



Centre of Full Employment and Equity



Creating effective local labour markets:
a new framework for regional employment policy.

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Foreword and acknowledgements

This Report finalises an Australian Research Council Linkage Partnership between the Centre of Full Employment and Equity (CofFEE), at the University of Newcastle and Jobs Australia Pty Ltd.

The ARC Linkage Project (LP0454210) was entitled *Creating effective local labour markets - a new framework for regional employment policy*.

The collaboration sought to develop a new framework for the design of regional employment policy. Motivating the research was the view that the major deficiency in current Australian employment policy remains a lack of consideration of public job creation strategies.

The research aimed to assess how the existing policy mix could be complemented by a renewed focus on public job creation. We considered this would establish more effective ways to assist disadvantaged individuals into employment and advance sustainable solutions to persistent unemployment in Australia.

At the heart of the research design is the fundamental view that persistent unemployment reflects a demand-side failure (not enough jobs being generated) rather than a supply-side failure (inadequate skill development; poor work attitudes of the labour force etc). The latter view dominates policy making throughout the OECD countries and has led to a massive wastage of labour resources for almost 35 years.

The Project partners have been active in developing new directions for employment policy in Australia. In collaboration with major organisations such as ACOSS, the ACTU and the BCA, Jobs Australia advocated a coordinated policy approach to advance regional job creation strategies targeted at the long-term unemployed.

For its part, CofFEE has developed a proposal for a Job Guarantee that would provide paid employment and structured training opportunities in the public sector for the young and long-term unemployed.

On behalf of my co-authors, we wish to thank many people for their help over the period of the project. But specifically we thank the following. We appreciate the generosity and insights of our Industry partner, Jobs Australia and its CEO David Thompson in particular. We also sincerely thank the staff at Jobs Australia who have helped make the collaboration fluent.

We wish to thank Melinda Hannan and Graham Wrightson at CofFEE who provided excellent editorial and administrative support throughout the project. Their work is of high quality and is equally regarded. In particular, Melinda's contribution was pivotal in finalising this complex document.

We wish to acknowledge the contribution that Emma Allen made by providing initial draft material which formed part of the analysis in Chapters 7, 8, 9 and 11. She also played a significant role in the design, implementation and analysis of the national survey. She is, however, not responsible for the final report.

We should also sincerely thank the respondents to the Pilot and final survey, the Job Network staff who participated in the focus groups, and the local government staff who participated in the costing interviews. Their input was extremely valuable and we are grateful for the time they took to help our research become more grounded in the realities of the situation.

While we have benefited from the input of others, all the errors remain our own.

We consider that the research presented in this Report presents a major challenge to the Federal government which has so far not demonstrated it is committed to restoring full employment and abandoning the ineffective supply-side emphasis of its predecessors.

We consider the detailed analysis of how a Job Guarantee could be introduced in addition to its integration into a National Skills Development framework is innovative and compelling.

We urge the relevant policy makers to abandon their failed 'full employability' approach and instead embrace the policy structures laid out in this Report.

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Table of Contents

Executive summary	1
Part 1 – Regional Development Challenges	
1 Introduction	29
2 Current policy development – big on promise, short on prospect	39
3 The failed Full Employability framework	48
Part 2 – Current Policy Framework	
4 Active labour market policies (ALMP)	65
5 Regional and local employment policies	76
6 Australian experience with national, regional and local employment policies	94
Part 3 – Local Government Survey	
7 The local government survey: research methodology and results	117
8 Transport amenity	139
9 Community welfare services	154
Part 4 – Solutions for Regional Development	
10 A strategic framework for regional development	172
11 A targeted expansion of public sector employment	180
12 Creating a National Skills Development framework	206
13 The Job Guarantee	226
14 Investing in a national Job Guarantee	255
References	266

Executive Summary

Chapter 1 Introduction

- 1.1 This Report is the culmination of a three year research project between The Centre of Full Employment and Equity at the University of Newcastle and Jobs Australia Pty Ltd. and was motivated by the objective of developing a new approach to social and economic policy making that is:
 - Capable of delivering macroeconomic stability which we define as true full employment in jobs that meet the decent work standards and price stability;
 - Ensuring regional development is sustainable in social, economic and environmental terms, such that communities throughout Australia have access to the economic and social infrastructure necessary to facilitate full participation and promote wellbeing.
- 1.2 This Report presents a new integrated framework for regional development which we consider will be instrumental in achieving these objectives. Specifically, the Report outlines 3 important and integrated policy initiatives:
 - An expansion of the public sector to deliver services and jobs to regional Australia;
 - A new national Skills Development Framework; and
 - Implementation of a Job Guarantee (JG) where the government acts as an employer of last resort by providing employment at a fair minimum wage to all those willing and able to work who cannot otherwise find employment.
- 1.3 The Report embraces the viewpoint that employment is necessary for economic survival and to enable individuals to lead productive lives and maximise wellbeing. Therefore, the work provided must offer sufficient remuneration to provide a decent standard of living and enable participation in the social life of the community.
- 1.4 This report focuses on how employment creation and protection of the environment can be achieved through the design of employment opportunities that provide meaningful employment to large numbers of workers but simultaneously protect or enhance natural resources.

Unemployment, underutilisation and spatial disparities

- 1.5 After nearly 17 years of sustained growth in Australia, the economy still wastes around 9 to 10 per cent of its willing labour resources. Official unemployment, still around 500,000, has been outstripped by the “growth disease”, underemployment.
- 1.6 The Australian economy has been hamstrung by poor macroeconomic policies (for example, the obsessive pursuit of budget surpluses) while job creation has increasingly been of a casualised precarious form.
- 1.7 The burden of the persistently high unemployment and underemployment has not been distributed evenly. Low-skilled workers have been disproportionately represented in the ranks of the unemployed or those engaged in precarious employment.
- 1.8 Further, the disadvantage has also been spatially concentrated with some regions experiencing diminishing job opportunities and population decline as younger workers migrate to areas where their chances of gaining employment are higher. Australia is

now a patchwork of advantage and disadvantage and the failure of any form of regional development policy in Australia has exacerbated the tensions that exist between the social and economic settlements.

- 1.9 The entrenched disadvantage produces a myriad of long-term consequences that reinforce multiple disadvantages and cause social exclusion, poor school performance and poor human capital formation produces a low productivity workforce and low income. These neighbourhood effects must be countered by effective education and employment policies.

Skill shortages and skill formation

- 1.10 The abandonment of the state as a significant source of employment and on-the-job training has left a 30 year legacy of chronic labour under utilisation and inadequate skill formation capacity.
- 1.11 Most strategies aimed at imparting practical skill presume that industry will bear the responsibility of furnishing such supervised experience, failing to acknowledge the chronic incapacity (and uneven willingness) of the private sector to do so for much of the population.

Population ageing

- 1.12 The ageing of the Australian population has implications for the labour market and maintenance of living standards. As the working age cohort shrinks as a proportion of the population it will be necessary to encourage working age Australians to work and to ensure that all those who want to work are able to find employment in order to maximise economic growth and meet the economic needs of the Australian population.
- 1.13 As the population ages there will be an accelerating need for social services to meet the needs of the elderly and enable them to choose to “age in place”. A range of auxiliary services will be required including assistance with domestic work, gardening, caring and transportation. These types of assistance are currently chronically undersupplied in Australia (see, for instance Australian Government Department of Health and Ageing, 2007)

Research approach and content

- 1.14 The primary purpose of this research is to investigate the feasibility of the introduction of a Job Guarantee scheme in Australia that would deliver full employment, improve economic and social infrastructure and improve access to services that are currently not provided or undersupplied. The research consists of a number of strands of analysis:
 - Review of international literature on policies relating to employment services and the use of ALMP.
 - Review of international literature on regional policies including new regionalism (NR), social entrepreneurship (SE) and local partnerships.
 - A national survey of local government social planners to examine the feasibility of introducing a JG by determining:
 - The level of unmet need in regions in relation to: Transport amenity; Public health and safety; Recreation and culture and Community welfare services.

- The types of public sector jobs that could be created under the JG for low skilled workers to fulfil these unmet needs.
- The number of jobs that would be necessary to meet these needs.
- Focus groups with Job Network employees to assess the effectiveness of existing employment services and ALMP and to obtain feedback on the JG proposal.
- Development of a new framework for regional development capable of producing sustainable development by meeting economic, social and environmental objectives.
- Designing a model to estimate the investment needed to implement a national JG in Australia. Information obtained included costs of labour, materials, equipment, supervision and overheads as well as the structure of work teams and employee to supervisor ratios.

Chapter 2 Current policy developments – big on promise, short on prospect

- 2.1 Since taking office in November 2007 the Rudd Labor government has announced several policies that relate directly to employment policy, welfare reform, skill development, regional policy and infrastructure.
- 2.2 The Rudd Government has been highly critical of the Job Network system in relation to the services offered to job seekers, the lack of training opportunities, and the inability of the system to assist the most disadvantaged job seekers and the emergence of extensive skill shortages.
- 2.3 The review of employment services identified several problems with the current Job Network model which accord with the problems and shortcomings identified in this Report. Interestingly, several of the criticisms of the Job Network are similar to criticisms of the CES that were used to justify the introduction of the Job Network in 1998.
- 2.4 The new employment services contract that will commence in July 2009, will retain many of the features and requirements that currently exist, including: privatised delivery, a supply-side focus that erroneously identifies unemployment with inadequacies of the unemployed in terms of skills and attitudes; Mutual Obligation, Welfare to Work and breaching.
- 2.5 Major changes for the new employment services contract include a greater focus on disadvantaged job seekers, employer servicing and meeting the needs of the local labour market. There will be a shift in emphasis away from the “work first” approach to a much greater recognition of the need for skill formation through formal training, with 238,000 training places for the unemployed in the Productivity Places Program. The new compliance framework will concentrate on re-engagement of job seekers rather than punishment.
- 2.6 A greater emphasis on skill formation will include Productivity Places Program which will provide places for those in the workforce to upgrade skills.
- 2.7 A new Regional Local Communities Infrastructure Program (RLCIP) will be introduced in 2009-10 but some projects will be fast-tracked through the government’s \$300 million funding package in response to the economic crisis.

- 2.8 The Government has committed \$20 billion to its Building Australia Fund for infrastructure such as rail, roads, posts and broadband which is a small fraction of the estimates of necessary infrastructure investment.
- 2.9 In short, the Rudd Labor Government has implemented policies that represent more of a continuation of the Howard Government policies than a break with them. There is evidence of a more “human face” in the Job Network, greater human capital development and an increase in infrastructure expenditure. However, these measures fall far short of the policies required to restore full employment and provide adequate levels of economic and social infrastructure.
- 2.10 The system retains the supply-side focus for employment services that concentrates on addressing the inadequacies of the unemployed. Despite the fact that unemployment is forecast to rise, there is no perspective of addressing labour demand through job creation. In the absence of job creation the new employment services will not succeed in assisting the most disadvantaged job seekers to return to work since they will remain at the end of the jobs queue in an economy where labour supply outstrips labour demand.
- 2.11 The fact that the Federal Treasurer is still demonising the use of budget deficits as a legitimate option for the responsible macroeconomic management of the economy is a telling sign that this federal regime will not accomplish full employment. As we argue in Chapter 3, the Federal Government must abandon the fetish in favour of budget surpluses and reject the political rhetoric that sustains the fetish. It must realise that in usual times, a federal deficit will be necessary if the private sector desires to save and economic growth is to be sufficient to generate full employment.

Chapter 3 The failed Full Employability framework

Full employment and full employability

- 3.1 The Post World War 2 economic and social settlement in most Western countries was based on 3 pillars that constituted the “full employment” framework: (a) the Economic Pillar was defined by an unambiguous commitment to full employment; (b) the Redistributive Pillar was designed to ameliorate inequalities driven by market outcomes through provision of income support, wage setting norms and components of the social wage including education, health, housing and community services; and (c) the Collective Pillar provided the philosophical underpinning for the intervention based on a concept of the intrinsic rights of citizenship.
- 3.2 Until the mid 1970s, most advanced Western nations maintained very low levels of unemployment. Governments were willing to manipulate levels of aggregate demand using fiscal and monetary policy to ensure enough jobs were created to meet the preferences of the population.
- 3.3 The first OPEC oil price hike in 1974 caused an inflation spike and ushered in a resurgence of pre-Keynesian thinking, which had categorically failed to resolve the mass unemployment of the 1930s.
- 3.4 Full employment was redefined as a unique unemployment rate (the NAIRU) where inflation was stable. The NAIRU was determined by supply forces (individual disincentive effects arising from welfare provision, skill mismatches, and excessive government regulation) and was invariant to Keynesian demand-side policies. Opposition to the use of budget deficits to maintain full employment solidified and the inflation-first rhetoric became the dominant discourse in macroeconomics.

- 3.5 The 3 major pillars of the Post War full employment consensus were abandoned and full employability and price stability became the major economic aims of government.
- 3.6 The hallmark of the full employability era is that individuals have to accept responsibility, be self reliant, and fulfil their obligations to society. Unemployment is couched as a problem of welfare dependence rather than a deficiency of jobs.
- 3.7 With unemployment persisting at high levels due to the deliberate constraints imposed on the economy by restrictive fiscal (and monetary) policy, rising welfare payments placed pressures on the Redistributive Pillar.
- 3.8 The OECD's response to rising and persistent unemployment was the 1994 Jobs Study that advocated extensive reforms, notably the reduction of budget deficits and public debt, labour market deregulation, redefinition of the responsibilities of government in terms of full employability, widespread reform of unemployment and related benefit systems and investment in formal education and training to improve the skill base of disadvantaged workers.
- 3.9 Despite the OECD Jobs Study the OECD economies still generated an unemployment rate of 5.8 per cent in January 2007. Since the 1991 recession, underemployment has risen in all OECD countries.
- 3.10 Mitchell and Muysken (2008) provide a comprehensive critique of these policy developments and the way that the OECD drew on academic research that has now been shown to be fragile. There is also strong evidence that active labour market programmes have been largely ineffective in reducing unemployment and improving the outcomes of the most disadvantaged workers in the labour market.
- 3.11 In the face of mounting criticism and empirical argument, the OECD has also begun to back away from its hardline Jobs Study position acknowledging that the evidence supporting the Jobs Study 'remains mixed' and 'is somewhat fragile', there is no significant correlation between unemployment and employment protection legislation, the level of the minimum wage has no significant direct impact on unemployment and highly centralised wage bargaining significantly reduces unemployment.
- 3.12 The most damning indictment of the OECD policy agenda is that in recent years employer groups have argued that Australia is suffering from a skill shortage, despite the continued high rate of labour underutilisation. This implies that the large numbers of unemployed Australian workers who have been shunted continually through these expensive training and compliance programmes under the Job Network and related bodies, have not acquired any useful skills.
- 3.13 Internationally, there is a growing acknowledgement that the creation of paid public employment must be a part of the employment policy mix.
- 3.14 In Australia, for example, the limited role of public sector job creation, and the withdrawal of the public sector from its historical role as a countercyclical employer have served to entrench high unemployment.

The flawed macroeconomics of the Full Employability framework

- 3.15 A modern monetary system is characterised by a floating exchange rate (so monetary policy is freed from the need to defend foreign exchange reserves) and the monopoly provision of fiat currency. The monopolist is the national government. Macroeconomic principles explain the fundamental flaws in the arguments used to justify abandoning full employment.

The costs of unemployment

- 3.16 The economic benefits of sustained full employment are indisputable.
- 3.17 Conversely, the economic and social costs of failing to achieve and maintain full employment are considerable.

Unemployment and underutilisation in Australia

- 3.18 While the official unemployment rate in Australia has exhibited a long term decline since its peak in February 1993, there has been a significant rise in underemployment, resulting from an increase in the number of part-time workers seeking more hours of paid work.
- 3.19 The hours based measure of labour underutilisation which incorporates hidden unemployment and underemployment was developed by the Centre of Full Employment and Equity.
- 3.20 There is unequal spatial distribution of the burden of unemployment.

Chapter 4 Active labour market policies (ALMP)

- 4.1 Government expenditure on labour market policies to address unemployment can be divided into 2 categories:
- “Passive” assistance refers to payment of unemployment benefits; and
 - “Active” assistance takes the form of Active Labour Market Policies (ALMP) such as job search assistance, training programmes, public sector job creation, and wage subsidies.

Justification for ALMP

- 4.2 The theoretical justification for ALMP is that they increase labour market efficiency, productivity, employment outcomes and earnings for the unemployed.
- 4.3 ALMP have several potential disadvantages that reduce employment creation programme effects. These include deadweight loss, displacement, substitution and attachment effects.

International experience with ALMP

- 4.4 Active Labour Market Policies have changed significantly over time reflecting the shift from the full employment Keynesian welfare state to the full employability paradigm.
- 4.5 Internationally the initial response to rapidly rising unemployment in the 1970s was the introduction of job creation programmes.
- 4.6 In the 1980s training programmes assumed increased importance.
- 4.7 In many countries job creation in the public sector has been replaced with punitive workfare schemes. As public sector job creation lost ground, there has been a greater reliance on the use of wage subsidies.

Expenditure on ALMP

- 4.8 The shift to activation in OCED countries was reflected in the increasing proportion of ALMP expenditure in total labour market policy expenditure between 1990 and 2005. Between 1990 and 2005 the relative share of ALMP expenditure changed: public

sector job creation increased in the early 1990s then waned; the share of wage subsidy expenditure increased in most OECD countries; and training programmes remained important.

Evaluations of ALMP

- 4.9 ALMP programmes have several, sometimes conflicting, objectives. Therefore evaluations have studied a variety of issues including: costs, effectiveness, efficiency, net impact, sustainability and issues of programme implementation. In general there are 2 main programme effects of interest to researchers:
- macroeconomic evaluations seek to determine whether programmes provide a net social benefit; and
 - microeconomic evaluations compare programme participants with non-participants to identify whether participation increases earnings, employment rates, speed of transition out of unemployment, or reduces reliance on social welfare programmes.
- 4.10 Evidence on the efficacy of ALMP as a tool for reducing unemployment or increasing earnings is often contradictory, confusing or inconclusive.
- 4.11 In addition, evaluations are affected by the econometric techniques used and the particular characteristics of programmes, making generalisations difficult and resulting in contradictory findings.

Who do ALMP help?

- 4.12 Jobsearch and employment assistance have been found to be beneficial for most jobseekers, including disadvantaged jobseekers, women and sole parents.
- 4.13 Public sector job creation programmes (PSJC) evaluations have produced mixed results.
- 4.14 Wage subsidies are claimed to be one of the most effective labour market programmes in terms of increasing employment outcomes and have been found to assist the long-term unemployed, sole parents and female re-entrants.
- 4.15 Self-employment or micro-enterprise development schemes have positive impacts on employment and earning prospects for a small group of the unemployed, who are usually relatively well educated prime aged adults.
- 4.16 Training programmes are the most widely used and diverse component of ALMP, incorporating general education and vocational skills training with durations lasting from a single day to several months. They are generally found to be more effective for women and of less benefit to men, while disadvantaged youth rarely benefit.
- 4.17 Despite the fact that many ALMP programmes are associated with deadweight loss and substitution effects, they may provide equity benefits since they provide opportunities for disadvantaged job seekers who would otherwise not succeed in obtaining employment.
- 4.18 The inescapable conclusion from the international experience of the past 30 years is that implementation of various types of ALMP has proven to be an ineffectual response to deficient labour demand in a constrained macroeconomic environment.

Chapter 5 Regional and local employment policies

- 5.1 Determining the appropriate “region” to examine regional disparities in GDP, employment or unemployment rates is problematic. While it is generally agreed that

the relevant territory should relate to functional labour markets, much economic data relates to administrative jurisdictions such as states, provinces or counties that bear little relationship to functional areas.

- 5.2 The persistence of high levels of geographical concentration in unemployment and labour market participation prompted the OECD to note underscores the importance of demand-side factors and justifies specific policies targeted to regions with high unemployment.

What is new regionalism?

- 5.3 In recent years a range of strategies and institutional arrangements have emerged which highlight the importance of regional and local economic development and fit broadly under the rubric of “new regionalism”. Within the new regionalism literature concepts such as clusters, networks, partnerships, the knowledge economy, co-operatives, social entrepreneurship and social inclusion are prominent and intertwined.
- 5.4 Jessop (2004) claims that globalisation has fundamentally changed or “hollowed out” the role of the state and transformed the Keynesian welfare state into the Schumpeterian workfare state as a consequence of the internationalisation of production and financial markets. The state now focuses on the attraction and retention of mobile international capital and increasing international competitiveness at the expense of coordinated policies to promote balanced growth.
- 5.5 The coexistence of globally successful regions, and regions that failed to prosper, focussed attention on several “successful” international regions such as Silicon Valley in the US, Baden-Württemberg and Emilia Romagna in Europe.
- 5.6 There has been a shift from government to governance along the lines of “steering not rowing”, marked by devolution to lower tiers of government or contracting out. Community development is to be achieved by the promotion of social enterprises, self-employment and small business development, training and work experience.

Clusters

- 5.7 Industry clusters have been promoted as the driving force for economic and employment growth and regional prosperity through a dynamic process of competitiveness, productivity and innovation.
- 5.8 Proponents claim clusters produce a multitude of benefits such as increasing productivity, innovation, competitiveness, profitability, job creation, wages and the rate of firm formation.
- 5.9 Porter (1998a & b) proposes that national, state and local governments develop policies to reinforce existing or nascent clusters by investing in the creation of specialised factors such as education and training centres and specialised infrastructure.
- 5.10 The major negative consequences of successful clusters are congestion; escalating prices for land, labour and services and negative distributional consequences.
- 5.11 There is a general consensus that cluster promotion strategies are unlikely to succeed in creating clusters from scratch, and that it is difficult to transplant successful strategies that arise in unique local circumstances.
- 5.12 Cluster theory has been the subject of critiques on several grounds. Most importantly, the proposition that cluster promotion constitutes an effective policy instrument for

stimulating regional economic and employment growth has been challenged because cluster theory ignores the importance of aggregate demand.

Regional and local development strategies

- 5.13 The devolution of responsibility to lower levels of government raises the possibility that national governments may absolve themselves of responsibility and jeopardise service delivery by financially constrained state or local governments.
- 5.14 Entrenched high levels of unemployment and underemployment, combined with retrenchment of income support and social service provision, resulted in high levels of social exclusion and threatened the legitimacy of neo-liberal policies.
- 5.15 Local development has been promoted by supra-national bodies as a complement to national and supra-national programmes to reduce unemployment and inequality.
- 5.16 Key factors for the successful implementation of local development initiatives include: coordination with national policies; development of an effective strategic plan with all relevant parties including government, business and the local community; and effective monitoring and evaluation mechanisms.

