$7 billion per year¹⁰; as a result, there are significant incentives for the Commonwealth to reduce the number of people receiving unemployment benefits.

The Commonwealth's strategy for reducing the ongoing costs of income support – 'mutual obligation' – has largely centred on changing the eligibility criteria and activity requirements of welfare recipients. Compared with other OECD nations, it is a strategy that has been far less focussed on investing in retraining the unemployed. As a result, the numbers of long-term and very long-term unemployed – those without the skills to make the transition into employment – have remained fairly constant over the last decade.

To properly evaluate Australia's present 'mutual obligation' welfare policies, however, it is important to chart their evolution over the last two decades.

The evolution of Australia's mutual obligation policies

In April of 1987, Neil Brown, then Deputy Leader of the Opposition, submitted a proposal to discuss 'work for unemployment benefits' to the House of Representatives. This led the Coalition to commit to establishing a Community Service Scheme, designed, in part, to "provide a real benefit to the unemployed through work experience and training," when next in Government.¹¹

The Labor Government under Bob Hawke also saw the benefits of placing further requirements upon the unemployed. As the boom times of the 1980s gave way to the recession 'we had to have' in 1991, public concern over the number of individuals

collecting unemployment benefits led to the introduction of ‘activity requirements.’

The *Social Security Act*, which came into law in 1991, required eligible unemployment payment recipients to meet an ‘activity test’: to be actively looking for work, or undertaking activities to improve their employment prospects, and be willing to accept offers of suitable employment. This obligation was later strengthened in the Keating Government’s 1994 ‘Working Nation’ program, where an expectation was expressed that in return for social assistance, there would be a “strengthened obligation on unemployed people to accept a reasonable job offer.”¹²

However, it was not until March 1997, with the election of a new Coalition Government, that ‘mutual obligation’ policies truly arrived on welfare scene. On the 19th of March 1997, the then Federal Minister for Schools, Vocational Education and Training, Dr David Kemp, introduced the legislative framework for a ‘Work for the Dole’ scheme into Parliament. This piece of legislation led to the introduction of a 12-month ‘work for the dole’ pilot scheme, engaging young unemployed individuals aged 18 to 24 in a range of small community work projects. In January 1998, this pilot scheme was expanded to oblige all unemployed people aged 18 to 24 who had been in receipt of benefits for 6-months or more, to undertake an ‘activity,’ in addition to their job search responsibilities. These activities included part-time study or training, voluntary work, or involvement in the ‘Work for the Dole’ scheme.¹³ ‘Work for the Dole’ represented a significant departure from the previous activity requirements introduced under Labor, for it was the first instance of a policy that required jobseekers to engage in activities unrelated to their looking for work; some commentators even argued that the relationship was negative, implying that ‘working for the dole’ was a diversion from looking for work.

In April 1999, the Work for the Dole program was again expanded to include Year 12 school-leavers who had been unemployed for three months or more. In September 1999, the then Federal Minister for Family and Community Services, Jocelyn Newman, announced that the next major reform priority for the Government was to incorporate the mutual obligation framework into new areas of social policy.¹⁴

The *McClure Report on Welfare Reform*, released in 2000, framed its recommendations on how to expand mutual obligation into new areas within the context of creating a ‘Participation Support System.’ The report went on to explain, “Australia’s social support system must do more than provide adequate levels of income support to people in need. It must ensure that people are actively engaged socially and economically, including in the labour force, to reduce the risk of long-term social and economic disadvantage for them and their families.”¹⁵

In December 2000, the Government announced its intention to expand Work for the Dole to unemployed people aged 35 to 39 and made involvement optional for those aged 40 to 49.¹⁶ More recently, from July 2006 all job seekers aged 60 years and under and are deemed by their Job Network member as not being genuine in their job seeking efforts will be forced to participate in full-time Work for the Dole for 10 months.

In 2002, the total number of Work for the Dole projects introduced since its inception 1997 reached more than 8,500, with the number of participants surpassing 170,000.¹⁷ It was in this year that the Federal Government amended the program so that completion of a Work for the Dole placement now qualified participants for a ‘training credit’ of up to \$800, which could be put towards a recognised vocational scheme.¹⁸ This amendment was in response to complaints that Work for the Dole

participants left the program with little in the way of practical vocational skills.

