



# HC COOMBS POLICY FORUM FINDINGS

## Visioning Australia's Future

### A review of Australian government labour market policies since 1945

2011

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**This paper reviews labour market policy reforms since 1945 and their relevance to labour force participation issues facing Australia today. The paper identifies areas where there is scope for future research and policy development.**

#### Key points

- > Australia's participation challenge extends beyond people who are unemployed to the underemployed and those outside of the labour force who want to work (such as many disabled people and carers.) As Australia's society ages, greater pressure will also be put on the labour force to support an ageing population.
- > The labour market changed dramatically in post war Australia, particularly from the 1960s onwards with the entry of large numbers of women into the labour force. Overall participation levels only increased slightly as there was a broadly equivalent decrease in male participation. The rise in female participation also led to an increase in the number of Australians working part-time.
- > The concept of an 'active society', promoted by the OECD and others, came to prominence in the 1970s. This fundamental idea formed the basis of Australia's approach to labour market participation for decades, and is still reflected in the policies of both major political parties today.
- > Since 1945, a variety of policy approaches have been tried. This has included social security reform, job subsidies and training programs. More recent developments (the 1970s onwards) have included the introduction of active case management, the extension of the principle of 'mutual obligation' and the privatisation of employment services. The importance of the skills agenda to increasing participation has varied over time.
- > With Australia weathering the GFC well (in part due to the Keep Australia Working package), the current Government stuck with a 'low unemployment, high disadvantage labour market strategy.'
- > The author suggests that the high-impact economic shifts that increased participation, such as the entry of women en masse into the workforce, are unlikely to be repeated. Therefore, policy responses which target specific groups and specific disincentives now need to be the focus, for example older workers and women with children. In particular, there would be merit in exploring a 'citizen-centred approach', where the overall circumstances of individuals and the characteristics of affected cohorts are taken fully into account.

#### For further information

The *Visioning Australia's Future* initiative is a program of work examining major challenges facing Australia. The full set of summaries, papers and a synthesis report can be found at [public.policy.anu.edu.au/hc-coombs/](http://public.policy.anu.edu.au/hc-coombs/).

## Background

The social and economic arguments for increasing workforce participation are widely accepted among policymakers and government. Being employed can provide financial and psychological benefits to individuals. More people in work increases the productive capacity of the economy. As Australia's society ages (and the ratio of working age to retired people decreases), greater pressure will also be put on the labour force to support an ageing population and the health and economic implications that accompany it.

Australia's participation challenge includes the unemployed, the underemployed and those outside of the workforce who would like, and are able, to work.

- > Using the March 2011 Australian Bureau of Statistics (ABS) figures, Australia's unemployment rate was about 4.9 per cent, with 594,000 people officially unemployed. In addition, 845,000 people have identified themselves as underemployed. These two figures create the Labour Force Underutilisation Rate, which is 12.1 per cent of the labour force.
- > There are also additional people outside of the labour force who want to work but are not included in the unemployment figures. As of September 2010, 5.9 million people aged 15 and over were not in the labour force. Of these, nearly 1.3 million wanted to work. Around 800,000 people are on the Disability Support Pension, 127,000 young people are not engaged in full-time education or any kind of work and nearly 344,000 women who are caring for children indicated they are not looking for work but they would be available to start work in the next four weeks.

## Summary of findings

### The development of the welfare state: 1901 to 1945

Before the Second World War, Australia had a closed economy and a system of centralised wage fixing. Protectionism and minimum wage guarantees were used to ensure the wellbeing of the working class, rather than a welfare system. During the Depression of the 1930s and other economic downturns, unemployment support was provided primarily by the States. In the 1940s, as part of the post-war reconstruction, the national Government started to take a greater role in providing social security, introducing a range of benefits. Unemployment benefits were conditional upon a person's availability to work and accept a suitable job. In 1945, the Government released a white paper declaring a commitment to full employment and establishing the Commonwealth Employment Service (CES) to support this goal.

### The changing nature of the labour force: 1945 to 1980

The labour force changed dramatically in post-war Australia, particularly from the 1960s onwards. Immigration and the overall population increased and women started to enter the workforce en masse. Despite the dramatic increase in female participation, the overall employment rate increased only slightly, as there was an equivalent decrease in the participation of men. This trend escalated after the 1970s as women became more educated and able to access more skilled jobs, largely at the expense of older men. The increase in female participation also led to an increase in Australians working part-time.

In the 1970s, a number of economic shocks led to the growth of unemployment and significant long-term unemployment developed. Australia experimented with its first large-scale labour market reforms under the Whitlam Government in 1973. The labour market programs introduced at this time included temporary public sector jobs and training programs for both adults and young people. The Fraser Government later halted these programs and the commitment to full employment in order to focus on fighting inflation. The Fraser Government did, however, introduce the Community Development Employment Program (CDEP) to address welfare dependency in Indigenous communities, which survives (albeit in a changed form) today.

It is widely agreed that the major economic reforms and the opening up of Australia's economy were necessary and paved the way for Australia's current economic strength. However, the reform process was painful and this was reflected in the labour market. The 1980s saw significant levels of unemployment, including long-term unemployment, and high unemployment among certain groups including young people and lone parents.

## The active society: 1970s

During the 1970s, there was a strong push from the OECD and others to respond to rising unemployment with more active labour market reforms based on the idea of the 'active society.' The concept of an 'active society' required government policies to help as many people as possible to participate fully in the economy and society. This fundamental idea formed the basis of Australia's approach to labour market participation for decades and is still reflected in the policies of both major political parties today. The relatively new focus on social inclusion can be traced back to the active society theory that participation in economic and social life through work and opportunity is the best way to deliver on ideals of social justice.