Social entrepreneurship

- 5.17 Social entrepreneurship (SE) has been promoted as a means of addressing regional disadvantage and entrenched unemployment. SE is based on 3 false premises: (a) that the federal government (issuer of the currency) has a financial constraint akin to that faced by households (user of the currency); (b) that expansionary macroeconomic policies are ineffective; and (c) that social policies are no longer affordable.
- 5.18 There are several problems and limitations of social entrepreneurship. SE may: prioritise the bottom line rather than social objectives or gradually erode the culture of the organisation; lose autonomy due to contractual requirements such as “policing” disadvantaged groups; and, importantly, SE creates the illusion that problems are being adequately addressed while governments continue with neo-liberal policies.

International regional policies

- 5.19 Regional policies are predicated on the belief that interventions are necessary to deliver regional convergence in economic outcomes. Governments have fostered the development of industry clusters to promote regional development.
- 5.20 The traditional approach of concentrating regional policies on assisting lagging regions has been jettisoned in favour of encouraging all regions to concentrate on local assets to increasing competitiveness in a rapidly globalising economy where it has been proposed that regions are becoming more important and less dependent on the fortunes of the national economy.
- 5.21 The adoption of SE and other local development strategies is closely related to new regionalism and government abrogation of responsibility for full employment and the desire to outsource services previously delivered by the public sector.
- 5.22 Persistent regional disparities in unemployment demonstrate that these strategies are incapable of restoring full employment in the presence of macroeconomic constraints and a situation where private sector job creation has proven to be insufficient to provide jobs to all those willing and able to work.

Chapter 6 Australian experience with national, regional and local employment policies

The Australian experience with ALMP

- 6.1 Australian ALMP expenditure has varied over time but remained in the lower half of OECD countries in 2005. Job creation programmes have been used in response to periods of high unemployment but have given way to workfare schemes over time. Wage subsidies have been used since the 1970s and training programmes became more important from the 1980s in line with the “full employability” paradigm.

Activating the unemployed and other workless groups

- 6.2 The Social Security Review and the Active Employment Strategy of 1991 emphasised activation of the unemployed and other workless groups, such as sole parents and people with disabilities.
- 6.3 Implementation of recommendations of the 1994 employment white paper, Working Nation continued the agenda of the SSR and introduced new ALMPs to address the dire unemployment situation
- 6.4 The 1994 White Paper, Working Nation, provided additional jobs for those unemployed more than 18 months either through private sector employment through Jobstart, existing programmes or the New Work Opportunities programmes.
- 6.5 While employability and compliance objectives assumed increasing importance under ALP governments they became virtually the only policy of the Howard government after most labour market programmes were abolished and reciprocal obligation was replaced by Mutual Obligation that included Work for the Dole.
- 6.6 The McClure Report recommendation that Mutual Obligation be extended to include other jobless income recipients of workforce age including sole parents and people with disabilities has been implemented progressively with the major initiative being “Welfare to Work” changes that commenced in July 2006.
- 6.7 Some state governments have also implemented ALMP to address particular needs such as recruitment and retention of apprentices through payment of allowances or wage subsidies, or providing payroll tax concessions and exemptions from workers compensation premiums.

Employment Services in Australia: from the CES to Job Network

- 6.8 The Commonwealth Employment Service (CES) operated from 1946 until it was replaced by the Job Network in 1998. Implementation of Working Nation included contracting out of some case management services to the private and non-profit sector. The privatisation push was extended by the Howard Government through the Job Network that is comprised of for-profit and non-profit providers of employment services.
- 6.9 The Job Network has undergone several changes in the 10 years since its establishment as successive contracts have attempted to rectify serious inadequacies in service delivery, transparency and accountability and to stamp out unacceptable practices.

View from the coalface: Report on focus groups with Job Network staff

- 6.10 Three focus groups were conducted with staff from non-profit Job Network providers in late 2007. Participants were asked to comment on the role of the Job Network and assess how well it functioned.
- 6.11 Participants were unanimous that interaction with DEWR was time consuming, frustrating and had a negative impact on their ability to assist job seekers.
- 6.12 Many participants commented that their primary function was policing the unemployed rather than providing employment assistance and that they felt pressured to breach clients or force them to undertake activities of dubious worth such as full-time Work for Dole.
- 6.13 The commercial and competitive nature of the Job Network model was considered to have a negative impact on the quality and quantity of service provided to job seekers.
- 6.14 Participants indicated that a growing percentage of the unemployed faced severe employment barriers or were in need of extensive assistance including professional interventions that were not possible due to funding constraints and the commercial interests of providers.

Has the Job Network delivered?

- 6.15 A primary justification for the Job Network model was that a focus on outcomes would provide better quality services that incorporate client choice of provider and innovative solutions to overcome employment barriers.
- 6.16 Client choice of provider has been constrained, individualisation of services has been deficient and the overall quality of services criticised, particularly in relation to lack of guaranteed service provision, very limited customisation of services, as well as “parking” and “creaming” practices.

Regional and local policies in Australia: the federal government

- 6.17 Regional and local policies to stimulate economic and employment growth are implemented by all 3 levels of government to varying degrees, but Australian policies are notable for the lack of a coordinated national approach and attempts to shift responsibilities and costs.
- 6.18 The attitude of Commonwealth governments to regional policy has vacillated from abrogation of any responsibility to active participation in top-down decentralisation policies and more recently policies that stress bottom-up, self development approaches. In addition to regional programmes the Commonwealth has also provided assistance to specific industries, and provided assistance for firms to enhance innovation and exports, or incentives to attract investment to Australia.
- 6.19 State governments operate a number of programmes to stimulate regional employment and development, promote clusters and assist business. There is a long history of states engaging in bidding wars to attract inward investment by providing tax breaks or discounts for services such as electricity.
- 6.20 Local governments have played a limited role in regional development but have assumed responsibility for a range of community and social services in recent years.
- 6.21 As the public sector has receded, social entrepreneurs in the form of non-profits have become integral to social services on a contract basis.

Chapter 7 The local government survey: research methodology and results

Purpose of the study

- 7.1 The underlying objective for undertaking this research was to investigate the feasibility of implementing a Job Guarantee. A national local government JG survey was conducted with 2 major aims:
- To compile an inventory of unmet need for infrastructure and services in communities across Australia; and
 - To identify both the type and quantity of socially meaningful work that could be performed by low skilled workers employed under the JG and would contribute to community development.

The preliminary study

- 7.2 Comprehensive pre-testing and evaluation of the research objectives, processes and instruments was undertaken. This involved conducting a literature review, holding focus groups with fellow researchers, and a Pilot survey.
- 7.3 Of the 15 local governments that were invited to participate, 13 attempted the survey, and 8 fully completed the survey.
- 7.4 The interview process revealed that the survey was too broad and that 2 separate surveys would be necessary to fully document the unmet needs in community development and environmental remediation.
- 7.5 The pre-interview process also revealed that respondents needed to develop a conceptual understanding of the JG model to better allow them to answer the questions.
- 7.6 The preliminary study identified significant unmet need in terms of welfare services and corresponding potential job opportunities for low skill workers. However, respondents generally signalled a conservative understanding of the scale of need within their communities relative to the scale identified in the extant research literature. In turn, this reduced the estimates of potential jobs that could be generated to service the need.

Survey administration method

- 7.7 Local governments were identified as the appropriate survey population as they cover a defined geographic area with clear boundaries that do not overlap. Local governments are also a first point of contact for communities and have extensive and detailed information about issues of local community need.
- 7.8 Social planners and community development officers were targeted to complete the main survey because their main function is to develop strategies to research and remedy social problems and thus improve the social environment.
- 7.9 A 50 per cent sample of local governments throughout Australia was selected by means of a stratified random sampling technique, using categories derived from the Australia Classification of Local Governments (ACLG).
- 7.10 The final survey comprised semi-structured in-depth telephone interviews. Respondents would be asked to:
- comment on need for community development within the local government area under 5 subcategories including public health and safety, recreation and

culture, transport amenities, community welfare services and an others category;

- identify tasks that could be undertaken by low and unskilled workers; and
- estimate the number of workers that could be employed to meet these needs.

- 7.11 The survey population consisted of 665 local governments throughout Australia (excluding Torres Strait Islands off the coast of Queensland). Three hundred and twenty eight (328) local governments were invited to participate. Forty six per cent of the sample (151) completed the entire survey, 10 per cent partly completed the survey and 35 per cent declined to participate.
- 7.12 New South Wales and Tasmania had the highest response for full survey completion (68.4 and 71.4 per cent, respectively). Responses were lowest for Western Australia, the Northern Territory and Queensland (between 30.1 and 38.7 per cent).
- 7.13 To ensure the sample remained representative of the overall population, the response data was weighted to adjust for non-response (de Vaus, 2002: 85).

Survey results

- 7.14 The socially meaningful work that respondents considered could be created nationally represented jobs for around 40 per cent of all unemployed people in local government areas that participated in the survey (at March 2006) (DEWR, 2006a). Potential JG employment opportunities in community welfare services (27,194) are greater than the other categories in all states. Transport amenity had the second greatest employment generating potential (9151 jobs) followed by Recreation and culture (8680 jobs) then Health and Safety (4774 jobs).
- 7.15 Eight types of jobs were consistently identified as being urgently required to meet community needs with a number of other jobs considered to be less urgent. These included: the construction of public housing and public infrastructure; provision of additional teacher's aides; and community-based home care support for the elderly; and transport needs.
- 7.16 The results varied considerably across states. The highest number of potential JG employment opportunities as a proportion of the unemployed population identified was in surveyed LGAs in South Australia (65 per cent), while the lowest proportion of jobs identified were in surveyed LGAs in Western Australia (25 per cent).
- 7.17 Spatial disparities are also evident. The highest proportion of potential JG jobs identified as a proportion of unemployment was in local governments in rural areas (57 per cent). This was significantly larger than in urban developed areas (40 per cent), urban fringe areas (36 per cent) and urban regional areas (36 per cent).

Limitations of survey

- 7.18 The data analysis of the main survey confirms that decision-making processes, and the information that people use to aid them in this process, is very much grounded in their own prior experience and knowledge. The data collected through this survey, while extremely useful in setting out the type of unmet needs that persist in regional communities, definitely under-reports the scale of employment creation that is needed to service these community needs.

Chapter 8 Transport amenity

Transport amenity, infrastructure and social need

- 8.1 Effective transport systems are important for access and equity. They impact on wellbeing and the ability to participate in economic and social activities.
- 8.2 State and territory governments have been responsible for arterial roads, public transport systems, urban design and the planning of transport systems. Local government authorities have been responsible for maintaining local low volume road systems and other infrastructure including footpaths and bicycle tracks. The federal government is responsible for national highways and highway link roads.
- 8.3 Many respondents to the national local government JG survey acknowledged the need for major funding to construct, improve and extend major highways and railway, and light rail systems. An estimated \$14 billion shortfall in local government expenditure on infrastructure has been attributed to insufficient growth in revenues (AFTF, 2007: 160).

Local roads and local governments

- 8.4 The maintenance of local low volume road systems, footpaths and bicycle tracks accounts for a large portion of local government expenditure. Funds to maintain local roads are primarily derived from local rate revenue, federal government grants and some limited state government funding. Federal funding (totalling \$1.15 billion in 2006-07) encompasses the Federal Assistance Grant (FAG), the Roads to Recovery programme, the Strategic Regional programme, and Black Spot programme.

Analysis of survey results

- 8.5 Analysis of data collected from Local Government Social Planners indicates that councils typically struggle with local road maintenance with respect to: bituminising gravel and dirt roads; widening local roads to adjust to increases in local demand; and road maintenance activities, including filling potholes and clearing invasive vegetation.
- 8.6 The highest proportions of local governments reporting need for additional funds were in Queensland (83.8 per cent) and Western Australia (81.6 per cent), while the lowest proportions were reported in Tasmania (33.6 per cent) and NSW (41.7 per cent).
- 8.7 Need for additional assistance increases across the ACLG remoteness index. Only 43 per cent of urban LGAs reported additional funding needs compared to over 98 per cent of LGAs from remote areas.
- 8.8 The spatial themes that emerged from this analysis indicate that the lack of investment in rural and remote Australia leaves those locations with a higher degree of unmet need than their urban counterparts. The areas with the greatest reported need for additional road maintenance funding (remote areas) are also the least advantaged areas according to the SEIFA index.
- 8.9 Funds allocated to local governments for expenditure on alternative transport infrastructure, such as footpaths and cycle-ways compete with the pool of funds available for local road investment.
- 8.10 Survey respondents indicated need for further investment in alternative transport infrastructure, including footpaths and cycle-ways, that was quite similar to need for investment in road infrastructure. Again the greatest level of need was reported in

remote areas, followed by rural and finally urban areas. A higher percentage of respondents in urban areas reported a need for investment in alternative transport infrastructure (57 per cent) than for additional local roads funding (44 per cent).

- 8.11 There has been a long term shift from investment and maintenance of rail infrastructure which has resulted in the closure of rail lines, particularly in regional areas. The need for rail links was most evident in both urban developed and urban regional areas. Urban developed councils also pointed to the need for investment in light rail systems. Respondents were generally unable to quantify the number of jobs that could be created.
- 8.12 For many communities, the lack of regular public transport was a serious impediment to social and economic participation. Respondents emphasised the importance of community transport that was flexible enough to accommodate the needs of community members including the elderly and people with disabilities.
- 8.13 A large number of potential JG jobs could be created for the construction and maintenance of roads, footpaths and cycleways. These would include paving / surface labourers, gardeners and builders labourers. The greatest number of jobs that could be generated by addressing the need for transport services would be for drivers of vehicles of various sizes from cars to buses. A substantial number of positions would also be available for personal carers to accompany the aged and disabled, while a smaller number of jobs would be generated for clerical personnel.

Chapter 9 Community welfare services

Housing and accommodation

- 9.1 Affordable housing is a prerequisite for full participation in economic and social life. Affordability issues are evident in both the rental and home ownership markets.
- 9.2 The federal government has increased assistance to people renting in the private market over the past 2 decades and reduced assistance to public housing tenants.
- 9.3 Provision of public housing is a superior policy for ensuring housing affordability since rents can be set as a proportion of income. In contrast, rents for rent assistance recipients are determined by the market and one-third of recipients remained in housing stress after receiving rent assistance (SCRGSP, 2008).
- 9.4 The Supported Accommodation Assistance Program (SAAP) is jointly funded by the Commonwealth and State governments and is the major form of assistance for emergency accommodation. There is evidence of unmet need since 56 per cent of applicants were turned away in 2004-05.

Analysis of survey results: need for social housing, crisis accommodation and brokerage services

- 9.5 Eighty seven per cent of respondents noted that housing affordability was an issue in their local government area, and 77 per cent reported that expansion of public housing was needed. Examination of the data by the Australian Classification of Local Government (ACLG) and the SEIFA advantage / disadvantage index (2001) reveals an inverse relationship, with a higher percentage of respondents in areas that have low (relatively high disadvantage) SEIFA scores indicating a need for additional public housing.

- 9.6 Some local governments, particularly those in rural areas continue to ease the shortfall in public housing by providing a small amount of social housing. However, local government revenues are not adequate to address housing needs. Only the federal government has the fiscal capacity to meet public housing needs.
- 9.7 Forty four per cent of respondents reported the need for additional crisis accommodation. Crisis accommodation facilities for those involved in domestic violence was the most frequently cited need, followed by refuges for homeless men and youth.
- 9.8 A higher percentage of survey respondents from local governments outside metropolitan areas reported need for domestic violence refuge facilities (28 per cent), than their counterparts in urban developed areas (8 per cent).
- 9.9 The need for additional youth refuge accommodation was reported by 17 per cent of respondents in urban developed areas and 18 per cent in rural agricultural areas.
- 9.10 Forty two point three (42.3) per cent of respondents from medium sized urban regional local governments, particularly those along the NSW coastline, reported unmet demand for accommodation to cater for homeless men (as did 35.7 per cent of local governments in urban fringe areas).
- 9.11 Respondents suggested that there was great need to provide post-crisis accommodation for various vulnerable groups that could incorporate a range of social support, childcare and substance abuse services.

Services for the Elderly

- 9.12 Australia has an ageing population and adequate systems to cater for the needs of the elderly are needed urgently. The ABS Disability, Ageing and Carers (2003) survey found that 41 per cent of people aged over 60 years required assistance with health conditions or daily activities, but the rate increased from 26 per cent for those aged 60-69, to 84 per cent for those aged 85 years or older. Assistance was required with property maintenance, health care, transport, housework, mobility and self care (ABS, 2003).
- 9.13 There is substantial evidence of unmet need for community care services that are currently fragmented and inflexible. Twenty five per cent of those self-identifying a need for assistance with everyday activities felt that their needs were not being fully met, including 50 per cent of those with a profound limitation (ABS, 2003).
- 9.14 While future demand for care will increase, the future availability of informal care is expected to fall due to changes in family structure, increased labour market participation by women and population ageing.

Analysis of survey results: assistance for the elderly

- 9.15 Respondents consistently reported the need for investment in residential aged care facilities such as nursing homes, unit complexes and retirement villages, in order to cater to the diverse needs of the elderly.
- 9.16 Respondents indicated considerable unmet need for basic care services to promote independent living. Jobs identified by local government social planners associated with community welfare services in aged care included provision of general household assistance such as cleaning, meal preparation, personal care, yard maintenance, and activities such as changing light bulbs and painting.

- 9.17 Reported unmet need varied between states and areas. In metropolitan New South Wales respondents reported the need for long day care services for elderly people, while respondents from rural and remote areas, particularly in Western Australia, highlighted the need for visitation programmes, social support and personal care services.
- 9.18 Respondents commented that there was need for expansion of flexible community transport services for the elderly including “dial-a-ride” community transport services to assist with independent living needs.
- 9.19 In total, community welfare services, excluding community transport, accounted for 13.5 per cent of all jobs identified. Community transport accounted for 2.7 percent of these potential job opportunities, construction of accommodation suitable for the elderly accounted for over 3 percent of all jobs, while the general expansion of public housing accounted for a further 26 per cent of jobs identified in the survey.

Chapter 10 A strategic framework for regional development

- 10.1 Rapidly changing economic conditions over the past 3 decades have impacted unevenly across Australia, producing pockets of high and entrenched unemployment and labour underutilisation. De-industrialisation occurred as major manufacturing industries were exposed to international competition in a rapidly globalising economy while periods of prolonged drought have affected the viability of rural industries.
- 10.2 Government responses to these problems have been manifestly inadequate. Australian governments have embraced the OECD Jobs Study recommendations to implement supply-side policies with an emphasis on ALMP to enhance ‘employability’ rather than making extensive use of job creation programmes.
- 10.3 The abandonment of full employment and extensive social provision of the Keynesian welfare state in favour of the full employability framework has had major implications for the workforce and communities throughout Australia.
- 10.4 The results of the national local government JG survey revealed that there are substantial unmet needs for infrastructure and services across urban, regional and remote areas. Need was unevenly distributed across states and regional areas.

A new national strategy to address employment and service needs of Australian communities

- 10.5 The overriding objective of the new strategic framework for regional development proposed in this report is sustainable development where economic, social and environmental objectives are achieved and available labour resources are fully utilised. A spatial Keynesian approach would facilitate the development of regionally focused interventions to provide infrastructure and services according to the specific needs of the community.
- 10.6 The strategic framework outlined in this report will address equity by ensuring that there are opportunities for all to engage in productive work and have access to social services. The spatial Keynesian approach to economic and social policy would involve:
- An expansion of the public sector to provide critical infrastructure and services;
 - A National Skills Development framework;

- A Job Guarantee that would provide public sector employment for all those willing and able to work.

Chapter 11 A targeted expansion of public sector employment

The changing role of Australian governments

11.1 The neo-liberal challenge to the traditional public sector role from the early 1980s was driven by the need to open up new avenues for private corporations and to restrict deductions from surplus value that constituted the social wage. The role of government has been reduced as part of the transformation from the full employment to the “full employability” welfare state. Governments have increasingly sought to deliver physical and social public infrastructure through private providers. Policies such as deregulation and privatisation have amplified the disadvantage and poverty experienced by vulnerable groups.

The shift in investment from the public to the private sector

11.2 Since 1976 there has been a gradual decline in public sector investment expenditure which has been offset to some degree by increased private sector investment. Private sector investment has increased rapidly in recent times due to reforms introduced through the National Competition Policy. However, much of the increased investment from the 1990s onwards was due to mergers and acquisitions rather than new capital formation.

11.3 Infrastructure investment in contemporary Australia has become increasingly concentrated and localised with a focus directed towards construction of industry clusters and information nodes, which have potential to intensify returns on investment and maximise investor profit (O’Neill and McGuirk, 2002:243). The nature and benefits of growth and competition have been concentrated, especially in major urban centres such as Sydney and Melbourne.

The need for infrastructure investment in Australia

11.4 The Australian Council for Infrastructure Development (2001, cited in AFTF, 2007:153) estimated that there was need for an additional investment of \$150 billion to repair, upgrade and complete road, rail, water and energy infrastructure projects in Australia. ABN-AMRO (2006) identified a base for infrastructure spending that required investments of \$338 billion over the next decade, \$184 billion of which would be on economic infrastructure (roads, rails, electricity, gas, water and ports) and the remaining \$154 billion on social infrastructure (schools, hospitals, universities and defence).

11.5 The findings of the 2007 national local government JG survey confirm that current infrastructure provision does not meet the needs of communities throughout Australia. Cost reductions, increases in efficiency and productivity, and increased involvement of the private sector have not provided communities with a level of infrastructure that is satisfactory.

Public sector employment outcomes

11.6 Between 1983 and 2007 public sector employment stagnated in absolute terms and contracted relative to total employment. Total public sector employment declined from 26.6 per cent of total employment to 16.5 per cent.

The focus on privatisation

- 11.7 Privatisation began in earnest in the late 1980s and accelerated in the 1990s under both ALP and Coalition governments at the federal and state level. In addition to privatisation of government assets, delivery of social and economic infrastructure has increasingly been through outsourcing and the use of public private partnerships (PPP).
- 11.8 The term public private partnerships (PPP) covers a wide variety of collaborations between the public and private sectors, including: a) Build, Own, Operate (BOO), where the private operator retains ownership of the asset when the contract expires; b) Build, Own, Operate, Transfer (BOOT), involving private construction and operation, followed by ownership transfer to the public system after contract expiry; c) Build Own and Lease Back (BOLB) involving private construction and ownership with the government leasing and operating the asset; and d) Operate (O), where operation of the asset is contracted out.
- 11.9 PPPs offer a hybrid model for public investment in infrastructure and services that seeks to harness the benefits of a competitive market as well as private sector expertise and innovation, transfer risk to the private sector and facilitate provision of higher levels of public infrastructure than could be delivered by traditional public sector provision.