At the last Federal budget, the Commonwealth Government announced its intention to create an additional 49,500 Work for the Dole places over the next four years; in 2005-06 there will be 64,000 Work for the Dole places available.¹⁹ While there is a range of activities that satisfy the 'mutual obligation' requirements placed on welfare recipients, Work for the Dole continues to grow as the major component of Australia's 'mutual obligation' regime.

In the 2005 Budget, the Federal Government proposed to bring around 300,000 low-income parents (230,000 sole and 70,000 partnered) and 6,000 people with disabilities into the activity-testing regime, placing them on Newstart.²⁰

From 1 July 2006, parents entering income support (Sole Parent Payment) whose youngest child is aged from 6 to 15 will be required to work part-time, search for part-time work or undertake 'suitable activities' to help them return to work (minimum of 15 hours per week).²¹ The combined impact of these new arrangements and the income tax system will result in most Parenting Payment recipients keeping only 25 to 35 cents from every extra dollar of earnings.²²

Also from 1 July 2006, people in receipt of the Disability Support Payment (DSP) who are deemed able to work between 15 and 29 hours a week will be forced to seek part-time work and will be shifted onto either the Newstart Allowance or the Youth Allowance (a reduction in income of about \$40 per week). People on the DSP prior to 1 July 2006 and who stay on DSP will not be affected.²³

These changes signal that it is not just the unemployed, but new groups of disadvantaged Australians that are personally responsible for their present circumstances. They mean, in short, that single mothers and the disabled will also be

required to 'give something back' to the community for their continuing income support.

Whether 'mutual obligation' will be expanded to new groups in receipt of income support, such as retirees and veterans, remains to be seen. However, for the purposes of this paper, I will continue to concentrate on the 'mutual obligation' policies for the unemployed and the centrepiece of those policies: Work for the Dole.

Work for the Dole Explained

Work for the Dole is a program of community work projects engaging income support recipients on a compulsory basis.

Job seekers who are deemed to have 'not made a sufficiently genuine effort' to seek work or who otherwise fail an activity test, as well as volunteers for Work for the Dole, are required to work 25 hours per week for 10 months a year – equivalent to 1100 hours of work – in the most recent expansion of the program. This is a huge increase on the present 390 hours per year required of participants.²⁴

The objectives of the Work for the Dole, according to the Department of Workplace Relations, is for unemployed people to:

- Gain work experience;
- Build networks;
- Improve their self-esteem, communications skills and motivation; and
- Contribute to projects that are of value to the community.²⁵

Work for the Dole projects are managed, under contract to the Department of Employment and Workplace Relations (DEWR), by organisations called community work coordinators. There is no explicit involvement of the private sector in Work for the Dole projects. Indeed, Work for the Dole projects are selected on the

basis that they won't compete with the private sector, the result of which is that few of the skills and experiences provided by its' projects are in demand by the labour market. As the OECD's Economic Survey of Australia notes:

“The requirement that under Work for the Dole programs jobs must not compete with paid employment in the regular labour market remains a problem as it favours unskilled work with little opportunity for training which may impede the integration of the unemployed into gainful work.”²⁶

The OECD has concluded that Work for the Dole “may impede the integration of the unemployed into paid work”²⁷ Research into the extent of this problem, conducted by the Australian Council for Social Services, has discovered that only around one-quarter of former Work for the Dole participants remain employed three months after leaving the program.²⁸ Only 14 per cent end-up in full-time jobs.²⁹

Apart from the paucity of employment outcomes, members of the Job Network involved in managing the community projects funded by this have also criticised the limited training component of Work for the Dole. Under the present funding arrangement, The Department of Employment and Workplace Relations limits the amount of money community work coordinators can spend on training to no more than 12 per cent of the money allocated for direct work experience costs.³⁰

In their 2003 report *Work for the Dole: Obligation or Opportunity*, Ann and John Neville cite that “ninety five percent of community work coordinators who responded to our postal survey said they would like to incorporate more training in their projects than is allowed for under Departmental guidelines.”³¹ They explained that without more training, participants in Work for the Dole projects are unlikely to gain the skills necessary for to move from ‘welfare to work.’