## The economic agenda: 1980s

The 1980s represented challenging economic times and unemployment, and long-term unemployment, was a significant problem. After the recession of the early 1980s, employment growth returned but this was the result of an increase in participation by women, not the long-term unemployed returning to work. A series of reviews were undertaken in the 1980s:

- > The Carney Report on youth unemployment, 1982
- > The Kirby Report on employment services, 1985
- > The Social Security Review, from 1985 to 1988.

These reviews paved the way for a long and intense period of reform which introduced means-testing, activation measures and superannuation. The Social Security Review also emphasised the role of education and training in getting people back into work, and led to the development of a number of new labour market programs that were targeted at and tailored to client needs, such as Jobstart (a wage subsidy scheme), the Australian Traineeship System, and the Jobs, Education and Training (JET) program.

A range of activation measures and requirements were also placed on social security payments, which can be seen as the first steps towards a 'mutual obligation' approach.

## Working Nation: 1990s

In 1991, the Newstart allowance was created to replace benefits for the long-term unemployed and greater emphasis was placed on case management and tailored assistance. Clients had to enter into an 'activity agreement' with their case manager. The recession of the early 1990s pushed unemployment and long-term unemployment higher, and made reform of labour market assistance a government priority.

Working Nation was released in 1994. It set out the social and economic case for major reforms and was a comprehensive package of measures including labour market reforms, education and training reforms, changes to social security, regional development, workplace relations and industry policy, as it was recognised that unemployment has many causes and many enablers. Despite this, the policy had a particular focus on long-term unemployment. A Job Compact with the long-term unemployed, again emphasising mutual obligation and responsibility, was at the centre of the Working Nation strategy. Several disincentives were removed from the welfare system which previously had discouraged part-time work and married women from working.

The effectiveness of labour market changes is notoriously difficult to measure, as external economic and population factors are difficult to isolate. It is even harder to assess the outcomes from Working Nation, which was rolled back two years later when the Coalition Government came to power in 1996.

## Mutual obligation and the Job Network: 1996 to 2007

The incoming Coalition Government abolished most Working Nation policies and reshaped employment services and social security, making substantial Budget savings at the same time. Some of the key elements of the restructure included:

- > the creation of a fully contestable employment services market in the form of the Job Network, made up of around 300 public, private and community providers
- > the establishment of Centrelink as the 'first stop' for job seekers
- > the piloting of Work for the Dole, which required young people aged 18 to 24 to spend 30 hours a fortnight for six months undertaking an approved activity.

The paper suggests that, whilst controversial, in some ways these reforms were an extension of 'active society' ideas and policies introduced under Working Nation, albeit with a greater focus on penalties and an eye on the Budget bottom line.

In 2000, the Government established a Reference Group on Welfare Reform made up of community and welfare leaders, academics and public servants to review arrangements. The reference group highlighted five features it felt made an effective welfare system: individualised service delivery; a simpler income support structure; improved incentives and financial assistance; mutual obligations; and social partnerships.

The 2001-2002 Budget featured the Australians Working Together – Moving Forward package of reforms. Work for the Dole was extended to 35 to 49 year olds, changes were made to the Job Network, and stricter participation requirements were introduced for parents, the mature-aged and those with a disability.

## Job Services Australia and beyond: 2007 onwards

In 2008, the new Labor Government commissioned a review of employment services. The review confirmed OECD analysis that Job Network was effective in assisting short-term unemployed into employment at low cost but was less effective in supporting the long-term unemployed into sustainable work. The review also showed the importance of contract arrangements with employment service providers to achieve desired outcomes, often skewing behaviour towards obtaining short-term jobs rather than equipping job seekers with the skills they need to sustain employment. During the review and redesign of employment services system, the Global Financial Crisis hit, altering the global economic outlook. Australia's response saw the development of the Keep Australia Working package. The package included a 'compact' with retrenched workers and Local Employment Coordinators were placed in regions of high unemployment.

Given Australia emerged strongly from the global recession, the Government remained committed to developing a 'low-unemployment, high disadvantage' labour market strategy. In 2009, a new employment services system, Job Services Australia, was introduced. The system maintained mutual obligation principles and strict participation targets, and made changes to funding arrangements for employment service providers to support more disadvantaged and intractable clients.

The current Government has also introduced a range of measures to increase participation through a combination of incentives, supports and responsibilities. The Building Australia's Future Workforce package includes investment in skills development and a range of welfare reforms. In addition, a set of long-term policies has arguably already been put in place to increase participation, such as greater investment in education and training (employment outcomes are improved for each additional year in education) and measures to support parents who work (eg Paid Parental Leave, a 'return to work guarantee', a right to request part-time or flexible working and help with the cost of childcare.)

## Policy implications and avenues for future work

The paper notes that the high-impact economic shifts that increased participation over this period, such as the entry of women en masse into the workforce, are unlikely to be repeated. The paper, therefore, argues that policy responses which target specific groups and specific disincentives now need to be the focus.

The paper sets out a number of areas worthy of further work:

- > evaluating the impact of education and training policy interventions, a strategy that has been used intermittently by government
- > exploring a citizen-centred approach, where the circumstances of individuals and the characteristics of affected cohorts are taken fully into account
- > designing policy to reduce case loads and improve linkages with other Government service providers that are relevant to helping individuals into, and stay in, work (eg housing, family services, health facilities)
- > improving individual-level data collection, in order to track how individuals move through different types of benefit and the tax system
- > examining the different population groups where participation could be increased, and the specific barriers that are preventing them from working.