National Competition Policy

- 11.10 NCP was introduced in 1995 to help address the various regulatory and institutional restrictions on competition that led to perceived inefficiencies within the Australian domestic economy. The NCP was to enhance competition through cost control, innovation and responsiveness to consumer needs.
- 11.11 An evaluation by the Productivity Commission in 2005 estimated that NCP resulted in a 2.5 per cent increase in GDP (or \$20 billion) but noted that benefits and costs varied across the Australian landscape and across socioeconomic groups with some households being adversely affected by higher prices for particular services and employment reductions experienced by some smaller regional communities.

A targeted expansion of the public sector

- 11.12 An expansion of public sector service provision is an essential component of a national strategy to address the employment and service needs of Australian communities. Public sector employment expansion would take 2 forms: 1) expansion of jobs that are necessary on an ongoing basis in order to ensure the needs of communities are met; and 2) the JG to provide a mechanism to ensure that all people who want to work could contribute to society on a paid basis.
- 11.13 The question as to which of the two delivery mechanisms should be used relates to whether the service is amenable to the buffer stock model or should be provided on an ongoing basis. Jobs in many areas social service provision may not be amenable to the JG since needs are ongoing.
- 11.14 Physical infrastructure provision may be delivered by a combination of increases in public sector infrastructure programmes to cater for prioritised projects of significant economic or social importance, and JG jobs for lower priority projects that may be planned in advance and implemented to accommodate fluctuations in the labour market.

Chapter 12 Creating a National Skills Development framework

- 12.1 The term “skill” refers to a specific ability, and is generally used where the ability is assumed to have been in some sense developed through experience or training.
- 12.2 It is usually assumed that when employers speak of a “skills shortage” they are referring to an absence of technical proficiency, but more broadly, they mean a range of worker capabilities and behaviours that contribute to their profitability.
- 12.3 Skills shortages are now well recognised by Australian industry as compromising their ability to innovate and compete in global markets. Both industry and government seem reluctant to acknowledge that a significant cause of industrial skill shortages is the unwillingness of industry to invest in sufficient skill formation.
- 12.4 Analyses of skills shortages by industry and governments invariably consider the issue from the perspective of business and profitability, which places the emphasis on containment of labour costs both in terms of wages and conditions, and hence, whenever possible, externalising the costs associated with developing the skills firms require in their workers. Within this context, the notion of structural unemployment arising from “skills mismatch” can be understood as implying an unwillingness of firms to offer jobs (with attached training opportunities) to unemployed workers that they deem to have undesirable characteristics.
- 12.5 The Australian public sector of the 30 year post-war era (1945-1975) largely kept skill shortages at bay despite prolonged high labour utilisation because the public sector deliberately trained more people than it required to counter the under-training propensity of the private sector. With the privatisation of public utilities, the downsizing of public sector workforces, and the widespread adoption of private sector practices in the public sector, the skill building role was abolished with little consideration as to the impact this would have on the maintenance of adequate levels of skill development.
- 12.6 Up until the mid-1970s there was a capacity within the Federal and State employment departments to conduct occupational forecasting and integrate that with a comprehensive apprenticeship and training structure. The neo-liberal cutbacks in government spending and employment since the mid-1970s were accomplished, in part, by abandoning these crucial capacities.
- 12.7 The degree of skill shortage and the persistent unemployment and underemployment of the past 30 years represent two-sides of the same coin. They both reflect a lack of governance at the federal level.
- 12.8 In terms of monitoring labour market developments, the former CES played a significant role in detecting, analysing and coordinating responses to skills shortages. But the fragmented and competitive nature of the Job Network prevents formation of a coherent overview, or the gathering of clear labour market intelligence with which to inform policy.
- 12.9 The Howard Government actually discouraged unemployed people from undertaking training by making its provision conditional on their first participating in its compliance programme, known as “Work-for-the-Dole”.

The development of a National Skills Development framework

12.10 We propose a role for the state in direct skill formation through a National Skills Development (NSD) framework which we consider will address the skills problem and support the global competitiveness of Australian industry. The clear necessity is for the state to provide experiential opportunities that develop vocational skills designed to abstractly resemble the skilled tasks performed in local labour markets. Several points need to be considered when developing a NSD framework.

- Maintaining a buffer stock of public sector jobs provides work for all irrespective of their skill levels and also allows paid-work opportunities to be structured into training and career development;
- The Federal and State Governments must renew their commitment to trade training and to adequately fund our public schools and universities. Public policy must also set in place safety-net structures to ensure that every person under 20 years of age is in education, training or a paid job;
- Occupational planning capacities must be reintroduced to ensure that the apprenticeship and training programmes are targeted in areas of regional and industrial need; and
- By maintaining full employment private employers will be forced by competition to take a major responsibility for training and skill development of our workforce.

12.11 It is proposed that, in developing the NSD, the Commonwealth will establish:

- Regional labour market coordination units to support the delivery of a range of labour market support services, whereby several Commonwealth agencies co-locate in order to: conduct multidisciplinary regional socio-economic research and analysis; facilitate industry and community input into regional strategic planning; promote employment, education and training institution alignment with regional economic development strategic plans; and provide regional coordination of the Industrial Simulation Service and Job Guarantee Service;
- An Industrial Simulation Service (ISS) within each region to rigorously identify the skilled tasks performed by industry, to design activities that inculcate the skills to perform such tasks in novices, and to furnish the training authorities (school, TAFE, University, Job Guarantee Service, rehabilitation provider, etc...) with the venues, technical support, and equipment they require to provide experiential activities to form those skills; and
- The Job Guarantee will be a system of public sector employment paid at the minimum federal award, with particular emphasis on developing skills in local demand while meeting unmet community and environmental needs. It will be engineered to produce an internationally competent world class labour force, generating a high standard of living with improving environmental and social standards. The Job Guarantee will achieve these goals by giving unemployed people skill-enhancing jobs. The Job Guarantee would be supported in the design and equipping of its numerous workplaces and activities by the Industrial Simulation Service, according to the skills formation strategy of the region.

12.12 In real terms, the cost of building Australia's skill formation capacity is the extent to which resources of value to the rest of the community are consumed in the process, and the more rapid and massive its deployment, the greater the impact we would

expect to have. However, the speed of the ISS and Job Guarantee roll-out can be paced to minimise the impact on the broader economy of its resource requirements.

Chapter 13 The Job Guarantee

- 13.1 The Job Guarantee (JG) is a policy proposal to restore the role of the public sector as a significant employer, and to do so in a way that also controls inflation (Mitchell, 1998). The macroeconomic principles underpinning this proposal constitute an alternative economic paradigm to that which has dominated economic policy-making in Australia for 30 years, and which has entrenched under-employment, fuelled private debt and destroyed the nation's skills formation capacity (Mitchell, 2001b).
- 13.2 The JG is based on a buffer stock principle whereby the public sector offers a fixed wage job for up to 35 hours per week to anyone willing and able to work, thereby establishing and maintaining a buffer stock of employed workers which expands (declines) when private sector activity declines (expands), much like today's unemployed buffer stocks.
- 13.3 The JG provides a platform for developing the national skills base, by comparing the observed skills and competencies of the JG workforce with the emerging skills requirements of each regional labour market. This would inform the provision of accredited training (both in-house and via external providers such as TAFE), the indenturing of apprentices, and the design of JG activities so that they include experiential development of skills expected to be in local demand, thereby restoring the role of the public sector as a net trainer of skilled workers and minimising the likelihood of inflationary bottle-necks in labour supply.
- 13.4 The flexibility of the JG would extend to designing jobs to accommodate individuals with special physical, intellectual and behavioural needs. It could also be adapted to address the needs of rural and remote communities, and to reflect cultural norms within indigenous and other non-Anglo Australian communities.
- 13.5 The JG is intended as a platform to: provide economic security and social integration for those whose labour is currently being under-utilised; reduce social dislocation arising from unemployment and poverty; and contribute to the quality of life of all by its contributions to a better environment, public amenity and improved services.
- 13.6 As a minimum wage employer that accommodates the poaching of its skilled workers by other employers, and even facilitates this practice when extra workers are needed in the private sector, the JG is a superior price stabiliser than the present method that entails keeping over a million people precariously unemployed and under-employed, and in a condition of skill-atrophying idleness, social exclusion and poverty.

An illustrative model of an Australian Job Guarantee

- 13.7 The Central Office of the Department of Employment would undertake: policy development; systems development and management; performance monitoring; financial management; research and development; dissemination of best practice; marketing and reporting. It would determine national targets and accounting methodology for the ratio of expenditure on capital and labour
- 13.8 Zone or regional offices would oversee and support the performance of a cluster of JG enterprises. Each zone would consist of a team of auditors, researchers, trainers, counsellors, job developers, IT and ancillary staff that would support the establishment and operation of JG enterprises in each locality. Zone offices would undertake:

regional data collection and labour market analysis; determination of projected skill formation requirements in their region; JG enterprise establishment and staff recruitment; JG and PES information systems and other technical support; JG enterprise and PES staff training and development; community consultation in the development of JG service specifications for local government approval; allocation of approved service specifications to JG enterprises; JG enterprise budget development and approval; auditing and monitoring of JG Services; specialist JG job design; provision of visiting specialist counselling and social work support; local marketing and reporting.

- 13.9 Ideas or requests for services to be delivered by one or several JG enterprises may be directed to the JG zone office where they would be investigated by job development officers who would: determine the potential for the service to meet local needs; discuss draft proposals at the Community Consultation Forum; and liaise with members of the community, JG enterprises and local government staff.
- 13.10 JG Enterprises would perform the role of employer within the JG system. They would consist of a general manager, administrative staff, audit and monitoring staff, an operations manager, training staff, JG supervisors and JG workers. JG workers would work in a team under the direction of a JG Supervisor. Teams would vary in size according to the nature of the work and the supervision needs of the workers. These teams would be flexibly increased and decreased in number, expanded and shrunk in size, and combined or broken up according to the number of people employed by the enterprise, their skills and supervision needs, and the nature of the services the enterprise is undertaking to deliver.
- 13.11 All JG workers would receive the minimum federal award wage and all conditions of employment pertaining to permanent employees including holiday entitlements, superannuation, workers compensation coverage, and other allowances relevant to the maintenance of work clothing and such as allowed under the award.
- 13.12 Team supervisors would be trained and professionally supported on the job to resolve conflicts between workers and between themselves and workers. Should conflicts remain unresolved to the satisfaction of either worker or supervisor, a range of graduated options would be available.
- 13.13 With a fully operational JG system the role of the PES changes markedly from that of managing a demoralised long term unemployed and under-employed population with a punitive activity testing regime, to providing a securely employed population with information and access to improved private and public sector employment opportunities.
- 13.14 Local government has a significant role to play in the administration of the JG due to its local democratic authority and its proximity to the community and environmental issues that the JG would seek to address. Council meetings could withhold approval pending supply of further information or modifications. By this arrangement, local government will have the strategic power to impose standards of service performance and responsiveness to local need, while the scale of a service, including its withdrawal, will depend on the Commonwealth's assessment of how best to achieve its full employment and price stability objectives.
- 13.15 As a further public accountability measure, a representative of local government (a councillor or council nominee) would be the *ex-officio* chair of a regular Community Consultation Forum in which staff from the JG zone office and responsible officers of

each JG enterprise, and the PES, would be mandated to attend and respond to questions, criticisms and suggestions from the public.

Reactions of Job Network staff to the Job Guarantee proposal

- 13.16 The second function of the focus groups conducted with Job Network staff was to seek reactions to, comments and suggestions on, the JG proposal from staff currently engaged in employment services. The concept and operation of the JG was outlined and the following questions were displayed for general discussion:
- Would the availability of a programme such as the JG support the aims of the Job Network?
 - How could the JG programme interact with the Job Network?
 - What considerations would need to be taken into account in implementing such a strategy?
- 13.17 Some Job Network staff who attended focus groups took some time to comprehend fully the implications of a JG for the operation of the Job Network and the labour market as well as the implications for clients. Feedback from Job Network staff indicated that the JG would provide clients with valuable employment experience, opportunities for skill enhancement and importantly, enable them to participate in economic and social activities and thereby reduce the damaging effects of unemployment that involve skill atrophy, loss of dignity and social exclusion.
- 13.18 The JG scheme is underpinned by modern monetary macroeconomic theory that is applicable to flexible exchange rate economies such as Australia's where the federal government has the monopoly over currency issuance (a so-called fiat currency system). This theoretical framework addresses the known deficiencies of mainstream macroeconomic theory which is largely inapplicable to modern monetary economies.
- 13.19 The JG shows how price stability can be established and maintained without the need to render hundreds and thousands of Australian's unemployed. So instead of imposing economic hardship, social exclusion, skill-atrophy and despair on the most disadvantaged workers in Australia under a system of inflation targeting, which is unavoidable under current practices based on the prevailing macroeconomic orthodoxy, the JG achieves price stability by maintaining full employment.

Chapter 14 Investing in a national Job Guarantee

- 14.1 We provide detailed investment estimates that would be required to run a national JG in a JG scheme. The government spending to fund the JG wage would not be at market prices because by definition there is no market bid for the workers in question. The real resource costs would be the extra food, clothing and transport resources that the JG workers might consume, given that they now earn the minimum hourly wage, rather than receiving unemployment benefit, the disability support pension or no income at all. Given that the minimum wage should be aligned with community expectations of what constitutes a reasonable standard of living, the extra resources that the JG workers would consume could not be considered excessive.
- 14.2 While some readers may interpret this as conducting a costing exercise, we caution against this interpretation. The nominal entries that are recorded in budget statements are not "costs" in any real sense. The real costs of the JG would be the extra resources (for example, food, capital equipment etc) that are required to change the system from its present state to that with a JG.

- 14.3 As a derivative study to the national survey of local governments, interviews were conducted with relevant local government officials to allow us to more accurately assess the resource investment needed to mount a national JG. The interview collected information about wages and other labour costs; the worker / supervisor ratio; costs of materials and capital equipment; training costs and administrative costs.
- 14.4 Research into the cost structure of job creation programmes revealed a wide variety of labour / capital ratios. Labour costs comprised between 30 and 86 per cent depending on the capital intensity of projects.
- 14.5 From the interview and other research we differentiated tasks according to capital intensity. For low capital intensity we assumed a labour / capital split of 75/25; for medium capital intensity – 60/40; and for high capital intensity – 50/50.
- 14.6 We categorised the jobs identified in the national survey according to capital intensity and calculated their share in total JG jobs identified. 43.3 per cent were in low capital intensity areas; 40.2 per cent were of medium capital intensity and 16.5 per cent were high capital intensity jobs. All private sector jobs are assumed to be of medium capital intensity.

Current levels of labour underutilisation

- 14.7 In our calculations we use the figure of 2 per cent for the target rate of unemployment, so that we identify full employment with a modest rate of frictional unemployment, rather than a rate of unemployment associated with stable inflation which has been considered to be politically feasible.
- 14.8 In May 2008 there were 477 thousand workers officially unemployed out of a total labour force of 11,115 thousand. In addition there were 145.8 thousand hidden unemployed.
- 14.9 We expect that 17,800 people will make the transition from DSP to NSA as a result of the eligibility changes introduced with Welfare to Work in July 2006.
- 14.10 In total 327.1 thousand full time equivalent jobs would need to be created to achieve a 2 per cent rate of unemployment, taking into account the hidden unemployed and the official unemployed. In addition, there were 472.2 part-time workers seeking an average of an extra 14.4 hours of work per week in September 2007, which is equivalent to 194.2 thousand FTE workers. The total underutilisation means that the initial Job Guarantee pool would be 489.6 thousand full-time equivalent workers although clearly once the policy was introduced, the stimulus to the private sector would also erode the pool.
- 14.11 While annual productivity per full-time equivalent employee was about \$111,000 in May 2008, we assume that the productivity of the newly employed full-time equivalent workers in the private sector is \$80,000. JG workers are paid \$28,600. Wage earners are assumed to have a marginal propensity to consume of 0.8.
- 14.12 If a JG were to be implemented, government outlays would increase through the payment of income to newly employed workers and the associated on-costs. We also make allowance for the fact that of the official ABS unemployment of nearly 477 thousand, approximately 429 thousand are registered Centrelink recipients of benefits.
- 14.13 In addition to reducing benefit outlays, the Federal government will receive higher levels of tax receipts. In addition, we measure indirect taxes. We do not take account of any of the likely savings in government outlays which currently are designed to

address the high social costs of unemployment, notably higher crime rates and the incidence of ill-health, nor do we take account of the administrative employment which is generated by the employment of JG workers and is reflected in the non-wage costs.

Job creation requirements to reach full employment

- 14.14 To achieve a full employment level (consistent with 2 per cent official unemployment, no hidden unemployment and no time-related underemployment), an extra 559.2 thousand jobs would be required.

Five scenarios

- 14.15 We consider 5 scenarios below to provide an indication of orders of magnitude of different forms of expenditure associated with the achievement of full employment: Scenario 1 is associated with a private sector expansion while the remaining scenarios are based in the operation of the Job Guarantee.
- 14.16 Scenario 1 - The first case we consider is when there is a private sector expansion of employment of nearly 560 thousand. The increase in output at market prices (that is, taking account of indirect taxes) would be approximately \$43.6 billion. This represents about 3.7 per cent of nominal annual GDP. The government reduces its outlays on DSP and unemployment benefits of \$3.1b and gains extra revenue of \$8b, comprising the increase in taxes on wages and profits and indirect taxes. In this scenario, of course, there is no JG job creation.
- 14.17 Scenarios 2, 3 and 4 - Scenario 2 involves the implementation of the JG with low capital intensity jobs that is, using the 75/25 rule (a rate of on-costs in the public sector of 33 per cent). The employment of JG workers gives rise to increased disposable income and increased consumption demand which leads to additional private sector output, employment and income, which in turn leads to further increases in consumption demand, as is depicted by the multiplier process. Thus the increase of employment of 559.2 thousand is made up of both JG and private sector employment. There are more modest savings on government outlays, because nearly 80 per cent of the addition jobs are paid at the minimum wage. The change in employment outlays represents the wage and non-wage costs of employing the JG workers. In the low capital intensity scenario the net additional expenditures by government total \$8.3b. The shift to medium or high capital intensity JG jobs merely increases JG employment expenditure by government to \$18.6b and \$22.3b, respectively which leaves net additional expenditures of \$11.9b and \$15.7b, respectively.
- 14.18 Scenario 5 – We assume that the composition of JG jobs conforms to the shares outlined above. This is equivalent to a 63.6/36.4 rule that is just below Medium capital intensity. Consequently the net change in government expenditure is below that associated with medium capital intensity, namely \$11b.
- 14.19 We have adopted conservative assumptions about behaviour and estimated the orders of magnitude of expenditure, income and output that would be associated with such a policy change. Even under the assumption of all JG jobs being associated with high capital intensity, the additional government expenditure is less than the reported cost of the Sydney Olympics, but, if incurred annually, will convey long-term economic and social benefits to the most disadvantaged members of society.

14.20 These outcomes are summarised in Table 14.5 which we reproduce here.

Table 14.5 Implementation of JG to achieve true full employment, as at May 2008

Parameter	Estimated change			
Δ Output (billions)	20.6			
Δ Public sector output (billions)	11.7			
Δ Private sector output (billions)	8.9			
Δ Public sector employment	445.0			
Δ Private sector employment	114.2			
Δ Employee Income (billions)	12.1			
Δ Profits (billions)	0.7			
<u>Capital Intensity</u>	75:25	60:40	50:50	JG dist
<u>Δ Government Outlays (\$billions)</u>	11.9	15.7	19.4	14.7
Δ Unemployment benefits	-2.8	-2.8	-2.8	-2.8
Δ Disability benefits	-0.1	-0.1	-0.1	-0.1
Δ Employment expenditure	14.8	18.6	22.3	17.6
<u>Δ Government Receipts (\$billions)</u>	3.7	3.7	3.7	3.7
Δ Taxes on wages	1.4	1.4	1.4	1.4
Δ Taxes on profits	0.2	0.2	0.2	0.2
Δ Indirect taxes	2.1	2.1	2.1	2.1
Δ Net government expenditure	\$8.3 b	\$11.9 b	\$15.7 b	\$11.0b

14.21 It should be emphasised that the net increase in government expenditure does not represent real costs, unless greater benefits to society can be gained by an alternative use of this expenditure, but none have been articulated in the public debate. At present the (full-time) equivalent of about 559 thousand workers are being underutilised. It is important to note that the calculations do not include the employment of the 3.5 million individuals of working age, who are not in the labour force, except for the hidden unemployed. Some of these remaining people who are not in the labour force have a marginal attachment to the labour force (ABS, 2007b).

Part 1

Regional Development Challenges

1

Introduction

1.1 Background

The post World War II social settlement throughout the OECD involved the introduction and development of the Keynesian welfare state that incorporated 3 pillars. The first pillar was the government commitment to full employment. The second pillar was the provision of the formal components of the welfare state that represented attempts to ameliorate market outcomes through provision of income support and services and regulations regarding minimum wages and working conditions. The third pillar recognised that access to the welfare state was a right of citizenship, making a distinctive break with previous welfare provision that was often discretionary rather than rights-based and made distinctions between the deserving and undeserving poor.

Following the economic crisis of the mid 1970s induced by the oil supply price shock, the Keynesian welfare state came under attack as governments retreated from the commitment to full employment and sought to eliminate deductions from surplus value and increase the profit share of national income. The 3 major pillars of the Post War full employment consensus were abandoned and full employability and price stability became the major economic aims of government. The “full employability” framework advocated market-based outcomes unfettered by government intervention as the major basis for economic prosperity. The market-based solution to regional unemployment disparities is migration of workers in response to relative wage differentials. Finally, the concept of individuality has replaced collective will and the intrinsic rights of citizenship have lapsed in favour of ever increasing conditionality and social controls.

The persistence of high levels of unemployment, underemployment and regional disparities demonstrates that the “full employability” approach is incapable of delivering on the promises that were given by policy makers. It certainly has not been capable of providing a path back to full employment.

This Report is the culmination of a 3 year research project between The Centre of Full Employment and Equity at the University of Newcastle and Jobs Australia Pty Ltd and was motivated by the objective of developing a new approach to social and economic policy making that is:

- Capable of delivering macroeconomic stability which we define as true full employment in jobs that meet the decent work standards and price stability;
- Ensuring regional development is sustainable in social, economic and environmental terms, such that communities throughout Australia have access to the economic and social infrastructure necessary to facilitate full participation and promote wellbeing.

This Report presents a new integrated framework for regional development which we consider will be instrumental in achieving these objectives. Specifically, the Report outlines 3 important and integrated policy initiatives:

- An expansion of the public sector to deliver services and jobs to regional Australia;

- A new national Skills Development Framework; and
- Implementation of a Job Guarantee (JG) where the government acts as an employer of last resort by providing employment at a fair minimum wage to all those willing and able to work who cannot otherwise find employment.

This introductory chapter is organised as follows. First we consider the right to decent work and social inclusion which are the primary economic and psychological benefits that individuals derive from paid employment. The following section considers the need to ensure that future development is ecologically sustainable. Section 1.4 presents some of the major issues to be addressed in developing a comprehensive response to regional development in Australia. Section 1.5 describes the content of the research. Section 1.6 outlines the structure of the report and the major conclusions of the research are presented in the final section.