A preliminary evaluation on the effect of the ‘Work for the Dole’ pilot program on participants, completed in 2003, found that the program failed jobseekers, particularly disadvantaged jobseekers, because it did nothing to address the circumstances of their unemployment. The report concluded that “young people are being unduly blamed – and punished – for their unemployed status in a market place that does not offer them long-term, sustainable jobs, irrespective of how many Mutual Obligation requirements they attempt to fulfil.”³² They found that increasing participation in work-related activities is only an important outcome only when accompanied by a real skill transfer and where the skills gained by participants are instrumental in gaining employment. The introduction of an \$800 training credit in 2002 to income support recipients who have successfully completed a Work for the Dole project is a welcome initiative, but an insufficient one when one considers the private costs of undertaking further education and training.

TAFE courses that prepare students for employment in those sectors currently suffering from an undersupply of skilled applicants - as listed the Department of Employment and Workplace relations National and State Skill Shortage Lists - can be prohibitively expensive. For example, a two-year TAFE course to equip a skilled Child Care Worker costs upwards of \$16,000.³³ Similarly, a TAFE motor mechanic course can cost \$15,000.³⁴

These examples show that tackling unemployment, particularly among the low-skilled and long-term unemployed cannot be done on the cheap. By encouraging ‘work as welfare’ rather than ‘welfare to work,’ the Work for the Dole program has failed to give participants the skills they need to find employment in the private sector

Investing in people is an investment for the future

Australian adult education and training are chronically underfunded. The level of public investment in labour market training is pitifully low; of the 30 Organisation for Economic Co-operation and Development (OECD) members, only Poland and the Czech Republic spent less, as proportion of GDP, than Australia.³⁵

Education is important to employment outcomes. Early school leavers and the low skilled make up a majority of the long-term unemployed – for example, in Australia, 55% of the long-term unemployed have no more than a year 10 education.³⁶

The shift to a user pays system of post-secondary education has reduced the capacity of the low-income earners to assume responsibility for their own education; they lack the resources to independently fund a TAFE degree, and there is no system of cheap public loans such as that provided to hundreds of thousands of university students through the HECS scheme. As a result, it is increasingly difficult for low-income Australians (including the unemployed) to improve their job prospects through privately funded vocational education.

Even general skills such as literacy and numeracy have an important bearing on employment outcomes. A 1996 national survey, conducted by the Australian Bureau of Statistics, graded respondents into five levels of literacy and numeracy. Just over 15 percent of Australian residents over the age of 15 were graded as having level 1 literacy, implying an inability, among other things, to locate information on labels about how long to take medicine. The study found that over 30 percent of the unemployed were at Level 1, and even more of those not in the labour force were at this level.³⁷ However, once Level 3 literacy and numeracy are attained, employment outcomes improve significantly.³⁸ The obvious implication of

these findings is that investing in the capacity of the unemployed, such as by improving literacy and numeracy of those with insufficient levels, will have an immediate positive impact on the rate of unemployment.

Elsewhere, the Brotherhood of Saint Laurence has shown that by working closely with the long-term unemployed with multiple barriers to employment, even those who are severely disadvantaged can be assisted back into the labour market. In their innovative program, the Brotherhood worked with residents of inner city Melbourne housing estates who had been out of work for more than two years and had few post-secondary qualifications, and in many cases health problems and poor language skills. In 2002, they reported that almost 100 previously long-term unemployed and disadvantaged individuals had been able acquire new skills, confidence and work as a result of their participation in the program.³⁹

Supportive pre-vocational training, which combined work skills and personal development skills exercises, was the crucial first step in assisting the disadvantaged long-term unemployed. In addition, traineeships and work experience helped to build confidence and give a practical grounding to further education and training. Finally, post-placement support was crucial to job retention, as these new employees often faced serious difficulties adjusting or readjusting to the rigours of the workplace. As the Brotherhood of Saint Laurence's research and policy director explained after the success of this program, getting people with few skills and work experience back to work is "not just a matter of harassing people to apply for more and more jobs, it's about investing in people, supporting them, giving them work experience and access to accredited training."⁴⁰

The estimated cost per person, over the course of the 18-month program, was approximately \$10,000. However, the

Brotherhood of Saint Laurence estimated the savings passed on to the taxpayer in welfare costs, as a result of assisting these individuals into work, at around \$1.2 million.⁴¹ Under the present Job Network arrangement, providers of employment assistance to individuals who have been unemployed for more than 36 months (the very long term unemployed) is only \$4400, supplemented by a further \$2200 after the individual has remained in employment for 26 weeks.⁴² The success of the Brotherhood's investment model implies that if this funding shortfall was met, so much more could be saved in the longer-term.