1.2 The right to decent work

For the majority of the working age population earned income is the primary means for maintaining their living standards and facilitating participation in community life and leisure activities. The quality of work also has a major impact on physical and mental wellbeing.

The concept of decent work was adopted in the ILO Declaration on Fundamental Principles and Rights at Work. It includes aspects that relate to both quality and quantity: productive and secure work; adequate income; freedom of association, collective bargaining and participation; absence of discrimination; forced labour; and rejection of child labour (United Nations, 2006; International Labour Organization, 2008). Decent work is central to the reduction of poverty, deprivation and to ensure social inclusion.

In the post war period the Keynesian welfare state provided a combination of full employment and services such as education, health and social services that constituted the social wage. During this time advances were made in remuneration from work and in working conditions. From the mid 1970s unemployment increased internationally and sections of the population were excluded for the labour market, often for extended periods of time or indefinitely.

In addition, there have been fundamental changes in the quality and quantity of work. The proportion of part-time work has increased from 15.3 per cent in 1978 to 28 per cent in 2008 (ABS, 2008), permanency conditions have been eroded with an increased proportion of people working in casual employment or on contracts for specified periods of time. Moreover, in many instances working conditions have deteriorated as conditions won during the boom have been surrendered in wage negotiations in a period where workers' bargaining power has receded due to globalisation, deregulation and significant industry restructuring.

Despite more than 15 years of sustained economic growth in Australia there are still high levels of labour underutilisation. The United Nations makes the point that economic growth should not be viewed as a goal in itself but a means to facilitate welfare and ensure social integration (United Nations, 2006). Therefore: 'Any national and international strategy towards development will require a balance between equity, economic growth, employment generation, and environmental sustainability within a stable macroeconomic environment (United Nations, 2006: 29-30).'

This Report embraces the viewpoint that employment is necessary for economic survival and to enable individuals to lead productive lives and maximise wellbeing. For these outcomes to be achieved the work provided must offer sufficient remuneration to provide a decent standard of living and facilitate participation in the social life of the community. The quality of employment should reflect the attributes of decent work listed above.

1.3 Sustainable development

Sustainable development includes economic, social and environmental considerations. Historically, industrialised societies have failed to adequately consider negative externalities such as pollution because these costs were not included in production costs. In recent years there has been growing alarm about global warming and damage to the environment produced over the past few centuries in particular. The effects of global warming and climate change threaten the economic, social and health outcomes, particularly in regional areas severely affected by drought and chronic water shortages.

Australian governments adopted the National Strategy for Ecologically Sustainable Development in 1992 (Department of the Environment Water Heritage and the Arts, 1992). The Strategy aims to conserve resources by changing the nature of production and consumption to satisfy needs by using fewer resources and producing less waste. The guiding principles of the Strategy included:

- integrating economic and environmental goals in policies and activities;
- ensuring that environmental assets are properly valued;
- providing for equity within and between generations;
- dealing cautiously with risk and irreversibility; and
- recognising the global dimension.

The Environment Protection and Biodiversity Conservation Act 1999 sought to use a cooperative approach of governments, the community and land-holders to protect the environment, particularly areas of national environmental significance such as national heritage areas and national parks, and promote ecologically sustainable development. The federal government has launched the \$12.9 billion Water for the Future plan to ensure that water supply for the Australian population can be maintained and that water flows in the Murray-Darling Basin are increased through the buy back of water entitlements in an attempt to reverse damage inflicted through many years of overuse.

To date responses to environmental challenges have been piecemeal and woefully inadequate. There is an urgent need for attention to remediation of environmental degradation due to environmentally abusive activities in primary production and manufacturing and to ensure that the environment is protected in the future. Economic growth is capable of providing economic benefits through employment and the social opportunities that income provides, but does not ensure that the environment is protected. However, employment creation and protection of the environment can be easily integrated if an appropriate job creation framework is implemented. This Report focuses on how these two objectives can be achieved through the design of employment opportunities that provide meaningful employment to large numbers of workers but simultaneously protect or enhance natural resources as well as providing services that enhance wellbeing.

1.4 Current issues relating to unemployment and regional development

1.4.1 Overview

A longstanding issue in regional analysis is the difficulty with defining the boundaries of regions. Traditionally regions have been defined using administrative jurisdictions which do not necessarily conform to regions in a functional or interactional sense. If regions are defined on too small a geographical scale differences may be accentuated. If defined on too large a scale, spatial differences may be lost due to the high level of aggregation.

Several different spatial scales have been used to define regions in Australia. OECD regional analysis is confined to the state level which means that the substantial variation between the diverse intra-state areas is lost and regional variations are therefore understated. Labour market analysts such as Mitchell, Bill and Watts (2007) seek to define regions by examining economic behaviour using journey to work data. This approach to labour market analysis provides richer information on regional performance, including employment and unemployment outcomes and industry developments.

Other approaches seek to define regions by the functionality of the regions. The National Institute of Economic and Industry Research (NIEIR) uses a hierarchy of regions that includes sub-global cities, service based metropolitan areas, resource based regions, industrial oriented regions, rural based regions and lifestyle based regions (Senate Employment Workplace Relations Small Business and Education Committee, 1999). Similarly, the Australian Classification of Local Governments (ACLG) was published by the Department of Transport and Regional Services (DOTARS) in 1994. The ACLG classifies local governments according to population, population density and the proportion of the population classified as urban. Initially councils are classified as urban or rural. Urban councils are then categorised as capital city, regional towns or fringe areas. Rural areas are categorised as areas of significant growth, agricultural areas or remote areas. The final step in the classification process categorised local government areas as small, medium, large or very large on the basis of population.

This research used local government areas as the basis for regional analysis because they cover a defined geographic area with clear boundaries that do not overlap. Local governments are also a first point of contact for communities and have extensive and detailed information about issues of local community need. The research results are reported by state and ACLG, providing a basis for comparison between jurisdictions and according to the type of local government.

This Section considers contemporary issues in relation to regional unemployment and development.

1.4.2 Unemployment, underutilisation and spatial disparities

Since 1975, employment growth in Australia has failed to keep pace with labour force growth resulting in persistent unemployment and a rising incidence of underemployment due to the expansion of part-time and casual employment that often fails to match the quantum of work that individuals require (Mitchell, 2001a). The situation has deteriorated further with the introduction of active labour market programmes. Since the release of the OECD Jobs Study there has been an accelerating trend towards precarious employment (limited dismissal protection) in the form of part-time and casualised employment and the commensurate failure of economies to provide enough hours of work to match the preferences of the workforce.

In October 2008 unemployment stood at 4.2 per cent of the labour force, and in numerical terms this means that 481,100 are officially jobless (ABS, 2008). In addition to official unemployment there is widespread evidence of labour underutilisation. In 2007 there were also 571,900 part-time workers who required an average of 14.4 hours additional work per week (ABS, 2008). Reductions in unemployment have been accompanied by large increases in the number of Disability Support Pension (DSP) recipients. Between 1995 and 2007 DSP recipients increased by 51 per cent to 697,000 (Gregory, 2008 cited in Keating, 2008).

The Centre of Full Employment and Equity (August 2008) estimates over 8 per cent of willing labour are underutilised in various ways (unemployment, hidden unemployment and underemployment) despite the official unemployment rate being at 4.2 per cent (as at October

2008). This is a conservative estimate given the official statistician estimates total labour underutilisation to be 9.9 per cent in October 2008 (ABS, 2008).

The burden of unemployment and underemployment has not been distributed evenly. Low skilled workers have been disproportionately represented in the ranks of the unemployed or those engaged in precarious employment. Youth unemployment currently comprises 19.7 per cent (94,600) of total unemployment, and long-term unemployment constitutes 14.8 per cent (71,200) of all unemployed (ABS, 2008).

Despite more than a decade and a half of uninterrupted economic growth there is overwhelming evidence that the economic and social benefits have not been distributed evenly throughout Australian communities. It has failed to eliminate poverty, deprivation and social exclusion (Australia Futures Task Force, 2007; Saunders, Naidoo and Griffiths, 2007: xi).

Analysis by Garlick, Taylor and Plummer (2007: 30) found that between 1984 and 2002 'spatial divergence has increased and become more concentrated, with fewer regions becoming larger high-growth centres and more regions becoming low-growth areas'. The key beneficiaries of a prolonged period of economic growth have been major metropolitan areas while other regions have had declining growth. Unemployment rates have varied by state. In 2006-07, Tasmania and the Northern Territory had the highest unemployment rates, while Western Australia recorded the lowest rate. Unemployment rates have been consistently higher outside the major metropolitan areas of each state.

1.4.2 Skill shortages and skill formation

The abandonment of the state as a significant source of employment and on-the-job training has left a 30 year legacy of chronic labour under utilisation and inadequate skill formation capacity.

Current national skills formation strategies recognise the crucial importance of providing novices with well-supervised opportunities to practice skilled work, as per traditional training arrangements such as apprenticeships and other forms of on-the-job training (Wood, 2004). Implicit learning and tacit knowledge of a skill, which underpins confident proficiency, is only developed by actually performing work requiring that skill, thereby consolidating explicit formal training, verbal on-the-job instruction, and other sources of codified information.

The opportunity for supervised practice is as relevant to a graduate engineer undertaking a complex project as it is to a person with an intellectual disability learning what is socially appropriate in a workplace. But while governments and industry have invested considerable time and energy in an effort to build a skills formation infrastructure and culture, the deficiency in opportunities for all citizens to practice and exercise vocationally relevant skills remains a strategic weakness. This deficiency is evident in restricted access to well structured and accommodating practical vocational experiences for several populations:

- People highly marginalised from labour force participation;
- Underutilised members of the labour force (unemployed and precariously employed);
- Students in higher education (Universities and TAFE) that need to complement formal study with practical work;
- Secondary school students;
- People undertaking various forms of physical, mental rehabilitation; and

- People in industry with insufficient training opportunities.

Most strategies aimed at imparting practical skill presume that industry will bear the responsibility of furnishing such supervised experience, failing to acknowledge the chronic incapacity (and uneven willingness) of the private sector to do so for much of the population.

A viable regional development strategy must address the skills formation question with a strategy that includes a means of delivering high quality experiential training to a large number and range of citizens.

1.4.3 Population ageing

Australia has an ageing population as the baby boomers approach retirement age and the proportion of elderly people living alone is increasing. By 2051 the proportion of the population aged over 65 will reach almost 25 per cent and the proportion aged over 75 will be more than 13 per cent (ABS, 1998 cited in Australia Futures Task Force, 2007).

The ageing of the Australian population has implications for the labour market and maintenance of living standards. By 2040 there will only be 2.4 working age Australian per person over 65 compared to the current level of 5.6 (Australia Futures Task Force, 2007). As the working age cohort shrinks as a proportion of the population, it will be necessary to encourage working age Australians to work and to ensure that all those who want to work are able to find employment in order to maximise economic growth and meet the economic needs of the Australian population. The imminent withdrawal of the baby boomers from the paid workforce also requires the training of replacement workers through a national approach to training and workforce planning.

As the population ages there will be an accelerating need for social services to meet the needs of the elderly to remain in the community. A policy of expanding assistance to the frail elderly will enable them to choose to “age in place” rather than have to go to a nursing home or move to other areas and lose contact with their families and social networks. A range of auxiliary services will be required including assistance with domestic work, gardening, caring and transportation. These types of assistance are currently chronically undersupplied in Australia (see, for instance Australian Government Department of Health and Ageing, 2007). Even with the current level of unmet need for services for the elderly, population ageing will increase the level of assistance required. For example, Home and Community Care (HACC) assistance is expected to grow from three-quarters of a million services per year in 2004-05 to almost 1.2 million over 20 years, and intensive assistance to the frail elderly under the Community Aged Care Packages (CACP) is expected to treble over 40 years from 2004-05.

Nevertheless, there will also be a need to increase residential aged care accommodation significantly to cater for the needs of those who would prefer to use, or who require the level of services provided by, residential care.

In addition, population ageing will be spatially concentrated so that some regions will be affected to a greater degree than others. The Productivity Commission (2005) examined demographic change at a regional level between 1981 and 2001 and found there was a rising proportion of aged people in coastal areas. The population share of people over 65 rose in coastal and inland urban areas due to both inward migration of older people and outward migration of younger people in inland rural areas. In contrast, the average population age fell in metropolitan and remote areas.

1.4.4 Other issues for Australian regions

The solution to regional disparities in employment opportunities is assumed to be out migration to areas of higher employment growth. However there are several complicating factors that reduce the efficacy of this strategy. First, differentials in housing and living costs may preclude mobility, particularly since house prices in declining areas are likely to have declined relative to high growth areas. Secondly, in the current macro-constrained environment where growth is insufficient to restore full employment, those migrating to high growth areas are not guaranteed of employment success. Importantly, even when there are economic benefits from migration there may be detrimental social impacts by disrupting social networks and reducing social cohesion (Australia Futures Task Force, 2007).

The Senate Employment Workplace Relations Small Business and Education Committee (1999) summed up the experiences of communities where declining employment opportunities become self-perpetuating due to negative income multipliers and result in the loss of services, population and ultimately threaten economic viability. Reduced employment in industries in decline impacts on local businesses, including support industries, with further negative consequences for employment. More mobile workers and school leavers migrate to areas with superior employment prospects causing population decline. As the population shrinks, government services may be withdrawn along with other businesses, such as financial institutions, which move to larger centres. School populations decline, housing prices plummet and local rate receipts decline causing further contraction of local services. Evidence presented to the Committee emphasised the negative effects on regional Australia of the withdrawal of government services including regional health centres, railways and regional offices.

Similarly, National Competition Policy (NCP) has had negative consequences for many regional areas. According to the Productivity Commission (2005), privatisation of many services that were previously provided by the public sector has produced economic benefits but has been accompanied by concentrated losses for some regions including Gippsland in Victoria and Wheatbelt in Western Australia, where employment in infrastructure industries declined by 11.27 and 4.19 per cent respectively.

Entrenched disadvantage in particular areas produces a myriad of long-term consequences that reinforce multiple disadvantages and cause social exclusion. Glennerster *et al* (1999) explain that lack of work opportunities results in poor school performance and poor human capital formation; produces a low productivity workforce, and low income. These neighbourhood effects must be countered by effective education and employment policies.

Declining housing affordability reinforces disadvantages in some regions due to entrenched unemployment and the loss of services as the public sector has retreated from service provision. The HIA Housing Affordability Index shows that housing affordability in Australia remained at a 24 year low in June 2008 with repayments for a typical first home buyer accounting for 28.5 per cent of income (HIA, 2008). Rental stress is also a major problem in the private rental market and the provision of public housing has declined significantly due to sales of existing housing stock and a dearth of construction. In 2006 only 4.26 per cent of dwelling were owned by state or territory housing authorities (ABS, 2006).

In short the spatial concentration of unemployment and underemployment as well as other phenomenon such as poverty, housing disadvantage and lack of access to services 'presents a significant equity and social justice issue' (The Australian Futures Taskforce, 2007: 123) that is the focus of this Report.

1.5 Research approach and content

The primary purpose of this research is to investigate the feasibility of the introduction of a Job Guarantee scheme in Australia that would deliver full employment and improve economic and social infrastructure and improve access to services that are currently not provided or undersupplied. The research consists of a number of strands of analysis:

1. Review of international literature on policies relating to employment services and the use of ALMP
2. Review of international literature on regional policies including new regionalism (NR), social entrepreneurship (SE) and local partnerships.
3. A national survey of local government social planners to examine the feasibility of introducing a JG by determining:
 - The level of unmet need in regions in relation to:
 - Transport amenity;
 - Public health and safety;
 - Recreation and culture;
 - Community welfare services.
 - The types of public sector jobs that could be created under the JG for low skilled workers to fulfil these unmet needs.
 - The number of jobs that would be necessary to meet these needs.
4. Focus groups with Job Network employees to assess the effectiveness of existing employment services and ALMP and to obtain feedback on the JG proposal.
5. Development of a new framework for regional development capable of producing sustainable development by meeting economic, social and environmental objectives.
6. Designing a model to estimate the investment needed to implement a national JG in Australia. This involved detailed structured interviews with local government representatives to obtain estimates of costs involved in specific tasks that were identified as unmet needs by social planners. Information obtained included costs of labour, materials, equipment, supervision and overheads as well as the structure of work teams and employee to supervisor ratios.

1.6 Structure of the report

This Report is organised into 4 main parts as follows. Part 1 is focused on the abandonment of full employment by western governments since the 1970s and the pursuit of diminished national goals such as full employability. Chapter 3 traces the transformation of employment and social policy along these lines. In the post war period the Keynesian welfare state was founded on government commitments to assuring full employment through fiscal and monetary policy, the provision of income support for those unable to work and the provision of services such as education, health and housing. This framework has subsequently been supplanted by the “full employability” edifice built on neo-liberal economic and social policies. This shift has been characterised by the shift from full employment to full employability championed by the OCED Jobs Study (OECD, 1994) that stressed activation in employment policy and retrenchment of social policy marked by the withdrawal of the state from direct provision of services which have been progressively returned to the market through privatisation, contracting out or cessation of provision.

Part 2 examines the current policy framework for delivery of employment and regional policies. Chapter 4 traces the development of Active Labour Market Policy (ALMP) noting the shift in emphasis that coincided with abandonment of full employment in favour of full employability. Chapter 5 outlines the transformation of regional policy from assisting lagging regions to the emphasis on new regionalism that recommends the development of clusters of internationally competitive firms and the use of social entrepreneurship and local partnerships to address local development issues. Chapter 6 presents information on the implementation of employment policy in Australia, tracing the trajectory of the CES and Job Network and the implementation of ALMP. Developments in Australia have mirrored international experience in relation to ALMP but have been at the more extreme pole of implementation of the OECD activation recommendations, implementing a work first approach that has paid scant attention to skill development.

Part Three reports the results of the national local government JG survey that was conducted in order to establish the extent of unmet need in regional Australia and the employment opportunities that could be developed under a JG to satisfy those unmet needs and improve the economic, social and general wellbeing of Australians through the development of spatially specific solutions tailored to the needs of individual communities. The results of the research indicated extensive unmet needs in Australia. However, the inability of some respondents to put aside the conception of budget constraints suggests that the results underestimate actual need to a considerable extent.

Chapter 7 reports the entire survey results for the 4 categories of need included in the survey and finds that unmet needs varied throughout Australia and demonstrates that there is significant unmet need in communities across Australia. Chapters 8 and 9 provide a closer examination of specific aspects of the survey and compare the survey results with other data sources. This approach confirms that needs were almost certainly underreported by survey respondents.

Part 4 of the Report elaborates a new framework for regional development in Australia designed to restore full employment. The framework outlined in Chapter 10 and each of the following 3 chapters details one component of the strategy. Chapter 11 discusses the consequences of the failure of governments to adequately invest in the economic and social infrastructure over the past few decades and identifies the need for increased public provision to ameliorate these deficiencies. The report notes that this strategy requires further research and development including identification of services that are essential to economic and social participation and implementation plans for delivering these to Australian communities at an appropriate scale on an ongoing basis.

Chapter 12 traces the failure of both the private and public sectors to invest adequately in skill formation in Australia. The chapter traces the demise of the public sector as a major component of the national skills framework; a consequence of government fiscal restraint and privatisation policies. A new framework is elaborated that incorporates appropriate concepts of skill recognition and is built on the principle that job-specific skills are most effectively acquired within a paid-work environment (that is, learning on the job). A thorough critique of the supply-side approach to skill development which divorces training from paid employment is provided.

Chapter 13 elaborates the Job Guarantee strategy to restore full employment by providing up to 35 hours employment in the public sector to all people who want to work. The JG buffer stock would expand (contract) as private sector employment contracted (expanded) and would provide socially meaningful work that would include training opportunities. Persistent unemployment and underemployment throughout the past 3 decades has proven conclusively

that the private sector cannot ensure full employment or eliminate spatial disparities in unemployment. This chapter describes an illustrative model for the delivery of the JG in Australia that outlines the roles and responsibilities of various organisations involved in implementation, including interaction between these organisations, community consultation and accountability.

Chapter 14 develops a framework assessing the investment required to implement a national JG, which takes into account the outlays required to pay wages and on-costs for JG workers and supervisors; equipment and material outlays and other overheads.

1.7 Conclusion

The major conclusion of this research is that there is an urgent necessity to develop a new framework for regional development that ensures economic prosperity through effective training solutions to increase productivity, deliver full employment in decent jobs and provide essential economic and social infrastructure.

This research has provided insights into the inadequacy of macroeconomic policies in Australia and the failure of prevailing employment and ALMP to restore full employment. In addition, there are significant costs due to persistent unemployment that include: social exclusion and the loss of freedom; skill atrophy; psychological harm; ill health and reduced life expectancy; loss of motivation; the undermining of human relations and family life; racial and gender inequality; and loss of social values and responsibility.

The transformation from the full employment to the full employability framework resulted in withdrawal of the state from service provision with detrimental impacts on quality of life and even personal autonomy. There is overwhelming evidence that communities throughout Australia have significant, and often urgent, needs that are currently not being met or not being met on an adequate scale.

The national local government JG survey demonstrated the types of unmet needs for community development that varied in their nature and quantum between regions. Regions with the greatest level of reported need were strongly correlated with indicators of disadvantage such as ABS Socio-Economic Indexes for Areas (SEIFA). Thus the economic disparities identified by the spatial distribution of unemployment and underemployment are exacerbated by social disparities in access to services.

For these reasons Australia urgently requires a new framework for regional development that meets the criteria for sustainable development by addressing economic, social and environmental issues. The combination of a targeted expansion of the public sector to address essential services that need to be provided on an ongoing basis, a new skill formation framework and a JG to ensure full employment by providing jobs in the public sector meets these standards by addressing employment (economic needs), service provision (social needs) as well as opportunities to remediate environmental damage and prevent further degradation.

2

Current policy development – big on promise, short on prospect

2.1 Introduction

Since taking office in November 2007 the Rudd Labor government has announced several policies that relate directly to employment policy, welfare reform, skill development, regional policy and infrastructure. The Government has identified social inclusion as a priority, established a Social Inclusion Unit in 2007 in the Department of Prime Minister and Cabinet and appointed a Social Inclusion Board in May 2008 to advise the government on policies to assist the most disadvantaged Australians including: jobless families, children at risk of long-term disadvantage, disadvantaged communities, homelessness, employment for people with disabilities, and indigenous Australians.

The Government has responded to the world economic crisis with several major initiatives:

- A \$10.4 billion Economic Security Strategy to stimulate the economy;
- Guaranteed bank deposits to restore confidence in the banking system;
- A \$6 billion dollar assistance plan for the car industry; and
- \$300 million in grants to local government for community infrastructure.

Despite these measures, Treasury has forecast that economic growth will decline from 3.9 per cent in 2007-08 to 2 per cent in 2008-09 and the official unemployment rate will rise to 5 per cent by the June quarter 2009, and to 5.75 per cent by the June quarter 2010 at 7.9 per cent was almost double the official unemployment rate of 4.1 per cent (CofFEE, 2008). As economic activity declines and the official unemployment rate increases, the extent of underemployment and hidden unemployment will also rise so that the total increase in labour underutilisation will be significantly greater than the rise in official unemployment.

It should further be noted that the Treasurer continues to misunderstand the nature of the budget that he is responsible for. His comments in recent days (reported on November 20) that there was no need for the Government to allow a budget deficit to occur despite the major risk of a severe economic downturn being present. This continues the same budget surplus fetishism that had dominated macroeconomic policy for more than a decade. It is the same erroneous logic that has allowed persistent labour underutilisation, a degradation of our public infrastructure and a major redistribution of income and resources towards the rich. We consider these issues in Chapter 3.

This chapter places this Report in the context of economic and policy developments since the election of the Rudd Government in November 2007 that will impact on social inclusion and economic participation. Section 2.2 outlines changes to employment services to commence in July 2009. It emphasises where the new arrangements constitute a continuation of, or break from, current policy settings and the implications for job seekers and labour market outcomes. Section 2.3 discusses changes to training and skill development as a consequence of Skilling Australia for the Future. Section 2.4 discusses regional policy, while Section 2.5 outlines infrastructure developments centred on the Building Australia Fund. Concluding remarks follow.

2.2 Employment services

The Rudd Government has been highly critical of the Job Network system in relation to the services offered to job seekers, the lack of training opportunities, and the inability of the system to assist the most disadvantaged job seekers and the emergence of extensive skill shortages. For example, the Minister for Employment Participation, Brendan O'Connor stated that both the proportion and number of people who had been on benefits for more than 5 years had increased during the period of operation of the Job Network. In 1999 there were 74,000 people or one in 10 of the unemployed who were on benefits for 5 years or more but this had increased to 110,000 or one in four (O'Connor, 2008a).

Upon taking office the Government initiated a review of employment services taking into account the following principles (DEEWR, 2008b: 4-5):

- Early intervention to minimise the number of long-term welfare dependent Australians of working age, starting with a review of the Job Seeker Classification Instrument;
- Providing services that are relevant to the circumstances and needs of the job seeker;
- Ensuring job seekers who are struggling the most get the most intensive assistance;
- Providing meaningful incentives for training which will improve the employability of job seekers;
- Ensuring there are means for job seekers who are in need of training to get that training;
- Providing the greatest rewards when Job Network providers find sustainable jobs for job seekers quickly;
- Ensuring there are tendering and performance management processes that accurately measure (prospective) performance; and
- Minimising the amount of time and money spent on administration.

Several problems were identified with the current Job Network model which accord with the problems and shortcomings identified in Chapter 7 of this Report. Interestingly, several of the criticisms of the Job Network are similar to criticisms of the CES that were used to justify the introduction of the Job Network in 1998. Problems identified in the Job Network review include (DEEWR, 2008b):

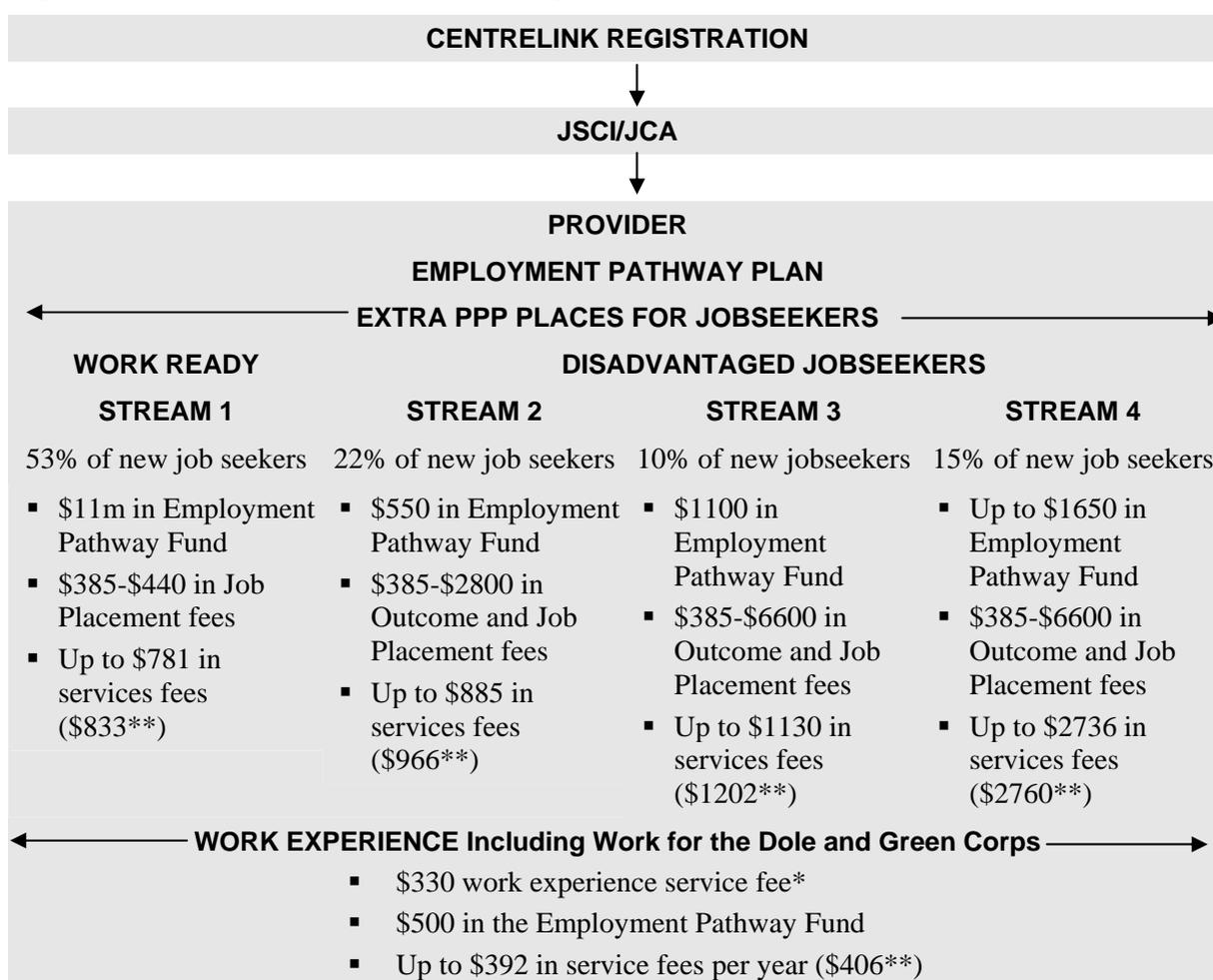
- Poorly targeted assistance that is not concentrated on the most disadvantaged job seekers;
- Failure to provide enough personally tailored assistance to meet individual needs of job seekers;
- Lack of incentives for skills and training since 'current contract arrangements and incentives skew employment provider behaviour towards obtaining short-term jobs rather than equipping job seekers with the skills they need to obtain sustainable employment and contribute to Australia's skills base and productivity' (DEEWR, 2008b: 6);
- Excessive complexity and fragmentation of the nine major employment programmes;
- Overemphasis on process rather than outcomes;
- Insufficient employer focus;
- Inadequate services for remote clients;

- Under-utilisation of the Job Seeker Account (JSKA) and lack of access to the JSKA for the most disadvantaged; and
- A counter productive compliance system that fails to maintain contact with job seekers who have incurred a non-payment period and exposes them to extreme financial distress.

According to a speech by the Minister for Employment Participation at the National Employment Services Association (NESA) conference in May 2008, the new employment services arrangements for the contract period 1 July 2009 to 30 June 2012 will mark a transformation in employment services in Australia. He stated:

We can get people into real and meaningful work. We can find staff for our employers. We can address the skills shortages which will otherwise put our future prosperity at risk. Together, we will build a stronger, more stable economy. Together we will build a truly socially inclusive Australia where all Australians can share in our nation's prosperity (O'Connor, 2008b: 3).

Figure 2.1 Stream services in the New Employment Services, 2009-2012



Source: (DEEWR, 2008a: 3, Figure 1)

* a one off amount on commencement of the job seeker

** amount without applicable attrition rate.

Under the new employment services arrangements, jobseekers will be classified into one of 4 streams using the Job Seeker Classification Instrument (JSCI) or a Job Capacity Assessment (JCA). Figure 2.1 provides estimates of the proportion of job seekers who will be allocated to

each of the four streams and the payment schedule for each stream. The Streams are graduated to reflect the level of disadvantage faced by job seekers; Stream 1 is for job seekers assessed as job ready and the most disadvantaged jobseekers will be in Stream 4. Those with participation requirements are required to enter an Intensive Activity for a minimum of 60 hours per fortnight (30 hours for those with part-time requirements) that can include training, WfD, Green Corps or a range of other activities to address barriers to employment.

The new employment services contract will retain many of the features and requirements that currently exist, including:

- The privatised provision of employment services;
- The supply-side focus that erroneously identifies unemployment with inadequacies of the unemployed in terms of skills and attitudes;
- The breaching mechanisms which impose harsh punishment on the most disadvantaged workers in our community which are disproportional when compared to fines and sentences handed out in our criminal courts.
- The Government remains firmly committed to the Mutual Obligation framework established by the Howard Government and the Welfare to Work measures that introduced participation requirements for some sole parents and parenting payment (partnered) recipients and people with disabilities assessed as capable of working 15 to 29 hours per week (see Chapter 6).
- The contractual relationship with income support recipients remains with the new Employment Pathway Plan detailing the responsibilities of job seekers and breach penalties will still be imposed when obligations are not met.

However, there are some significant changes that seek to address the inadequacies identified in the Job Network. Major changes for the new employment services contract include a greater focus on disadvantaged job seekers, employer servicing and meeting the needs of the local labour market and a shift in emphasis away from the “work first” approach to a much greater recognition of the need for skill formation through formal training.

Under the new arrangements the Job Seeker Agreement will be replaced by an Employment Pathway Plan (EPP) which will detail the requirements for individual job seekers. The Jobseeker Account (JSKA) will be replaced by the Employment Pathway Fund (EPF) which can be used to purchase vocational or non-vocational assistance such as training and skills development, self-employment assistance, mentoring or work experience (DEEWR, 2008a). The EPF will be easier to access and support a wider range of assistance than the JSKA. The EPF will be available to assist job seekers to establish their own business.

In addition, job seekers are eligible for training under the Productivity Places Program which will provide in excess of 238,000 places for the unemployed over a period of 5 years. These places will be fully funded by the Commonwealth Government (see Section 2.3 for further details).

Another innovation with the new employment services contract is the \$41 million Innovation Fund to deliver place-based solutions designed to address employment barriers of disadvantaged job seekers. Organisations may tender to become part of the Innovation Fund Panel and to work collaboratively with employers, service providers, training and community organisations (Department of Education Employment and Workplace Relations (DEEWR), 2008a). Employer Broker Panels will have access to funding of \$6 million over 3 years to develop projects in collaboration with employers in particular regions or industries.

The Government remains committed to Mutual Obligation and is instituting a new compliance framework designed to overcome inadequacies identified in the current arrangements. In particular, the focus of the new compliance arrangements is to maintain contact with job seekers and privilege re-engagement over imposition of financial penalties. According to DEEWR (2008e: Summary), the new compliance system:

...is intended to be more responsive to the needs of an increasingly disadvantaged job seeker population, which means using early intervention and re-engagement rather than punitive financial penalties to encourage compliance.

The new compliance framework will apply to Newstart Allowance, Youth Allowance, Parenting Payment for persons who have participation requirements and some Special Benefit recipients. There are 4 compliance failures under the new system (House of Representatives, 2008). The first is the “no show” no pay failure whereby a penalty equivalent to one day’s benefit payment is deducted if a job seeker fails to attend an activity or job interview. The second is a “connection” failure for job seekers who fail to attend an interview with their employment service provider or meet the requirements of their EPP. In the case of connection failures, a reconnection requirement may be imposed such as attending another interview rather than a financial penalty. If job seekers fail to comply with the reconnection requirement they are deemed to have committed a “reconnection” failure and their payment will be suspended until they comply with the requirement. The final category is “serious” failure which includes persistent failure to meet obligations or refusal of a suitable job offer. A serious failure incurs a non-payment period of 8 weeks but the non-payment period may cease if the job seeker commences a serious failure requirement.

In short, the new arrangements for employment assistance conform broadly with the current system of “help and hassle” with additional emphasis on the help component in the form of increased access to training, and less emphasis on the punitive breaching measures by attempting to re-engage job seekers rather than concentrating on punishment in the form of imposition of non-payment periods. While the government promises superior service provision under the new arrangements, the veracity of such claims will only be evident over time.

Most importantly, the new arrangements continue to perpetuate the underlying myth inherited from the previous government that there are enough jobs being created and the task of government is to ensure the unemployed are prepared and motivated enough to take them. They clearly are at odds with the stark and unambiguous reality that the Australian economy even at the height of the recent boom was not creating enough jobs and hours of work to satisfy the demands of the willing labour force.

If the economy was generating enough work to fully employ the willing labour supply, much of these employment services would be unnecessary. The current federal government clearly is not taking responsibility for the creation of full employment and continues to pursue the diminished goal of full employability (see Chapter 3).

2.3 Skilling Australia for the future

The Skilling Australia for the future initiative (DEEWR, 2008c) represents a significant increase in the federal government’s commitment to training in order to address skills shortages and increase productivity and national competitiveness. The Productivity Places Program is the delivery mechanism for Skilling Australia for the future and involves the creation of an additional 700,000 vocational and education training (VET) places at a cost of over \$2 billion over 5 years. The Productivity Places Program has 2 strands; one for those outside the workforce and another for those currently employed but seeking further education

or training. Training options range from Certificate II to Diploma courses. Funding for job seekers will be provided by the federal government. For existing employees the Commonwealth will contribute 50 per cent of the funding for the programme with the State / Territory governments contributing 40 per cent and, it is proposed that employers contribute 10 per cent.

Skills Australia will undertake labour market analysis to determine current and future skill needs and provide advice to the government. Industry Skills Councils will have a greater role in advising the government on industry needs and liaising with industry and training providers to develop appropriate courses to meet these needs (DEEWR, 2008c).

A number of submissions responding to DEEWR's discussion paper raised concerns about the suitability of the Productivity Places Program as the primary vehicle for training the unemployed since their needs differ from those currently in the workforce. In particular, concerns were raised regarding the level of training proposed under the Productivity Places Program, with respondents emphasising that many of the most disadvantaged job seekers were not ready to participate in courses at the Certificate II level or higher (DEEWR, 2008d). It was noted that job seekers were frequently in need of pre-vocational courses, literacy and numeracy or English language courses prior to commencing higher level courses. Importantly, respondents stressed the importance of providing on-the-job training:

Many submissions emphasised that one of the most effective ways to ensure positive employment outcomes is to support training models that are work-integrated and meet the needs of industry. Workplace-based training, industry placements and work experience were recommended as vital mechanisms for enhancing the likelihood of subsequent employment. It was suggested that unless training had a strong link to employment itself, the training for jobseekers may well be misdirected (DEEWR, 2008d: 34).

In addition, several submissions questioned whether the use of a contestable market framework for the Productivity Places Program could ensure quality education and training (DEEWR, 2008d: 9). A competitive environment could be counter-productive since employers may simply opt for cheaper, shorter courses rather than selecting the most appropriate training.

The introduction of the Productivity Places Program marks a shift from the exclusive "work first" approach for the unemployed. For those already employed the programme facilitates skill formation that should enhance productivity. It recognises that vocational training is important to assist job seekers to obtain and retain work and provide a basis for career progression.

However, the valid criticisms of the program outlined above in relation to the unemployed suggest that the outcomes from the programme in its current form will be limited. In order to ensure that the unemployed develop skills requires a "learning by doing" framework where skills are developed in paid work situations as explained in Chapter 12 of this Report.

On-the-job skill development must be within the context of paid employment. It is a waste of time and resources churning workers through training programmes when the macroeconomic policy settings ensure the economy is unable to produce as many jobs and hours of work that are demanded by the willing labour supply.

2.4 Regional policy

On 20 March 2008 the Minister for Infrastructure, Transport, Regional Development and Local Government, Anthony Albanese announced that the network of Area Consultative

Committees (ACCs) would provide the basis for the creation of Regional Development Australia (RDA). The ACC Chairs Reference Group was appointed as the RDA Interim Board. A report by the RDA Interim Board was handed to the government on 15 September 2008 to advise on the role and functions of the RDA and measures to improve Australian Government engagement with regional communities, state government regional development organisations and local governments (Department of Infrastructure Transport Regional Development and Local Government, 2008). RDA will: ‘...provide strategic input into national programmes, improve coordination of the Government’s regional development initiatives, link closely to local government and other regional organisations’ (Albanese and Gray, 2008).

In the 2008 Budget the government allocated \$176 million for the Better Regions Program over 4 years. The Better Regions Program, Regional Partnerships Program and the Sustainable Regions Program have been closed for new applications. From 2009-10 a new Regional Local Communities Infrastructure Program (RLCIP) will provide community, recreational and environmental infrastructure (Albanese and Gray, 2008).

The House of Representatives House Standing Committee on Infrastructure, Transport, Regional Development and Local Government is currently conducting an inquiry into the framework for the operation of the new programme, including establishing the programme objectives, eligibility criteria, and how the new programme will interact with State / Territory government regional development programmes (House of Representatives Standing Committee on Infrastructure Transport Regional Development and Local Government, 2008b). The interim report released in November 2008 recommended 3 funding streams, less than \$50,000, between \$50,000 and \$250,000, and more than \$250,000 and that the Program use a partnership model requiring Local Government to make contributions in the form of capital, maintenance or operational funding (House of Representatives Standing Committee on Infrastructure Transport Regional Development and Local Government, 2008a).

At present the details of the RLCIP are still being finalised. The new programme was due to be implemented in 2009-10 but some projects will be fast-tracked through the government’s \$300 million funding package in response to the economic crisis. The government announced the funding at a meeting with over 500 mayors held in Canberra on 18 November 2008. The scope of the programme is yet to be determined but will form important criteria for judging the adequacy of the programme in meeting the infrastructure needs of communities throughout Australia.

The critical condition of community infrastructure is outlined in Chapters 7 to 9 of this Report and documents the responses of local governments throughout Australia to a survey designed to ascertain the adequacy of community infrastructure and services.

The establishment of the Job Guarantee to provide employment to all those willing and able to work would constitute a more comprehensive approach to the provision of community infrastructure and delivery of full employment in regions throughout Australia (see Chapter 13).

The Job Guarantee would provide an opportunity for communities to identify the infrastructure and services that are currently undersupplied and establish projects to address these needs to enhance the lives of community members. At the same time meaningful employment would be provided for local residents who are unable to secure employment in the private sector due to inadequate labour demand.

2.5 Infrastructure

The Australian Government established Infrastructure Australia through the Infrastructure Australia Act 2008 to develop a coordinated national approach to the future provision of infrastructure. Infrastructure Australia will primarily be responsible for providing advice to the government on needs and priorities regarding nationally significant infrastructure. In 2008 Infrastructure Australia will conduct an infrastructure audit and produce an infrastructure priority list.

The Government has committed \$20 billion to its Building Australia Fund for infrastructure such as rail, roads, ports and broadband. The fund will operate from 2009-10 and be guided by Infrastructure Australia's priority list. In announcing the Building Australia Fund the Minister for Infrastructure, Transport, Regional Development and Local Government, Anthony Albanese declared (Albanese, 2008):

For too long there has been a lack of investment in the nation's infrastructure.

We are now living with the consequences of this underinvestment as well as the lack of national leadership and poor planning: higher business costs; and inflationary pressures....

The Commonwealth Government is back in the business of nation-building.

The \$20 billion Building Australia Fund will provide only a small fraction of the infrastructure funding that is urgently needed in Australia. As we point out in Chapter 11 the lack of investment in Australia's infrastructure that the Minister refers to has resulted in the need to urgently invest in infrastructure projects. For example, the Australian Council for Infrastructure Development (2001, cited in AFTF, 2007:153), estimated that an additional investment of \$150 billion was needed to repair, upgrade and complete road, rail, water and energy infrastructure projects in Australia. Similarly, ABN-AMRO (2006) estimated that infrastructure investment of \$338 billion was required over the next decade, including \$184 billion for economic infrastructure and \$154 billion on social infrastructure. Therefore the infrastructure expenditure proposed by the government will be totally insufficient to meet the catch-up in infrastructure provision required and cannot be viewed as "nation-building".

2.6 Conclusion

While there are some significant differences between the policies of the present and previous governments, the fundamental point remains that employment policy is predominantly supply-side oriented. The legacy of the Keating and Howard Governments is that the decline in official unemployment masked the extent of underutilisation in the labour market as underemployment grew rapidly with the shift to a higher proportion of part-time and casual employment. There is currently no intention to use public sector job creation in the face of predicted increases in unemployment as the economy slows. The Job Network is poorly positioned to handle rapid increases in the unemployed population. Moreover, the prospect of reduced vacancies means that the financial viability of Job Network members, who face reduced outcome payments, will be at risk.

The Job Network model was designed to discipline the unemployed not enhance the creation of jobs necessary to absorb the excess labour supply. The new system to commence in 2009 may remove the most punitive aspects of the current system but it retains its fundamentally coercive characteristics. Benefit receipt is conditional upon individual contracts that impose a raft of activities that the unemployed must complete to maintain payments. While the Labor Government claims that the changes to the Job Network will result in contracts that reflect the

individual needs of job seekers, past experience under the Keating and Howard Governments suggests that such claims are unlikely to come to fruition.

The criticisms of the Job Network that are outlined in Chapter 6 remain relevant in the new environment. The past 10 years have demonstrated that commercial arrangements are incapable of providing high quality assistance to job seekers and the Job Network has failed utterly in regard to service provision for the most disadvantaged job seekers.

Additional emphasis on training marks a departure from the Howard years when the unemployed could access few training opportunities and participation in VET involved considerable costs for individuals as funding to the sector declined. However, the Productivity Places Program concentrates on formal training without extensive on the job experience. As we explain in Chapter 12, the importance of “learning by doing” as an effective training mechanism requires that participants acquire skills on the job in a paid work environment. Moreover, training provision in the absence of demand side policies to ensure adequate employment opportunities cannot result in substantial reductions in unemployment.

The Government has promised substantial expansion of regional policy and infrastructure funding. Region policy settings are currently being developed, however the likely absence of demand side policies does not bode well for the delivery of full employment in regional areas. Similarly, the quantum of funding for infrastructure development falls far short of infrastructure needs identified by extensive research and assessments.