International Comparisons

Britain: The New Deal

The British 'New Deal' strategy covers four main groups: the under 25s; the long-term unemployed; sole parents, and the disabled.

Given that young people have one of the highest rates of unemployment of any age group in Britain, the 'New Deal' directs the majority of its resources towards servicing the needs of the young unemployed. The 'New Deal for Young People' (NDYP) – for under-25s - receives more than 75 per cent of the entire 'New Deal' annual budget.

The New Deal for Young People was introduced in April 1998. The program aims to discourage young people from a life of welfare dependency by providing them with the skills, opportunities and motivation to find work. It operates by bringing young people into the program, after they have spent six months on unemployment benefits.⁴³

At first, participants are given help with job search and basic skills development through a 'gateway' program lasting four months. Then, if the program participants are still without full-time work, they are given the option of joining one of four programs:

- An employment placement
- Joining the environmental task force
- Voluntary work; or
- Education and training⁴⁴

The majority of the NDYP funds are invested in education and training. By directing the overwhelming majority of funds towards the work barriers faced by the young unemployed, the 'New Deal' attempts to break the cycle of welfare dependency as early as possible.⁴⁵

Participants in the employment, environmental task force and voluntary sector options are entitled to at least one day a week (or block of time equivalent) off-the-job training towards an approved qualification. All course fees associated with these training courses are met by the British Government, which also provides an allowance.

The education component of this program lasts for up to fifty-two weeks and is designed to provide help for those young people without National Vocational Qualification (NVQ) level 2 or equivalent qualification. All participants in this option are guaranteed access to an approved training organisation and work experience.

Mutual Obligation in Britain and Australia Compared

The defining feature of mutual obligation in both the UK and Australia is the mandatory requirement for eligible job seekers to undertake certain activities. However, the emphasis on the needs of the individual job seeker, rather than the perceived needs of the community, is what distinguishes the British system from Australia's 'Work for the Dole' program. The concept of mutual obligation employed in the UK is therefore more reciprocal: aiming for positive labour market outcomes, such as moving the young unemployed into full-time work, rather than intangibles such as 'developing positive

work habits' that imply the cause of unemployment is merely attitudinal.

The stated aim of the UK's New Deal for Young People program, is to "improve employability of... young people and to find them a job."⁴⁶ In contrast, in Australia, employment outcomes are not the priority.

Another key difference is the extent of the involvement of employers. The New Deal involved over 60,000 private employers in 2000, each of whom had signed an agreement setting out the New Deal subsidised employment under which employers agree to treat their New Deal employees as they would any other employee, and agree to continue their employment after the subsidy ends, wherever possible.⁴⁷

The four-month Gateway program, wherein personal employment advisors develop an individually tailored plan for improving the jobseeker's employability, is perhaps the best illustration of the employment and training focus of the British system. The effectiveness of the Gateway process stems from ensuring that the unemployed are not 'forced into any old job,' but matched to the one that suits them, their needs and their skills.⁴⁸

In contrast, the initial interview with Centrelink for all eligible job seekers is focussed on how they are to meet their mutual obligation requirements. To qualify for Intensive Assistance – the only equivalent Australian program to Gateway – an individual must remain unemployed for at least 52 weeks, classified as at high-risk of long-term unemployment or be aged 15-20. Those eligible for Intensive Assistance, yet presently engaged in a 'mutual obligation' program such as Work for the Dole, are unable to gain assistance until their program ends.

US: 'Workfare' not 'welfare'

The 'Workfare' programs introduced in the US as part of the Personal Responsibility and Work Opportunity Reconciliation Act 1996 emphasise the philosophy of personal responsibility in much the same way as Australia's 'Work for the Dole' and welfare to work policies.

In the US, 'welfare' has always been strictly means tested and time limited. States are given significant discretion as to who is considered deserving of welfare, how much they should get paid, and for how long. As a result, only a minority of the unemployed receive any benefit.⁴⁹ Families with children and lone parents represent the vast majority of those on welfare benefits. However, until the 1990s, most income support recipients remained uninvolved in 'welfare to work' type programs.