In short, the Rudd Labor Government has implemented policies that represent more of a continuation of the Howard Government policies than a break with them. There is evidence of a more “human face” in the Job Network, greater human capital development and an increase in infrastructure expenditure. However, these measures fall far short of the policies required to restore full employment and provide adequate levels of economic and social infrastructure.

The system retains the supply-side focus for employment services that concentrates on addressing the inadequacies of the unemployed. The government has instituted a \$10.4 billion stimulus package to encourage economic activity. However, despite the fact that unemployment is forecast to rise there is no perspective of addressing labour demand through job creation. In the absence of job creation the new employment services will not succeed in assisting the most disadvantaged job seekers to return to work since they will remain at the end of the jobs queue in an economy where labour supply outstrips labour demand.

The fact that the Federal Treasurer is still demonising the use of budget deficits as a legitimate option for the responsible macroeconomic management of the economy, is a telling sign that this federal regime will not accomplish full employment. As we argue in Chapter 3, the Federal Government must abandon the fetish in favour of budget surpluses and reject the political rhetoric that sustains the fetish. It must realise that in usual times, a federal deficit will be necessary if the private sector desires to save and economic growth is to be sufficient to generate full employment.

3

The failed full employability framework

3.1 Introduction

In the post-war period through to the mid 1970s, most advanced Western nations maintained very low levels of unemployment. Governments were willing to manipulate levels of aggregate demand to ensure enough jobs were created to meet the preferences of the population. They used fiscal and monetary measures to stabilise the economy in the face of fluctuations in private sector spending. While both private and public employment growth were relatively strong, Western economies were able to sustain full employment because they maintained a buffer of jobs that were always available and were readily accessible to the least skilled workers (see Ormerod, 1994).

The first OPEC oil price hike in 1974 caused an inflation spike and provided the pretext for a resurgence of pre-Keynesian thinking, which had categorically failed to resolve the mass unemployment of the 1930s. Most Western governments reacted to the inflation surge with contractionary policies which led to stagflation. The paradigm shift that occurred led to the abandonment of the Keynesian notion of full employment and its replacement with the natural rate or NAIRU (Non-Accelerating Inflation Rate of Unemployment) approach.

Full employment was redefined in terms of an unemployment rate (the NAIRU) at which inflation was stable. The NAIRU was determined by supply side forces and was invariant to Keynesian demand-side policies, which were considered to be ultimately self-defeating and inflationary. Unemployment was re-conceptualised as a voluntary state reflecting the optimising choices by individuals between work and leisure.

Opposition to the use of budget deficits to maintain full employment solidified, and the inflation-first rhetoric became the dominant discourse in macroeconomics. The paradigm shift meant that governments relinquished their commitment to full employment. The official unemployment rate increased and rates of labour underutilisation never returned to the low levels that were the hallmark of the post-war period, despite the decline in the official rate of unemployment in many countries over the last decade.

According to the NAIRU approach, government could only achieve better macroeconomic outcomes (higher productivity, lower unemployment) through microeconomic reforms which implied a greater reliance on market-based outcomes with a diminished role for the public sector. In many countries successive governments cut expenditure on public sector employment and social programmes, culled the public capacity to offer apprenticeships and training programmes, and commenced dismantling the alleged supply side impediments.

Within this logic, governments adopted the goal of full employability, thereby relinquishing their responsibility for achieving the optimum use of their labour resources. Accordingly, labour market policy was limited to ensuring that individuals were “ready for employment”. This new objective was articulated in the 1994 OECD Jobs Study. Consequently, governments in many countries began the relentless imposition of active labour market programmes which were designed to churn the unemployed through training programme and / or force participation in workfare compliance programmes. The dominance of the NAIRU

approach is incomprehensible given the stark evidence since 1975 that there have never been enough jobs available to match the willing labour supply.

These theoretical insights motivate our claim that in a modern monetary economy the return to full employment and price stability requires the reintroduction of the buffer stock capacity in the form of a Job Guarantee (JG) (Mitchell, 1998; Mitchell and Mosler, 2006a; Mitchell and Muysken, 2008). In short the shift by governments from the pursuit of full employment to the adoption of the full employability paradigm has been fundamentally flawed.

In Section 3.2, the full employment and full employability paradigms are outlined and contrasted. The flawed logic underpinning the full employability paradigm is exposed in Section 3.3. In the following Section, the economic and social costs of the adoption of the full employability paradigm are documented. Section 3.5 outlines the extent and distribution of unemployment and underutilisation in Australia. Concluding comments follow.

3.2 Full employment and full employability

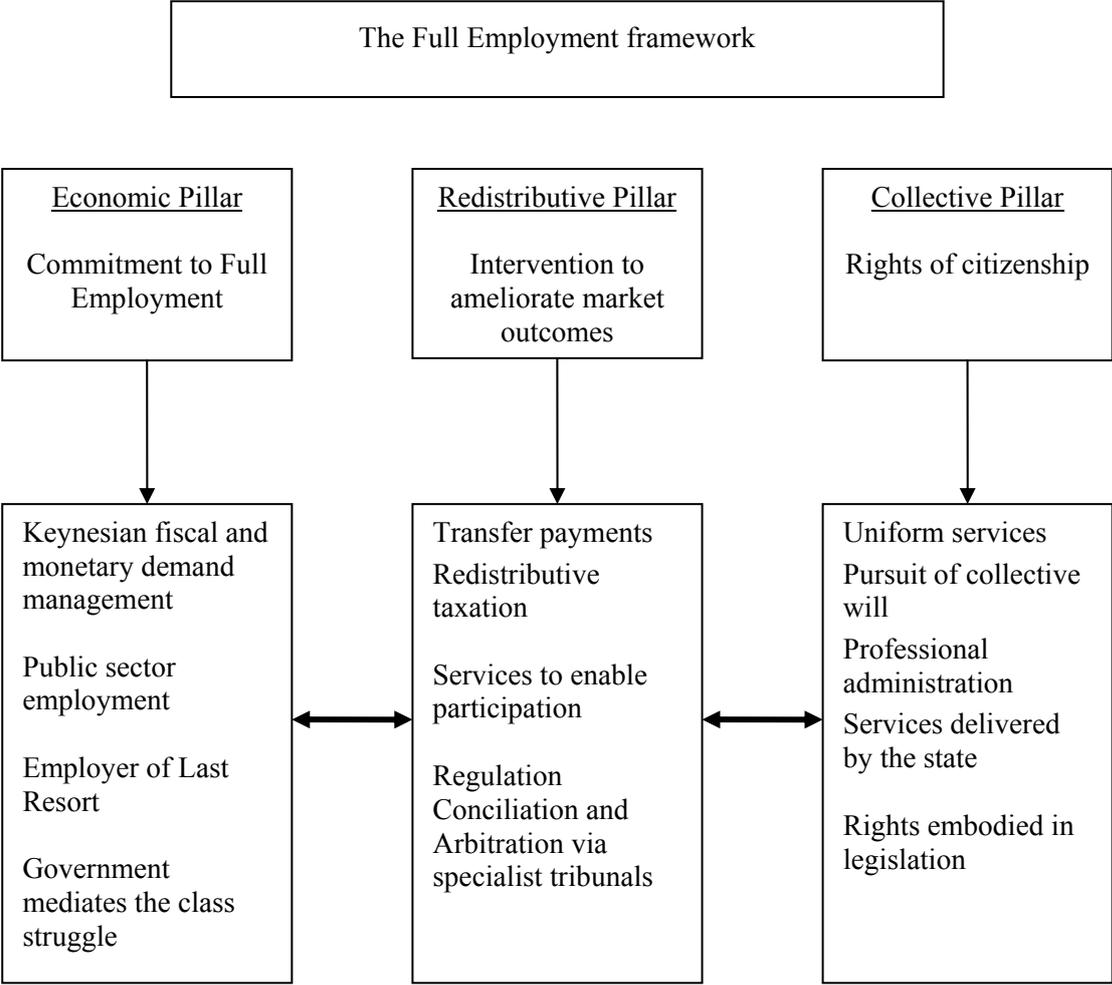
3.2.1 The Full Employment framework

Figure 3.1 depicts the *Full Employment framework* taken from Mitchell and Muysken (2008) who argue that the Post World War 2 economic and social settlement in most Western countries was based on three pillars: (a) the *Economic Pillar* was defined by an unambiguous commitment to full employment and initially based on providing enough jobs to satisfy workers' preferences. In the 1960s the definition became blurred following debate about inflation and unemployment trade-offs; (b) the *Redistributive Pillar* was designed to ameliorate inequalities driven by market outcomes through provision of income support and wage setting norms; and (c) the *Collective Pillar* provided the philosophical underpinning for intervention based on a concept of the intrinsic rights of citizenship.

The Great Depression showed that without government intervention, capitalist economies could experience lengthy periods of mass unemployment. War-time spending generated strong employment growth which highlighted the failure of the neo-classical remedies that had tried to solve the mass unemployment during the 1930s. The publication of Beveridge's (1944) *Full Employment in a Free Society* helped to conceptualise mass unemployment as a systemic failure in aggregate demand. The neo-classical emphasis on the ascriptive characteristics and attitudes of the unemployed and prevailing wage levels was rejected. Beveridge (1944, 123-135) defined full employment as an excess of vacancies at living wages over the number of unemployed persons. He made it clear that the '...ultimate responsibility for seeing that outlay as a whole ... is sufficient to set up a demand for all the labour seeking employment, must be taken by the State.'

From 1945 until 1975, governments manipulated fiscal and monetary policy to maintain levels of overall spending which were sufficient to generate employment growth in line with labour force growth, in the face of fluctuations in private sector spending. Governments generally ran deficits, private savings were strong and most advanced western nations maintained very low levels of unemployment, which were typically below 2 per cent. This was in sharp contrast to what went before and what has persisted since the mid 1970s.

Figure 3.1 The Pillars of the Full Employment framework



Source: Mitchell and Muysken (2008, Figure 1.1). See also Cook (2006).

However, while both private and public employment growth were relatively strong, the major reason that full employment was maintained was the existence of a buffer stock of jobs accessible to the least skilled workers, mainly in the public sector. Ormerod (1994: 203) notes that the economies that avoided sharp rises in unemployment in the 1970s after the first OPEC price hike all maintained a sector ‘...which effectively functions as an employer of last resort, which absorbs the shocks which occur from time to time, and more generally makes employment available to the less skilled, the less qualified.’ Ormerod argued that such employment may not satisfy narrow neo-classical efficiency benchmarks, but that societies with a high degree of social cohesion and a high valuation of collective responsibility would have been willing to broaden their concept of costs and benefits of resource usage to ensure everyone had access to paid employment opportunities. These insights motivate our claim that a return to full employment and price stability requires the reintroduction of this buffer stock capacity in the form of an employment guarantee (Mitchell, 1998; Mitchell and Mosler, 2006a; Mitchell and Muysken, 2008).

The full employment commitment was supported by the introduction of the Welfare State, which defined the state’s obligation to provide security to all citizens (Mitchell and Muysken, 2008; Cook, 2006). The Redistributive Pillar recognised that at times the mixed economy would generate disadvantage for some citizens, principally in the form of unemployment.

Income support schemes were implemented to attenuate the disadvantage emanating from the vicissitudes of the market economy. Citizenship (under the Collective Pillar) replaced the dichotomy that had been constructed between the deserving and undeserving poor so that individuals could access standardised services such as sector employment services, public health and education systems.

3.2.2 Full employment abandoned

The maintenance of full employment via policy interventions was always a source of dissatisfaction for the capitalist class. For example, Quirk (2003) provides compelling evidence to show that the captains of industry pressured Australian governments to create some labour slack in the economy and that these entreaties were received sympathetically by key conservative politicians.

However, despite this conservative opposition, the Post-War stability was not broken until the first OPEC oil price hike in 1974 caused an inflation spike. This event provided the stimulus for a resurgence of pre-Keynesian thinking, which had categorically failed to resolve the mass unemployment of the 1930s. This paradigm shift abandoned the Keynesian notion of full employment, which underpinned the Full Employment framework, and replaced it with the natural rate or NAIRU (Non-Accelerating Inflation Rate of Unemployment) approach (see Mitchell and Muysken, 2008 for a full account of this transition).

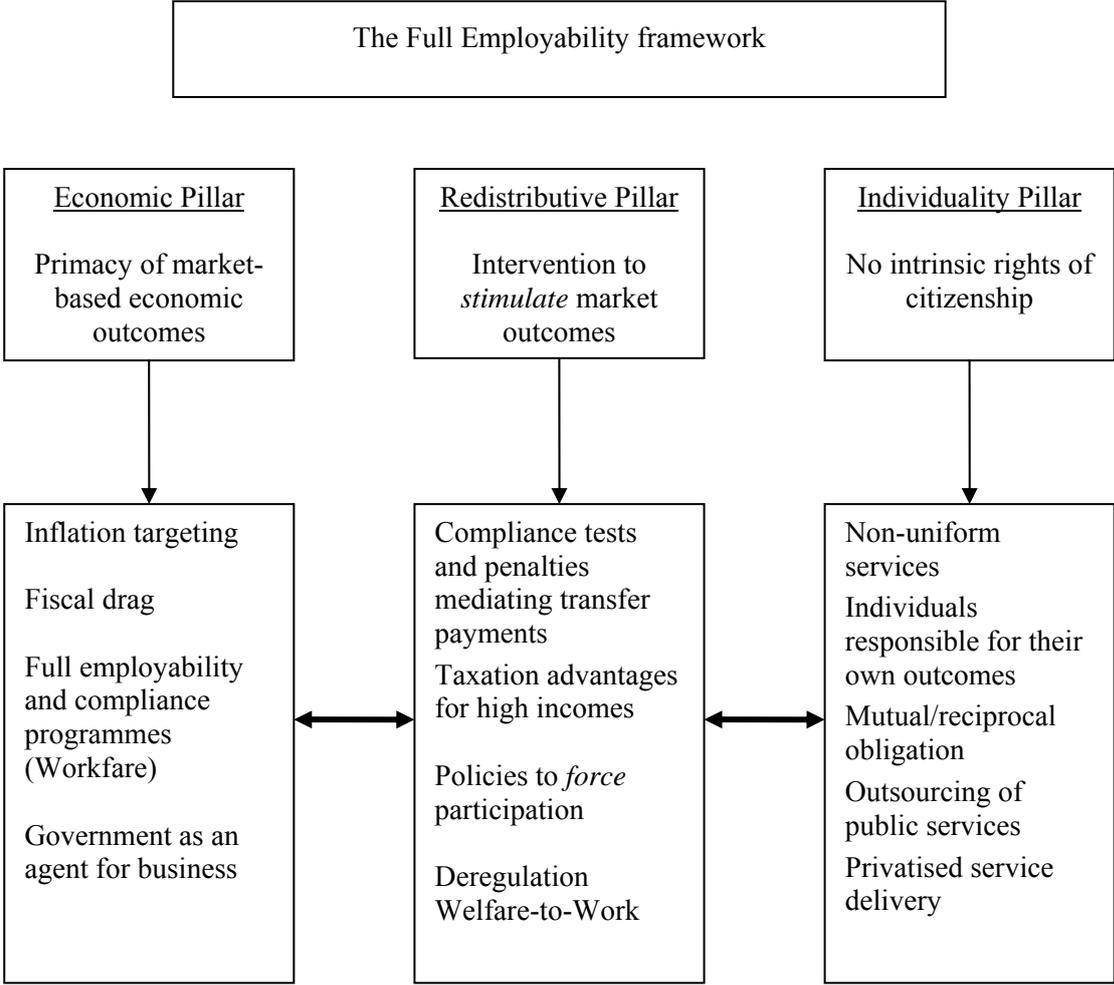
Full employment was redefined as a unique unemployment rate (the NAIRU) where inflation was stable. The NAIRU was determined by supply forces (individual disincentive effects arising from welfare provision, skill mismatches, and excessive government regulation) and was invariant to Keynesian demand-side policies. The use of aggregate stabilisation policies diminished, and then vanished. Opposition to the use of budget deficits to maintain full employment solidified, and the inflation-first rhetoric became the dominant discourse in macroeconomics. Governments relinquished the first major pillar of the Post-War framework – the commitment to full employment. Unemployment accelerated and labour underutilisation has never returned to the low levels that were the hallmark of the Keynesian period.

3.2.3 The Full Employability framework

Figure 3.2 sketches the Full Employability framework which abandoned the 3 major pillars of the Post War full employment consensus, and instead, promoted full employability and price stability as the major economic aims of government. Further, market-based outcomes unfettered by government intervention, are now seen as the major basis for economic prosperity. For example, orthodox economists claim that regional unemployment disparities are resolved via workers migrating in response to relative wage differentials into growing areas (see Mitchell and Bill, 2006a for a contrary analysis). Finally, the concept of individuality has replaced collective will and the intrinsic rights of citizenship have lapsed in favour of ever increasing social controls.

Full employability means that the unemployed are prepared for paid employment as opposed to governments providing the policy environment that ensures there are enough jobs. This preparation is achieved through training and compliance programmes designed to re-skill the worker and / or create more work-oriented attitudes and intensive search endeavour. The focus on the supply side characteristics of workers, returns macroeconomics to the days when the aberrant Say's Law denied the possibility of generalised gluts in production arising from deficient aggregate demand. Importantly, the employer of last resort role played by the public sector has been abandoned.

Figure 3.2 The Full Employability framework



Source: Mitchell and Muysken (2008, Figure 5.1).

The abandonment of full employment created a new problem. With unemployment persisting at high levels due to the deliberate constraints imposed on the economy by restrictive fiscal (and monetary) policy, rising welfare payments placed pressures on the Redistributive Pillar. So in addition to the neo-liberal attacks on macroeconomic policy, concerted attacks were made on the supplementary institutions such as the industrial relations and income support systems. To force individuals to become accountable for their own economic outcomes, welfare policy assumes that individual responsibilities are the necessary counter-balance to existing rights while promoting the movement from passive to active welfare (Cook *et al.*, 2003; Cook, 2006; Mitchell and Muysken, 2008).

Individuals now face broader obligations and their rights as citizens have been replaced by compulsory contractual relationships with behavioural criteria imposed as a condition of benefit receipt. The aim of the redistributive pillar has become one of using government transfer systems to *stimulate* rather than ameliorate market outcomes. In doing this, considerable power has been transferred from workers to employers.

Thus, the hallmark of the full employability era, is that individuals have to accept responsibility, be self reliant, and fulfil their obligations to society (Giddens, 1998). Unemployment is couched as a problem of welfare dependence rather than a deficiency of jobs. To break this welfare dependency, responsibility had to be shifted from government to

the individual. The necessity of reintegrating the allegedly, welfare dependent underclass into the community provided the justification for mutual obligation and the abandonment of rights of citizenship *per se*. To force individuals to become accountable for their own outcomes, governments embraced a shift from passive to active welfare and the introduction of responsibilities to counter-balance existing rights.

However, no reciprocal obligation is placed on government to provide enough jobs and enough hours of employment for all those seeking work. The major shortcoming of this approach is that the focus on the individual ignores the role that macroeconomic constraints play in creating welfare dependence.

3.2.4 The 1994 OECD Jobs Study and its failings

The OECD 1994 Jobs Study reflected the theoretical foundations developed by orthodox economists, most notably Layard, Nickell and Jackman (LNJ) (1991). This influential document provided the policy link between NAIRU theories and the Full Employability framework, by targeting product and labour market rigidities as the principal reason for the failure of countries to generate sufficient employment.

The Jobs Study cited the negative roles played by legislated minimum wages; non-wage labour costs; social security payments; and direct taxation in general. Employment security provisions were also considered to be constraints on hiring because they allegedly encourage firms to adopt an overly cautious approach to job creation. The particular focus on the labour market was to increase the 'speed limits to growth' by reducing structural impediments.

The Jobs Study also advocated extensive macroeconomic reform, in particular the reduction of budget deficits and public debt, which was based on the claim that fiscal consolidation would 'allow interest rates to be reduced and hence provide a better environment for private sector investment' (OECD, 1994: 44). In short, the OECD appealed to a simple-minded crowding out argument based on the primacy of market-driven private spending over public spending. Section 3.3 reveals this logic to be flawed at a most fundamental level.

In advocating an increased emphasis on active labour market policies the OECD (1994: 44) defined the responsibilities of government in terms of full employability rather than full employment and recommended that public spending should be redirected from 'passive measures of income support to active labour market policies'. Accordingly, they advocated widespread reform of unemployment and related benefit systems to ensure that disincentive effects were minimised, and encouraged governments to 'legislate for only moderate levels of benefits, maintain effective checks on eligibility, and guarantee places on active programmes as a substitute for paying passive income support indefinitely' (OECD, 1994: 48).

In summary, the OECD's response to the macroeconomic policy failure that resulted in rising and persistent unemployment, was to recommend a further diminution in state responsibility and push the onus back on individuals despite the presence of a system failure which led to an insufficient pool of jobs. This blame the victims approach, became the hallmark of the OECD policy agenda. The mechanism to enforce the desired activism has been the adoption of increasingly pernicious compliance and penalty frameworks.

The move away from passive income support was to be accompanied by investment in formal education and training as a means of improving the skill base of disadvantaged workers. This has been interpreted by many OECD governments as the implementation of programmes which force the unemployed to churn through so-called training programmes and / or participate in Workfare-type compliance programmes. However, governments and their advisers seem oblivious to the absurdity of forcing people to relentlessly search for work - and

to engage in on-going training divorced of a paid-work context – given the stark evidence that since 1975 most countries have not created enough employment to match the willing labour supply (Mitchell, 2001b).

There is ample evidence that this approach to training, in the active labour market programme environment, has failed. In this context, Australia is an interesting case. The OECD (2001b: 11) praised Australia for its path-breaking lead in introducing ‘market-type mechanisms into job-broking and related employment services’. The OECD (2001b: 14) concluded that in terms of labour market policies Australia ‘has been among the OECD countries complying best’ with the OECD Jobs Strategy. Successive Australian Governments have pursued programmes of fiscal consolidation and inflation-linked monetary policy. This has been accompanied by the introduction of supply-side measures, notably severe labour market deregulation, privatisations, and “activation” strategies. The Australian Government privatised the public employment service and created a new structure for delivering labour market services, including training. There is no evidence that treating the most disadvantaged workers in this way provides any long-term benefits. Conversely, there is a host of studies that demonstrate that the actual harm is borne by the unemployed who are deprived of benefits (see Cowling and Mitchell, 2003 for a summary).

The 1994 OECD Jobs Study was designed to provide a blueprint for the economic policy reform in its member countries following the deep recession in 1991. However, OECD economies still generated an unemployment rate of 5.8 per cent (January 2007c Main Economic Indicator rate for all OECD), down from 6.9 per cent in 1994 and The Euro area experienced a rate of 7.4 per cent (down from 10.7 in 1994). Worse though is the fact that the official unemployment rate data significantly underestimates the extent of labour market slack. Since the 1991 recession, underemployment has risen in all OECD countries, due to the trend to part-time and casualised employment, so as the official unemployment rate has fallen, time-related underemployment has risen.

This can be directly linked to recommendation 3 of the Jobs Study which urged governments to ‘foster the growth of voluntary part-time work ... by removing obstacles to, and facilitating reductions in working-time and by reviewing existing taxation and social security provisions which discriminate against part-time work’ (OECD, 1994: 45). However, while portrayed as providing the flexibility for families to voluntarily balance their work life commitments, part time (and casualised) work has, in fact, become the new form of labour underutilisation as official unemployment rates have dropped (see Mitchell, 2001b). Unemployed workers have been increasingly absorbed into casualised jobs and have joined the working poor.

3.2.5 The winds of change are blowing and the OECD bricks are crumbling

Mitchell and Muysken (2008) provide a comprehensive critique of these policy developments and the way that the OECD drew on academic research that has now been shown to be fragile. They disagree with the claims of the OECD (2006: 12) that ‘countries which implemented its recommendations outperformed those who did not.’ There is also strong evidence to demonstrate that active labour market programmes have been largely ineffective in reducing unemployment and improving the outcomes of the most disadvantaged workers in the labour market.

Many academic studies have sought to establish the empirical veracity of the neo-classical relationship between unemployment and real wages and to evaluate the effectiveness of active labour market programme spending. The overwhelming conclusion to be drawn from this literature is that there is no conclusion. These various econometric studies, which have

constructed their analyses in ways that are most favourable to finding the null that the OECD line is valid, provide no consensus view as Baker *et al.* (2004) show convincingly.

Mitchell and Muysken (2008) outline the qualifications that economists such as Layard and Nickell, who had wholly supported (and motivated) the OECD approach, are now putting on their work (see Layard, 1997; Nickell and Quintini, 2001). In the face of mounting criticism and empirical argument, the OECD has also begun to back away from its hardline Jobs Study position. After acknowledging that the evidence supporting the Jobs Study ‘remains mixed’ and ‘is somewhat fragile’ (OECD, 2004: 81, 165), their June 2006 Employment Outlook found that:

- There is no significant correlation between unemployment and employment protection legislation;
- The level of the minimum wage has no significant direct impact on unemployment; and
- Highly centralised wage bargaining significantly reduces unemployment.

This latest statement from the OECD confounds those who have relied on its previous work including the Jobs Study, to push through harsh labour market reforms, retrench welfare entitlements, and attack the power base of trade unions.

Further, the OECD (2006) found that unfair dismissal laws and related employment protection legislation did not impact on the level of unemployment, merely its distribution. Critics of the OECD approach have consistently pointed this out (Mitchell, 2001b). In a job rationed economy, supply side characteristics will always serve to shuffle the queue.

The most damning indictment of the OECD policy agenda is that in recent years employer groups have argued that Australia is suffering from a skill shortage. This implies that the large numbers of unemployed Australian workers who have been shunted continually through these expensive training and compliance programmes under the Job Network and related bodies have not acquired any significant durable skills (see Mitchell and Quirk, 2005). Cowling and Mitchell (2003) provide a comprehensive account of the failure of the Job Network in providing employment services (see also Productivity Commission, 2002a).

Internationally, there is a growing sentiment that the creation of paid public employment must be a part of the employment policy mix. There is growing recognition that programmes to promote employability cannot, alone, restore full employment and that the national business cycle is the key determinant of regional employment outcomes (Peck, 2001).

In Australia, for example, the limited role of public sector job creation, and the withdrawal of the public sector from its historical role as a countercyclical employer have served to entrench high unemployment (Mitchell, 2001b). By contrast, low unemployment countries such as the Ireland, Norway, Portugal and the US have been very active in providing paid public sector employment. In a comprehensive analysis of public sector job creation programmes in the US, Ellwood and Welty (2000) found that while poorly designed public sector job creation programmes can be inefficient and displacing, carefully designed and implemented programmes increase employment, minimise displacement effects, raise the earnings of low-skilled workers and produce genuinely valuable output.

Even the current Federal Minister for Employment Participation has expressed concern at the inadequacies of supply-side agenda. He said (O’Connor, 2008):

For too long job seekers, employers and providers have had to endure a complex and rigid employment service structure ... Over the last 10 years skill shortages have

worsened, dramatically hampering productivity and growth ... Over the last 10 years many thousands of job seekers have become increasingly detached from the labour force. The Job Network has failed disadvantaged jobseekers who have needed assistance to overcome barriers to employment and to gain the skills that employers need. This is starkly illustrated by the proportion of people on unemployment benefits for more than five years which has increased from one in 10 in 1999, to almost one in four today – an increase from 74,000 in 1999 to more than 105,000 now. It is unforgivable that these jobseekers and their families have been denied economic and social opportunities and the dignity that comes from having a decent job.

3.3 The flawed macroeconomics of the Full Employability framework

This Section summarises the arguments developed in Mitchell and Muysken (2008) which centre on what these writers have termed modern monetary theory. They underpin the case for public sector job creation as an essential part of a regional development strategy designed to achieve and sustain full employment. In so doing, they provide a categorical rejection of the standard macroeconomic reasoning that has been used to support the introduction of the Full Employability framework.

A modern monetary system is characterised by a floating exchange rate (so monetary policy is freed from the need to defend foreign exchange reserves) and the monopoly provision of fiat currency. The monopolist is the national government. The following macroeconomic principles explain the fundamental flaws in the arguments used to justify abandoning full employment.

First, under a fiat currency system, the monetary unit defined by the government has no intrinsic worth. It cannot be legally converted by government, for example, into gold as it was under the gold standard. The viability of the fiat currency is ensured by the fact that it is the only unit which is acceptable for payment of taxes and other financial demands of the government.

Second, as a matter of national accounting, the federal government deficit (surplus) equals the non-government surplus (deficit). The failure to recognise this relationship is the major oversight of neo-liberal analysis. In aggregate, there can be no net saving of financial assets by the non-government sector without cumulative government deficit spending. The federal government via net spending (deficits) is the only entity that can provide the non-government sector with net financial assets (net savings) and thereby simultaneously accommodate any net desire to save and hence eliminate unemployment. Additionally, and contrary to neo-liberal rhetoric, the systematic pursuit of government budget surpluses is necessarily manifested as systematic declines in private sector savings.

Third, the decreasing levels of net private savings financing the government surplus increasingly leverage the private sector. The deteriorating debt to income ratios which result will eventually see the system succumb to ongoing demand-draining fiscal drag through a slow-down in real activity.

Fourth, the analogy neo-liberals draw between private household budgets and the government budget is false. Households, the users of the currency, must finance their spending prior to the fact. However, government, as the issuer of the currency, must spend first (credit private bank accounts) before it can subsequently tax (debit private accounts). Government spending is the source of the funds the private sector requires to pay its taxes and to net save and is not inherently revenue constrained.

Fifth, unemployment occurs when net government spending is too low. As a matter of accounting, for aggregate output to be sold, total spending must equal total income (whether actual income generated in production is fully spent or not each period). Involuntary unemployment is idle labour unable to find a buyer at the current money wage. In the absence of government spending, unemployment arises when the private sector, in aggregate, desires to spend less of the monetary unit of account than it earns. Nominal (or real) wage cuts *per se* do not clear the labour market, unless they somehow eliminate the private sector desire to net save and hence increase spending. Thus, unemployment occurs when net government spending is too low to accommodate the private sector's need to pay taxes and its desire to net save.

Sixth, while the federal government is not financially constrained, it still issues debt to control its liquidity impacts on the private sector. Government spending and purchases of government bonds by the central bank add liquidity, while taxation and sales of government securities drain private liquidity. These transactions influence the cash position of the system on a daily basis and on any one day they can result in a system surplus (deficit) due to the outflow of funds from the official sector being above (below) the funds inflow to the official sector. The system cash position has crucial implications for the central bank, which targets the level of short-term interest rates as its monetary policy position. Budget deficits result in system-wide surpluses (excess bank reserves). Competition between the commercial banks to create better earning opportunities on the surplus reserves then puts downward pressure on the cash rate. If the central bank desires to maintain the current target cash rate then it must provide an alternative to this surplus liquidity by selling government debt. In other words, government debt operates as the interest rate support mechanism via the maintenance of desired reserve levels in the commercial banking system and not as a source of funds to finance government spending.

3.4 The costs of unemployment

The economic benefits of sustained full employment are indisputable: the economy produces at maximum capacity; microeconomic efficiency is enhanced through the improved process of structural adjustment; and, the provision of local employment opportunities militates against the forced migration of workers to higher growth urban centres in search of employment opportunities, with the attendant likelihood of increased congestion, resulting from higher commuting flows.

Conversely, the economic and social costs of failing to achieve and maintain full employment are considerable. The pecuniary costs of unemployment borne by individuals are normally represented by the replacement ratio, but it fails to take into account the long-term potential loss of income from a sustained spell of unemployment or reduced long term capacity to secure employment due to skill atrophy (Junankur and Kapuscinski, 1992). In addition, benefits may only be available for a limited period and / or subject to pernicious compliance requirements.

There is a broad consensus across researchers from a number of disciplines, including economics, psychiatry and epidemiology that sustained unemployment is also associated with significant personal and social costs that include:

- social exclusion and the loss of freedom;
- skill loss;
- psychological harm;
- ill health and reduced life expectancy;

- loss of motivation;
- the undermining of human relations and family life;
- racial and gender inequality; and
- loss of social values and responsibility.

This brief review below is not exhaustive, but is indicative of the flavour of the research literature.

In a US study, Darity and Goldsmith (1993) show that exposure to unemployment and even underemployment impairs an individual's self-confidence and sense of control, resulting in reduced efforts to re-enter the work force or acquire skills, and reduces subsequent job performance through reduced cognitive efficiency, the depreciation in human capital and the increase in underlying stress (Darity, 1999). In their study of Australian immigrants Kennedy and McDonald (2006) found that unemployment, and especially a long durations of unemployment, were associated with poor mental health.

Brown *et al.* (2003) established a stronger link between unemployment and frequent mental distress for those unemployed for less than 12 months, than those unemployed for longer, which suggests some capacity to adjust to long-term unemployment. They advocate public interventions to reduce the mental distress of the unemployed cohort of the population. In another US study, Artazcoz *et al* (2004) found that unemployment had more of an effect on the mental health of men than on that of women based on age-adjusted odds ratios, which were associated with differences in family responsibilities and social class (see also Thomas *et al*, 2007).

Using data from the German Socio-Economic Panel (1984-89), Winkelmann and Winkelmann (1998: 13) find that, after controlling for various individual characteristics and incorporating fixed effects, unemployment had a significant and major negative impact on satisfaction. These non-pecuniary costs considerably exceeded the pecuniary costs associated with income loss while unemployed. Articles in Kposowa (2003) document the relationship between unemployment and suicide. Medical problems can also appear in response to a spell of unemployment which can be linked to lifestyle, involving poor diet and/or excessive consumption of alcohol (Junankur and Kapuscinski, 1992).

The adverse consequences of unemployment not only impact on the victims, but also on their families and the rest of the community. Unemployment has been linked to truancy and non-completion of schooling, family break up, spouse abuse, substance abuse, alienation, discrimination, illness, premature death, and poverty (Siegel, 1994: 8). Secret and Peck-Heath (2004) found that the school performance of US children in public assistance families was positively associated with the stability of maternal labour force participation, whether it was employment or unemployment, rather than work status *per se*. However those whose mothers had recent, current, or long-term employment were in better health than children whose mothers had been unemployed for more than 2 years. Junankur and Kapuscinski (1992: 57) showed that higher unemployment in Australia tends to reduce the incidence of marriage and raised the divorce rate.

Burgess and Mitchell (1998) note that social and economic exclusion encourages anti-social behaviour and fosters the growth in illegal activity as a means of generating income (see also Darity, 1999). Human rights of the unemployed are also undermined by their loss of freedom. Without access to labour income they are reliant on social and / or family transfers, non-labour income or savings. Many unemployed people do not have access to these sources of support thereby limiting their ability to participate in the market economy. Thus choices about

lifestyles and personal development and access to basic goods and services are restricted. In addition, loss of social and professional contacts in the workplace further isolates individuals and their families and promotes social exclusion (Sen, 1997; Darity, 1999). Sen (1997) argues that high unemployment also contributes to jingoism as well as to inter-racial or interethnic tensions, thereby undermining social cohesion.

Broom et al (2006) note that unemployment is associated with poor health. Using cross-section survey data of nearly 2500 Australians aged 40 to 44, they confirm the benefits of paid work. However they find that poor quality jobs which 'combine several psychosocial stressors' could be as detrimental to health, measured by depression, physical health, self-rated health, and general practitioner visits, as being unemployed. They emphasise the importance of workplace and industrial relations policies that promote worker autonomy and security.

Importantly, Dooley and Prause (2004) find that underemployment in the USA has similar health consequences to unemployment, including psychological (loss of self-esteem and depression), behavioural (for example, alcohol abuse) and underweight first-born children (Lengnick-Hall and Kulkarni, 2005: 251). Their study found that the causation between underemployment and these adverse outcomes ran both ways. By failing to recognise the adverse impacts of low wage employment and involuntary part-time employment, policymakers underestimate the magnitude of difference in health and related outcomes between the unemployed and adequately employed (Glanville, 2005: 34).

3.5 Unemployment and underutilisation in Australia

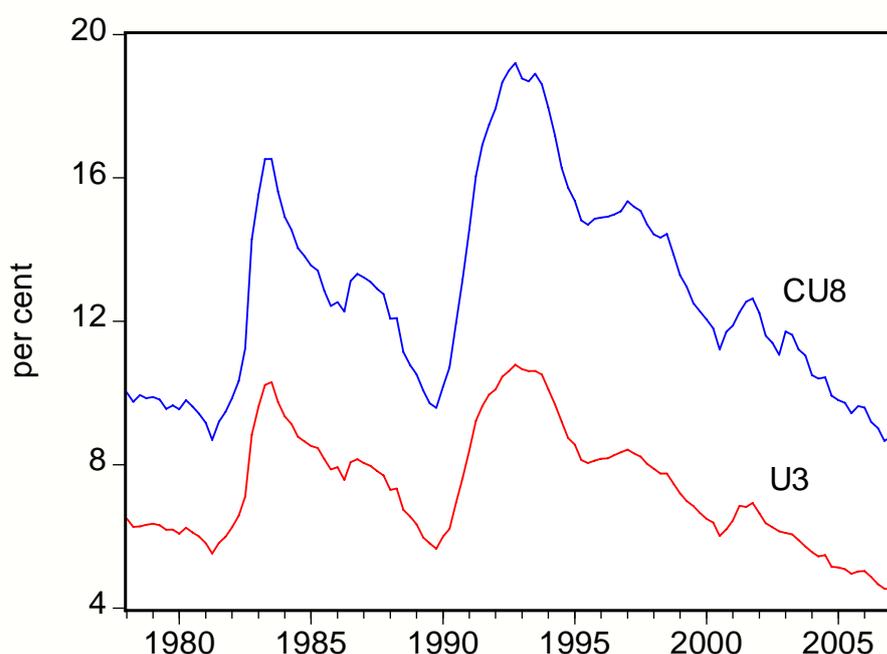
3.5.1 Overview

While the official unemployment rate in Australia has exhibited a long term decline since its peak in February 1993, there has been a significant rise in underemployment, resulting from an increase in the number of part-time workers seeking more hours of paid work. In September 2007, 571,900 part-time workers required an average of 14.4 additional hours of work per week (ABS, 2008a). The growth of poorly paid part-time and casual employment with limited hours in OECD countries is a manifestation of the neo-liberal obsession with employment flexibility.

In Figure 3.3, the hours based measure of labour underutilisation (8.94 per cent), which incorporates hidden unemployment and underemployment which was developed by the Centre of Full Employment and Equity, is contrasted with the official rate of unemployment in Australia (4.38 per cent) in May 2007. This rate of underutilisation is equivalent to that which prevailed in the late 1970s following the oil price shock and the implementation of contractionary policies by the government to counter the inflation.

Second, there is unequal distribution of the burden of unemployment. The average duration of unemployment was 34.3 weeks in May 2007 (ABS, 2007c). Also, in May 2007 about 13.17 per cent of families had no parent employed, compared to 62.15 per cent of 2 parent families with both parents employed (ABS, 2007d). In addition, unemployment is being inherited across generations with youth unemployment being much higher in households where no person is employed. Despite the sustained decline in official unemployment over the past decade, the regional dispersion of unemployment has not declined. Galbraith (1998: 133-149) argues that unemployment increases the degree of income inequality in most societies (see also Sen 1997: 164).

Figure 3.3 Labour underutilisation and official unemployment rates, Feb 1978 – May 2007



Source: Centre of Full Employment and Equity, CLMI, May 2007.
 Notes: U3 denotes the official unemployment rate. CU8 denotes the hours-adjusted unemployment rate, which includes underemployment, plus hidden unemployment (discouraged workers).

3.5.2 Unemployment by geographical area

As discussed in the Chapter 1, the definition of regions has a major impact on the visibility of spatial disparities. Thus, if there is greater spatial disaggregation and hence smaller regions, disparities would tend to increase. For example, an OECD analysis in 1999 found that at the state level Australia had the lowest unemployment disparities of the 23 OECD countries examined. However, when the analysis was conducted at the Small Area Labour Market level the coefficient of variation for Australia was the fifth highest (OECD, 2000). This section details spatial disparities in unemployment and participation rates for ABS Labour Force Regions.

Table 3.1 reveals significant spatial disparities in unemployment and participation rates in Australia that represent underutilisation of potential labour resources. The national unemployment rate in February 2008 was 4.5 per cent but unemployment was 2.5 per cent or less in Eastern Metropolitan Perth (1.8 per cent), Eastern Suburbs in Sydney (1.9 per cent), Brisbane City Inner Ring (2.3 per cent) and Central Northern Sydney (2.5 per cent).

In contrast there were areas where unemployment rates were significantly above the national average. The highest unemployment rate of 8.1 per cent occurred in Central Highlands-Wimmera in Victoria, then Mersey-Lyell in Tasmania (7.7 per cent), and in NSW, Gosford-Wyong (7.3 per cent) and Newcastle (7 per cent).

Similarly, the participation rate displayed major deviations from the national rate of 65.3 per cent. Participation rates exceeded 70 per cent in the Brisbane City Inner Ring, Murray-Murrumbidgee, the ACT, Remainder-Balance of WA and the Northern Territory. Areas where participation rates were less than 60 per cent coincided with unemployment rates being higher than the national average, with the exception of Goulburn-Ovens-Murray, where participation was 59.4 per cent and the unemployment rate was only 3.3 per cent.

Table 3.1 Unemployment and Participation rates, February 2008

	UR	PR		UR	PR
AUSTRALIA	4.5	65.3	Queensland	4.3	67.0
New South Wales	4.8	63.6	Brisbane Major Stat. Region	4.0	69.0
Sydney Major Stat Region	4.4	65.3	Brisbane City Inner Ring	2.3	75.0
Inner Sydney and Inner Western Sydney	3.2	68.4	Brisbane City Outer Ring	4.2	65.4
Inner Sydney	3.3	68.9	South and East BSD Balance	5.4	68.4
Eastern Suburbs	1.9	65.1	North and West BSD Balance	4.3	68.0
St George-Sutherland	3.5	68.7	Balance of Queensland	4.6	65.4
Canterbury-Bankstown	5.3	56.1	South and East Moreton	3.5	66.4
Fairfield-Liverpool and Outer South Western Sydney	5.5	64.6	North and West Moreton	4.6	61.2
Fairfield-Liverpool	6.4	59.9	Wide Bay-Burnett	6.9	59.6
Central Western Sydney	6.0	60.3	Darling Downs-South West	4.1	65.0
North Western Sydney	5.8	67.1	Mackay-Fitzroy-Central West	3.7	69.7
Lower Northern Sydney	3.0	66.1	Northern-North West	4.5	67.9
Central Northern Sydney	2.5	67.7	Far North	6.0	67.6
Northern Beaches	4.2	68.1	Gold Coast City Parts A and B	3.7	66.1
Gosford-Wyong	7.3	60.8	South Australia	5.0	63.3
Balance of New South Wales	5.5	60.7	Adelaide MSR	5.3	63.4
Hunter	6.6	63.7	Northern Adelaide	5.9	64.9
Newcastle	7.0	64.3	Western Adelaide	6.0	57.6
Illawarra and South Eastern Illawarra	5.8	56.3	Eastern Adelaide	3.7	63.3
Illawarra	6.1	54.5	Southern Adelaide	5.4	65.6
Wollongong	6.2	58.5	Balance of South Australia	4.2	62.9
Richmond-Tweed and Mid-North Coast	5.9	52.2	Southern and Eastern SA	3.6	66.6
Northern, Far West-North Western and Central West	5.2	64.0	Northern and Western SA	5.4	57.1
Murray-Murrumbidgee	3.0	73.9	Western Australia	3.2	68.4
Victoria	4.6	65.3	Perth MSR	3.1	68.6
Melbourne MSR Region	4.6	66.1	Central Metropolitan	3.7	68.2
Outer Western Melbourne	4.9	64.4	East Metropolitan	1.8	67.9
North Western Melbourne	5.6	63.3	North Metropolitan	3.0	69.5
Inner Melbourne	3.1	74.3	South West Metropolitan	3.5	68.4
North Eastern Melbourne	5.2	65.2	South East Metropolitan	3.7	68.1
Inner Eastern Melbourne	3.4	62.7	Balance of Western Australia	3.2	67.8
Southern Melbourne	4.9	69.7	Lower Western WA	3.8	64.7
Outer Eastern Melbourne	3.4	68.7	Remainder-Balance WA	2.7	71.4
South Eastern Melbourne	6.9	66.9	Tasmania	5.6	60.6
Mornington Peninsula	4.9	62.4	Greater Hobart-Southern	4.3	61.7
Balance of Victoria	4.7	63.3	Greater Hobart	4.6	62.6
Barwon-Western District	3.0	67.1	Northern	6.3	59.9
Central Highlands-Wimmera	8.1	67.0	Mersey-Lyell	7.7	59.0
Loddon-Mallee	5.2	61.7	Northern Territory	5.5	71.0
Goulburn-Ovens-Murray	3.3	59.4	Australian Capital Territory and South Eastern Statistical Region	3.8	67.9
All Gippsland	5.8	60.9	Australian Capital Territory	3.2	72.6

Source: Labour Force, Australia, Detailed - Electronic Delivery, 6291.0.55.001, Feb 2008. MSR is the Major Statistical Region defined in the ABS Australian Standard Geographical Classification.

3.6 Conclusion

This chapter has critically assessed the dominance of the NAIRU supply-side approach that has led to replacement of the goal of full employment with the diminished goal of full employability. Ingrained in the Jobs Study approach is that the cause of unemployment lies in individual behaviour reflecting motivations, attitudes and endeavour. Thus the approach is underpinned by orthodox microeconomic principles.