The ascendancy of supply side explanations of poverty and unemployment, such as 'welfare dependency,' low motivation and a lack of the practical skills required to make an individual 'employable,' helped push the US welfare debate in the 1990s towards 'work first' principles. Rather than placing the unemployed or underemployed in education and training programs before finding them work, 'work first' programs push individuals into a job, any job.

The Greater Avenues for Independence (GAIN) evaluation, conducted in California in 1994, tested various assumptions about welfare policy and poverty and concluded that greater reductions in spending and poverty, as well as increases in work participation and income, result from the 'work first' approach.⁵⁰ This had a significant impact on the welfare debate in that country and around the world.

In 1996, the US Congress passed a number of significant 'welfare' reforms in response to these and other findings. New Federal rules stipulated that income support recipients must work after two years on benefits. Lone parents are required to work at least 30 hours per week, and two-parent

families for 35-hours per week, to justify the continued receipt of Government income support such as Temporary Assistance for Needy Families (TANF) and General Assistance.⁵¹ As a result, what was previously understood as 'welfare' benefits were now more accurately described as 'workfare' or 'work first.'

Despite initial evidence that 'work first' was a superior welfare principle to more 'passive' labour market policies, subsequent analysis has seriously questioned the ability of 'work first' policies to reduce poverty and dependence – particularly when compared to employment and training based approaches elsewhere in the US.

While 'workfare' and 'work first' have proven successful at getting people back to work, they have not succeeded in lifting the majority of US participants out of poverty. Job placements tend to be in low-income, low-security jobs that often end after 6 months. As a result, workfare has failed to reduce the level of dependence upon welfare. One evaluation carried out across six counties in California found that three years after exiting the program, only 23 percent of participants were both employed and off welfare; additionally, only 14 percent of 'work first' participants earned \$10,000 or more, while 56 percent had no income at all.⁵²

Due to job turnover, unstable hours, and limited pay increases, low incomes like these have been the norm after participating in these programs throughout the US. Nationwide, one-third of former welfare recipients had to reduce or skip meals due to financial hardship, while 46 percent were unable to pay their mortgage, rent, or utility bills at least once in the prior 12 months, the Urban Institute reported in 2003.⁵³

Unfortunately, few US programs have dedicated themselves to helping 'welfare' recipients retain jobs or advance to better paying ones. However, some states have passed additional legislation retaining

participants in welfare-to-work programs until their income rises above a certain rate: \$18,000 p.a. in California.⁵⁴

A comprehensive analysis of 'work first' programs in the US, conducted by Peck and Theodore in 2000, identified a number of shortcomings associated with this approach:

- Work First programs tend to direct participants into the lower reaches of the labour market
- Programs encourage an initial transition into the job market, without assisting participants to progress into better-paying, stable jobs
- Work first programs keep wages and work conditions low at the bottom end of the job market by increasing the number of applicants, and therefore competition, for entry-level jobs
- By dispensing with appropriate skills training at the expense of pushing participants to accept the first job they are offered, Work first policies contribute to the long-term erosion of skills, and fail to provide the labour market with the vocational skills it requires.⁵⁵

These lessons are also valuable in the Australian context. The policy that 'any job will do' has not led to reduction in poverty and welfare dependency in the US, and is unlikely to do so in Australia.

On the other hand, Denmark is often referred to as a country where an employment 'miracle' has taken place. If one compares the employment rates of different OECD countries, Denmark has had for decades one of the highest shares of employed people among its adult population.

Denmark

Denmark, a 'high tax-and-spend country' with powerful trade unions and few natural resources, is experiencing falling unemployment and similar economic growth to Australia.⁵⁶ At the same time, it has the lowest rates of poverty in the whole of the European Community and has the joint-highest labour market participation rate in Europe.⁵⁷ In contrast to UK and North American strategies though, Denmark has adopted a 'welfare-through-work' model built around a more inclusive system of welfare reform. As a result, the Danish model is the only European example that has been able to reduce unemployment significantly while also successfully increasing both the labour force participation rate and the employment rate.⁵⁸

While Denmark undertook some reform of the provision of welfare during the 90s, it did so from a social democratic, rather individualist philosophy. While individuals are obliged to participate in a range of activities designed to improve their employment prospects, employers, unions, local government and education and training institutions are all partners in this process.

The labour market reforms introduced in Denmark post-1994 have focused on the 'activation' of income support recipients. For the first time, the Danes introduced compulsory participation, in that access to benefits was conditioned by acceptance of various educational and/or employment training offers. This principle has been extended through the Active Social Policy Act 1998.⁵⁹ Although elements of the measures introduced by the Ministry of Labour in 1994 were concerned with reducing the period during which the unemployed could receive benefits, in contrast to the US and Australian 'mutual obligation' models, these reforms were partnered by an integrated public training and job-placement package.

For younger people – those aged under 25 – special rules apply. Those young unemployed who have not received the benefit of a vocational education are, after a total of six months on unemployment benefits within any nine month period, obliged to finish 18 months of vocational training. This is followed by a shorter period of job training, and then job search assistance.⁶⁰ A unique 'Job Rotation' policy also offers the unemployed and low-skilled workers an opportunity for on the job training.

Job Rotation relates to a model of 'work sharing' where unemployed people are given direct job training experience, and unskilled workers are released to update their training and education. The unemployed receive work experience at trade union negotiated rates, as well as additional vocational training. The employed obtain additional vocational training and the firm (or public sector organisation) benefits by 'up-skilling' its workforce, without losses in employment.

The Danish example shows that an education and training model can achieve both significant rates of mobility (moving the unemployed back into work) as well as reductions in welfare dependence and poverty. Obliging the unemployed, particularly the young unemployed to improve their job prospects by undertaking significant vocational education and training, is an effective welfare to work strategy.

The one downside is that Denmark's 'welfare and work' model is more expensive, in the short-term, than Australia's current approach. The OECD's Employment Outlook 2004 reported that Denmark spent 0.94 per cent of its GDP on training the unemployed; in the same year, Australia spent only 0.02 per cent.⁶¹ However, if the Commonwealth Government is to achieve similar success at reducing long-term and very long-term unemployment, then it is important that we

invest additional resources in training the unemployed.

Lessons from the OECD experience

The labour market most successful at reducing welfare dependency over the last 15 years has been Denmark. Denmark's interpretation of the 'mutual obligation' welfare philosophy is, like the Commonwealth government's interpretation, one that obliges the unemployed to engage in mandatory activities. Yet, while the objective of Australia's Work for the Dole scheme has been to "develop the work habits of participants,"⁶² Denmark has embarked upon significant public education and training schemes designed to 'up-skill' its workforce.

The United States has also pursued significant reforms of its welfare policies over the last two decades. While the United States' policy emphasis on 'work first' principles and individual responsibility has helped significantly reduce the unemployment rate, they have also been linked to expanding poverty rates. Thus, while the US may have been successful at reducing dependency upon unemployment benefits, it has not helped participating individuals to become financially independent. Rather, the emphasis on getting 'a job, any job' has really only succeeded in shifting the previously unemployed into a relationship of dependence on hand outs from non-profit welfare groups such as churches and philanthropic foundations.

The British 'New Deal' for the unemployed represents a middle way between the United States' 'work first' and 'work fare' policies, and Denmark's 'train first' system. It is also the model that most closely mirrors Australia's previous 'Working Nation' policies, before we adopted a 'work fare' approach. While the long-term effect of this

program is still being studied, it has achieved some significant successes to date.

While pro-market lobby groups such as the Centre for Independent Studies continue to argue that training the unskilled unemployed is "rarely effective,"⁶³ 'workfare' alternatives such as 'Work for the Dole' have been proven entirely ineffective. The CIS claims that training is "a complete waste of time and money when it is directed at the young unemployed"; however, the very Commonwealth Department of Family and Community Services (FaCS)⁶⁴ cited as offering proof the young unemployed are better off working for the dole than training for work, proves otherwise. A French study of the effect of on-the-job training and 'workfare' type programs for young men between the ages of 15 and 26, conducted by Bonal, Fougère and Sérandon (1997),⁶⁵ found that on the job training was most beneficial to young men with low educational achievement levels. At the same time, they found 'workfare' programs had no effect on the transition of young men with little education to work, and that they even had a negative effect on this transition among more educated young men (those with a vocational certificate).⁶⁶

In addition, a cross-country survey conducted by the OECD in 2004 determined that the difference in the unemployment rate between persons who undertook some education or training in the two years prior to the survey was greater than two percent.⁶⁷ In real terms, this result indicates that more than 200,000 Australians currently on unemployment benefits would now be in employment if they had received some vocational education and training over the last two years. While vocational and on the job training are expensive options, these costs would be offset by the long-term savings created by reducing unemployment among the unskilled. That money could either be reinvested in training the unemployed, or spent on essential services for all Australians.

The evidence from Denmark is that Government investment in these measures are crucial in assisting modern economies to keep pace with the changing skill demands of a changing world. With the right mixes of incentives and activity obligations, even the long-term and very long-term unemployed can be assisted back into employment.

The obligation is mutual

General unemployment has fallen by more than 35 percent since the introduction of Australia's 'mutual obligation' policies in 1997; however, consider that from 1999 to 2004, very long-term unemployment – those on unemployment benefits for more than five years – increased by a huge 68 percent to 126,650.⁶⁸ While this second group has long been obliged to 'get a job, any job' as part of Australia's welfare to work reforms, they have simply lacked the capacity to do so.

At the same time that large numbers of long-term and very long-term unemployed lack the skills to enter the labour market, Australia faces a skills crisis. Employer groups are desperately calling out for additional skilled workers. The Australian Industry Group estimates that there are between 18,000 and 21,000 positions for skilled tradespersons in manufacturing industries alone that currently remain unfilled.⁶⁹ Filling these positions would amount to a five-fold increase in the number of new people employed in manufacturing over the last 12 months.⁷⁰

Rather than trying to quick fix Australia's skills crisis by simply bringing in additional skilled migrants, as it the current Federal Government's policy, Australia's industries and its unemployed would be far better served by a policy that also taps into the vast numbers of those looking for work – and by reducing welfare dependency through skills investment, Australia's fiscal balance sheet would also be better served.

Dr Mike Keating, ANU Economics Fellow and former Secretary for the Department of Employment and Industrial Relations has identified that the Australian labour market presently excludes some 37.5 million hours in unused labour – equivalent to 11 percent of the total labour market – from the economy each year. This lost total does not come from single mothers or the disabled sitting on the sidelines, but from low skill Australians unable to find full-time work.⁷¹

In the lead up to the release of 2005/06 Budget, the Federal Government announced its intention to establish a Future Fund to cover the looming retirement costs of the baby boomer generation. To realise the plan, the Commonwealth committed the public to consigning 6 to 8 billion dollars every year for the next fifteen years to a lump sum.⁷² By saving for the future, we were told the eventual Fund would reduce the burden of Australia's ageing population. Yet how about investing in the present to secure the future Australian labour market?

If we were to redirect some of the billions from the Commonwealth Government Future Fund towards training low-skill Australians to meet the employment needs of the labour market, then Australia would be able to slash its welfare rolls. Meanwhile, such a scheme would give hope to the hundreds of thousands currently facing a lifetime without work.

Conclusion

The Commonwealth Government's effort to improve jobseekers attitudes, rather than skills, has been to the detriment of both jobseekers and employers. By diverting the unemployed and long-term unemployed into community works projects, rather than real work experience in the private sector, Australia's mutual obligation policies have failed our unskilled unemployed while contributing to the skills crisis.

While ‘motivated’ jobseekers are more likely to find work than their discouraged counterparts, attitudes are only part of the problem. For the long-term and very long-term unemployed, personal factors such as low literacy and numeracy, an absence of the vocational skills required by employers and little real work experience combine to act as permanent barriers to their movement from welfare to work. To break the cycle of dependence, Australia’s ‘mutual obligation’ policies need to move beyond the politics of blame and make a real, short-term investment in the skills and education of the long-term and very long-term employed.

Australian policy should aim to offer a hand up, not a hand out to the unemployed. However, by insisting that the unemployed are to blame for their own predicament and

that the financial obligation for up-skilling is their’s alone, Australia’s ‘mutual obligation’ policies continue to fail this nation’s disadvantaged jobseekers.

While the unemployed are obliged to look for work, the Federal Government is equally obliged – in the interests of moving welfare recipients from ‘welfare to work’ – to give the unemployed the opportunity to find work; and that means assisting them to gain the work skills they, and the labour market, needs. For in the absence of such a system of short-term public investment in training low-skill and unskilled job searchers, the costs of their welfare dependence will be both significant and ongoing.

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