Under the Full Employment framework, social policy was designed to provide income support when the economy temporarily deviated from full employment. The role of macroeconomic policy was to ensure that the economy stayed as close to full capacity as was possible. Under the Full Employability framework, the role of social policy becomes one of helping individuals to position themselves in the labour market to maximise their chances of gaining work, yet no complementary policies were implemented to ensure that there were enough jobs available to match the preferences of the labour force.

By promoting inflation as the policy priority, rather than unemployment, neo-liberal policy makers were able to locate the supply-side microeconomic policy emphasis at centre stage and downgrade the importance of an active, counter-cyclical macroeconomic policy stance (see Blinder, 1987; Solow, 1998). Panić (2006: 17) provides an interesting comparison of the economic performance of France, Germany, the Netherlands, Norway, Sweden, the UK and the US and concludes:

In summary, two important conclusions emerge from the experience of the seven economies since the end of the 1980s. First, whatever the model of capitalism, economic growth slows down and unemployment rises if a country adopts the classical approach to macroeconomic management advocated by neoliberals. In contrast, whatever the model of capitalism, the Keynesian approach to macroeconomic management ... will improve economic performance. Second, those models of capitalism that give high priority to social well-being, solidarity and trust have an important advantage in minimising the impact of a stagnant environment on economic welfare, not least by being able to respond more rapidly and adequately to the challenges of globalisation.

These observations illustrate the importance of engendering social well-being, solidarity and trust as fundamental building blocks for achieving better economic performance. It is in this spirit that our emphasis on full employment should be understood.

The simultaneous existence of labour underutilisation and a broad range of unmet needs suggests that these two societal problems could be addressed through public sector expansion by means of a Job Guarantee policy which would simultaneously enhance service provision, building communities and achieving social justice outcomes, while satisfying employment aspirations and counteracting the negative consequences of unemployment.

Most importantly, implementation of the JG means that societal problems would not be displaced, as has often been the case with contemporary neo-liberal policies. Communities would instead be supplied with a set of tools to remediate issues that are specific to their locale, and would also be provided with an enabling, complementary means for (re)constructing and (re)developing their own strategies for generating regional prosperity.

One of the advantages of the current financial crisis is that it has provoked a major paradigm shift in economic thinking away from the free market deregulation era that has dominated since the 1970s and underpinned the full employability framework.

All the logic that justified government cut backs in the last three decades; the run down of public infrastructure; the harsh treatment of welfare recipients; the wasteful privatisations, and the rest of the neo-liberal litany that served to transfer wealth from poor to rich and create a disadvantaged underclass has been destroyed by these events.

The crisis has once again exposed the fallacy of the notion that free markets can regulate and generate sustained growth and prosperity. It has been categorically re-affirmed that “free markets” do not work effectively. We learned this lesson during the Great Depression but then, in recent times, under sustained pressure from the free market lobby, society has been bullied into giving market players freedom to pursue their own interests free of significant regulation. Governments around the world forgot that markets need strong regulation and that the Government has to play a strong role as an employer and a spender. The policy folly of the last few decades which has culminated in this disaster shows that governments need to firmly steer the ship.

It has also exposed the weaknesses on a reliance on monetary policy (lowering interest rates; changing conditions under which central banks will lend to private banks etc...) to stabilise economic activity. This strategy is flawed because it doesn't address the nature of the problem facing world economies. There is plenty of liquidity in banking systems around the globe. Missing is the confidence to make it available. Lowering the price of credit does not tell prospective borrowers that they will be able to sell what they produce.

The advantage of fiscal policy is that it directly stimulates spending and signals to firms an increasing demand for their goods and services. It instils confidence that economic growth will continue.

Part 2

Current Policy Framework

4

Active labour market policies

4.1 Introduction

In the period following the Second World War public employment services (hereafter PES) were established and expanded in OECD countries in tandem with provision of financial assistance to the unemployed in the form of unemployment benefits. Government expenditure on labour market policies to address unemployment can be divided into 2 categories, active and passive. Payment of unemployment benefits in the form of unemployment insurance or social assistance is denoted as 'passive'. Active labour market policies (hereafter ALMP) include a range of programmes intended to 'activate' the unemployed to enhance employability. Active programmes can be broadly divided into 4 types.

1. Job search assistance may be provided in the form of labour market intermediation through PES, individualised counselling and case management, or job search training courses designed to increase matching efficiency;
2. Job creation schemes may be initiated to provide work for the unemployed, usually in the public or non-profit sector. Job creation schemes are usually temporary programmes that fund entire projects including wages for participants and supervisors, administration and materials. Historically, job creation programmes have assumed greater importance during economic downturns;
3. Wage subsidies paid to private or public sector employers to enhance the employment prospects of particular groups such as the long-term unemployed, youth, sole parents, people with disabilities, and ethnic minorities. Generosity and duration of subsidies have varied considerably both between countries and within countries over different time periods and depending on target groups;
4. Investing in human capital formation through formal training programmes provided free to participants is designed to assist skill formation and increase productivity. ALMP have been used extensively, with the relative importance of different types of ALMP changing frequently in response to labour market and political circumstances.

The theoretical justification for ALMP is that they increase labour market efficiency, productivity, employment outcomes and earnings for the unemployed. The benefits which were outlined by (Calmfors, 1994) can be summarised as:

- Facilitating matching efficiency in the labour market through more active job search;
- Maintaining labour force participation by maximising the effective labour supply which applies downward pressure on wages and increases employment;
- Reducing welfare losses from unemployment by increasing the probability of employment, guarding against future unemployment and producing a higher wage than would otherwise be obtained;
- Increasing labour productivity through skill formation due to formal training or counteracting skills atrophy through job creation programmes; and

- Speeding up job search due to the ‘work test’ effect of ALMP that makes unemployment less attractive.

ALMP have several potential disadvantages that reduce employment creation programme effects and must be weighed against the advantages outlined above (see Fay, 1996). Most programmes are vulnerable to deadweight loss which occurs when some of the employment gains associated with the ALMP programmes would have occurred anyway. In addition, employer subsidies are prone to displacement and substitution effects. Displacement occurs when cost advantages enjoyed by the subsidised firm allow it to increase its market share at the expense of competitors. Even if these effects are found, ALMP can be justified on equity grounds.

All ALMP are susceptible to attachment effects where participants reduce job search efforts in order to concentrate on programme completion. A particular concern with targeted public sector job creation schemes is the possibility of stigmatisation of participants (Fay, 1996). These programmes also have the potential to crowd out private sector jobs if additionality conditions are not imposed effectively. For this reason job creation schemes are usually restricted to jobs yielding social benefit that are not currently being performed. However, the net impact of ALMP cannot be inferred from economic theory since there are countervailing effects (Calmfors, 1994; Fay, 1996).

This Chapter examines the use of ALMP in OECD countries in recent decades. A more complete account of this history is provided in Cook (2008a). Consequent to the abandonment of full employment policies internationally, and in line with recommendations of the OECD Jobs Study (see Chapter 3), active labour market policies have been adopted that require the unemployed to undertake intensive job search, training, or participation in unpaid work, whilst surveillance, sanctions and conditionality conditions for receipt of social security benefits have become more draconian.

The emphasis in ALMP shifted from direct provision of employment to strategies designed to increase the employability of the unemployed and to increase labour supply regardless of persistent demand deficiencies.

Moreover, attempts to ‘make work pay’ have married measures to ensure financial gains from working, such as reduced withdrawal rates, tax credits or in-work benefits with cuts in replacement rates and duration. While these developments have been more pronounced in liberal welfare states such as the United States and Australia, they have also been prominent in conservative and social democratic regimes.

4.2 International experience with ALMP

ALMP have existed for centuries as evidenced by the poor laws throughout Europe. Extensive public works (job creation) programmes were used during recessions in the 19th century and during the depression in the 1930s. Throughout the post war period until the early 1970s, when most Western economies were mainly at or close to full employment, job creation programmes were used as a counter-cyclical response to unemployment that was recognised as a consequence of demand deficiency. This section will provide a brief history of ALMP, especially in relation to the period after the demise of full employment from the mid-1970s. In the post-war period the commitment to full employment, included the use of fiscal and monetary policy to stimulate aggregate demand and job growth in response to demand deficiency.

As outlined in Chapter 3, the retreat from Keynesianism resulted in acceptance of the view that unemployment was a supply-side phenomenon that reflected deficiencies in the

education, skills or attitudes of the unemployed. Beginning in the 1980s the neo-liberal ascendancy coupled restrictive macroeconomic policies and a preference for market mechanisms in all spheres of life with an ideological campaign that sought to blame the unemployed for their predicament. More recently the failure of neo-liberal policies has resulted in the rise of the Third Way which is promoted as plotting a middle path between the post-war social democratic policies and neo-liberalism. The Third Way concern for social inclusion is largely limited to inclusion in the paid workforce. Workforce participation is prescribed for all working age people as an obligation to society and the best strategy to lift themselves out of poverty despite the fact that there are not enough jobs in the prevailing environment of fiscal restraint.

The initial response of OECD governments to the advent of mass unemployment which resulted from the economic crisis of the mid 1970s was the introduction of job creation programmes to provide temporary employment in either the public or non-profit sector. Over the past 30 years the government commitment to full employment has been abandoned with aggregate demand management policies being largely discarded in favour of activation policies designed to enhance employability. Demand side policies have been largely confined to the subsidisation of private sector employment.

The shift to supply side policies in the 1980s ushered in a period of vocational training programs. Courses were provided to increase the skills of the unemployed and enable them to compete in the labour market with a view to reducing the insider/outsider effect that prevented the unemployed being effective substitutes for the employed. However, the passage of time saw training programmes transformed in many countries so that by the 1990s they focussed increasingly upon delivering employability through minimal training in job search techniques. Lafer claims that employability programmes are no longer designed 'to provide the skills or education that might enable participants to gain greater leverage in the labour market. Instead they are intended to lower the sights and aspirations of participants, producing a disciplined class of low-wage worker' (Lafer, 1999: 123-124).

Accompanying 'activation' policies were institutional changes in the administration of employment and ALMP policy and benefit payment systems. Gradually OECD countries introduced additional conditionality on the receipt of income support. New requirements were often applied to unemployed youth in the first instance and then extended to older groups of the unemployed. More recently, conditionality has been increasingly applied to other workless groups who were previously regarded as being outside the labour market. Some of the strategies that have sought to increase the monitoring of the activities of income support recipients have reversed previous reforms. In the postwar period, employment services were deliberately separated from unemployment benefit administration to remove potential impediments to the achievement of employment outcomes and also to minimise adverse impacts on relationships with clients (see Price, 2000 for developments in the UK).

Institutional changes have varied between countries but have included amalgamation of the employment and benefit administration functions and an active role for PES staff in monitoring the activities of job seekers and applying sanctions for non-compliance. In addition, many services that were previously performed by the PES have been outsourced to the private sector. For example, the creation of the Job Network in Australia in 1998 established a competitive framework where the public, private and non-profit sectors would compete for contracts for delivery of employment services. Subsequently, these contracts have been allocated to the for-profit and non-profit private sector.

In addition to these general trends there are significant differences between countries in the resources devoted to ALMP and the composition of expenditure between programmes. The

proportion of GDP devoted to ALMP increased for most OECD countries over the period 1975 to 2005. Expenditure generally peaked in the mid 1990s when countries struggled to deal with the high unemployment levels that persisted after the recession of the early 1990s. Expenditure declined in tandem with unemployment levels over the following decade. There is no simple relationship between the unemployment rate and ALMP expenditure. The countries with the highest ALMP expenditure, Denmark and the Netherlands, are equal 22nd in the OECD in terms of the unemployment rate. In 2005 both Korea and the US spent 0.13 per cent of GDP on ALMP and had the 25th and 18th highest unemployment rate in the OECD.

In general, the share of ALMP expenditure increased as a proportion of total labour market expenditure between 1990 and 2005 (see Table 2 in Cook, 2008a). There was an increase in activation policies as a consequence of the policy shift described above and the massive increase in unemployment following the recession in the early 1990s which motivated governments to attempt to address unemployment by the introduction of new programmes or the extension of existing programmes. These programmes were subsequently wound back in some countries as unemployment rates dropped. Therefore, between 2000 and 2005 there have been reductions in the proportion of ALMP in several countries.

The most dramatic increase in the proportion of ALMP expenditure between 1990 and 2005 occurred in Australia, where the ALMP share increased from 19.6 per cent to 42.5 per cent, an increase of 117 per cent. In the UK the rise from 39.1 per cent to 72.1 per cent represented an increase of 84 per cent. Other countries to record significant increases in the proportion of ALMP expenditure included Denmark (83 per cent), and Canada and New Zealand (55 per cent). Thus the liberal welfare states, with the exception of the US, were at the forefront of the transformation from passive to active policies.

Conversely, countries with the highest ALMP share of expenditure in 1990, Sweden, Switzerland, Portugal, Germany and Finland, had all recorded a significant decline in the share by 2005. The largest decline was in Portugal, where the ALMP share fell from 60 per cent to 34.8 per cent over this period. Despite the large fall in the ALMP share of expenditure, both Sweden and Switzerland remained among the top 5 countries in terms of the proportion of ALMP expenditure; Sweden ranked second after the UK and Switzerland ranked fifth.

4.3 Public sector job creation programmes: from job creation to workfare

Several reasons have been advanced for the use of job creation programmes. In periods of high unemployment they can be speedily phased in to provide an effective counter-cyclical stimulus to the economy by increasing labour demand and creating jobs for the unemployed (Balkenhol, 1981; Jackson and Hanby, 1982; Roy and Wong, 2000). In the past, political necessity has dictated that governments faced with electorate expectations of full employment are seen to be actively attempting to eliminate unemployment (Jackson and Hanby, 1982). This changed with the Thatcher Government being re-elected in 1983, despite a record unemployment rate of nearly 13 per cent.

Job creation has a smaller impact on inflation than a general expansion in aggregate demand, because it directly targets the unemployed (Jackson and Hanby, 1982; Calmfors, 1994; Belchamber, 2004). The Job Guarantee (JG) advocated by Mitchell (1998) proposes that a buffer stock of public sector jobs be available to all those seeking work. The number of JG jobs would expand/contract as unemployment increased/decreased. The JG environment offers a mechanism to control inflation (see Allen *et al.*, 2007; Mitchell and Muysken, 2008

for a detailed explanation). In essence, when many workers are employed in JG jobs, real wage demands will be lower.

In addition to macroeconomic objectives, job creation programmes address structural imbalances among industry sectors and regions and assist disadvantaged groups in the labour market (Balkenhol, 1981; Jackson and Hanby, 1982; Roy and Wong, 2000). Belchamber (2004) asserts that governments have a responsibility to address unemployment, including regional disparities, which have persisted despite a prolonged period of economic growth. In addition, Brodsky (2000: 31) stresses that public sector job creation ‘may be the only effective way to aid those among the long-term unemployed who are less skilled and less well educated.’ Finally, public sector job creation is also a means of addressing unmet needs for environmental protection and community development.

As with other ALMP, there are potential unintended adverse consequences of job creation programmes. At the macro level, the provision of jobs could fail to meet the objective of net job creation due to displacement, substitution or deadweight loss. However, public sector programmes designed to meet needs that are currently not being met, reduce the probability of substitution or displacement. O’Connell (2002: 67) notes that an OECD review of ALMP in 1993 found that ‘direct job creation schemes were less likely to suffer from high deadweight than employment subsidies – since most participants would have few alternative employment opportunities – and that programmes can be designed to minimize substitution and displacement.’

Programmes may be considered worthwhile on equity grounds in the absence of net job creation if employment outcomes of disadvantaged groups are enhanced. However, at the individual level, participants may not achieve improved employment outcomes, or improved employment outcomes may dissipate rapidly after completion of the programme. In addition, such programmes potentially suffer from lock-in effects whereby participants become attached to the programme and reduce job search efforts so that employment outcomes do not improve. Programme evaluation is difficult in the absence of random assignment because the treatment and control groups are likely to have differences in unobservable characteristics that impact on outcomes.

As a proportion of GDP, the highest expenditure on job creation in the OECD in 2005 occurred in Belgium (0.36 per cent), Ireland (0.21 per cent), France (0.18 per cent) and the Netherlands (0.15 per cent) (see Table 3 in Cook, 2008a). Over the period 1990 to 2005, job creation expenditure declined significantly in the Scandinavian countries of Finland, Norway and Sweden where such programmes had previously been an important component of the suite of ALMP. These 3 countries used job creation programmes extensively following the 1990s recession as indicated by the higher levels of expenditure in 1995.

Job creation schemes are relatively more important in Belgium and Ireland, with one-third of ALMP expenditure devoted to job creation in 2005, although the share in Belgium fell from just over 50 per cent in 1990. Similarly, job creation accounted for 25 per cent of ALMP expenditure in Luxembourg, and 20 per cent in both France and Hungary. The Australian figure of almost 18 per cent is attributable to 2 factors. First, expenditure on the CDEP scheme for the Aboriginal and Torres Strait Islander (ATSI) population is included although the programme is more akin to a work for the dole scheme than job creation. Second, the increasing proportion also reflects the reduction in total ALMP expenditure due to the elimination of most other programmes by the incoming Howard government in 1996. Between 1990 and 2005, job creation increased its share in ALMP expenditure in France, Hungary, Ireland, Luxembourg and the Netherlands. On the other hand, the job creation share declined in Belgium, Finland, Norway, Sweden and Switzerland.

An international overview of the use of public sector job creation and workfare programmes in the OECD demonstrates that as the right to welfare has declined over the past few decades there has been a shift from job creation to workfare programmes (Cook, 2008a, provides more detail). Job creation refers to paid employment where participants are classified as employees and receive at least the minimum wage. In contrast, workfare programmes encompass the requirement that benefit recipients work in return for welfare payments, that is 'work-for-benefit' without receiving further services (Lødemel and Trickey, 2001; OECD, 2005). Workfare programmes are generally considered as work experience, not employment. They are stigmatising and constitute a reduction in entitlement (Lødemel, 2001).

4.4 Wage subsidies and other recruitment incentives

Recruitment incentives constitute the second major ALMP which are designed to increase labour demand. In recent years governments have generally increased the emphasis on wage subsidies to private sector employers relative to public sector job creation in the belief that provision of jobs that closely resemble mainstream employment produce superior employment outcomes. This section reviews current wage subsidy schemes in OECD countries.

A major issue with wage subsidies in the private sector is whether additionality can be ensured. Consequently many countries attempt to design programmes that minimise displacement and substitution. For example, the employer application for Targeted Wage Subsidies in Canada asks if there are currently any employees who are laid off, whether the subsidy will displace existing employees or volunteers and whether the subsidised employee is likely to be retained at the end of the subsidised period of employment (Service Canada, 2007).

Cook (2008a, Table 4) shows the expenditure on subsidies to the private sector as a proportion of GDP and total ALMP expenditure, between 1990 and 2005 in OECD countries. In general, wage subsidies increased over the period with countries recording increased expenditure outnumbering those recording reductions. The only countries recording significant reduction in subsidies as a proportion of GDP were Greece, New Zealand and Japan. The countries devoting the largest share of national income to private sector subsidies in 2005 were Sweden, Denmark, Italy, Luxembourg and Belgium. With the exception of Italy where expenditure declined from 0.68 per cent of GDP in 1995 to 0.2 percent in 2005, these countries increased their expenditure as a share of GDP.

Turning to the relative importance of wage subsidies in relation to total ALMP expenditure, Spain, Italy, Luxembourg, Hungary, Sweden and Denmark devoted over a quarter of their total ALMP expenditure to subsidies in 2005. The relative importance of subsidies increased between 1990 and 2005 in Sweden (from 1.2 to 34.1 per cent of ALMP), Portugal (3.2 to 23.2), Ireland (1.3 to 7.9), and Belgium (3.7 to 15.7). The ALMP share of wage subsidies declined between 1990 and 2005 in Greece, Japan, Australia, the Netherlands, New Zealand, the UK, Italy and Germany. The remainder of the corresponding section in Cook (2008a) sketches various wage subsidy programmes available in OECD countries.

In addition to direct wage subsidies, several countries have schemes to make work pay that generally take the form of tax credits for earned income including the UK, USA, Canada, Ireland, New Zealand, Finland, Belgium, France, the Netherlands and Denmark.

4.5 Self employment

The third component of the suite of ALMP is the promotion of self-employment which is found in most OECD countries. Business start-ups are often encouraged through the payment

of the equivalent of unemployment benefits for a period of time which can either be in the form of a lump sum or regular payments. Other supports include the provision of training in small business operations, preparation of business plans and assistance with obtaining finance. The rationale for this type of assistance is that successful business ventures generate employment for both participants and others as the business grows (Kelly *et al.*, 2001). In addition, such programmes constitute an attempt to overcome imperfections in financial markets because potentially viable businesses are frequently prevented from commencing due to the inability of unemployed people to obtain finance (Perry, 2006). Potential problems with self-employment programmes include the high probability that they will suffer from deadweight loss since many participants would have started a business in the absence of the programmes; there could be displacement effects; and small businesses in general have a low survival rates and often provide low incomes (Kelly *et al.*, 2001; Perry, 2006). Cook (2008a) outlines the types of programmes that currently exist in OECD countries in more detail. In 1999 participation in self-employment programmes was between 0.4 and 4 per cent of the unemployed (Carling and Gustafson, 1999).

Business start-up programmes have been peripheral in the suite of ALMP, with expenditure generally reaching less than 0.1 per cent of GDP and less than 10 per cent of total ALMP expenditure (see Table 5 in Cook, 2008a). Spain recorded the largest self-employment expenditure of 0.19 per cent of GDP (over 25 per cent of total ALMP spending) in 1990 but by 2005 this had declined to 0.06 per cent. In 2005 Germany recorded the largest expenditure on self-employment programmes in OECD countries, at 0.09 per cent of GDP but this represented less than 10 per cent of ALMP expenditure.

4.6 Training programmes

In contrast to other programmes there is a large variation in training programmes. Training programmes have been a major supply side intervention for several decades and usually comprise a combination of vocational and general education courses in an attempt to improve the skills and equip the unemployed for existing or future job vacancies. Several countries have also initiated training programmes and incentives to increase the skills of existing employees. The corresponding section to this one in Cook (2008a) reviews recent trends in expenditure on training programmes and programmes for the unemployed that have been implemented by various countries. In line with the convention of treating apprenticeships as part of the vocational education system (EC, 2006d) they are excluded from this analysis.

Expenditure on training programmes is higher in Scandinavian countries than other OECD countries (see Cook, 2008a; Table 6). In 2005 Denmark had the highest expenditure at 0.51 per cent of GDP, followed by Finland and Norway (0.37 per cent), Sweden (0.34 per cent) and Austria (0.33 per cent). In several countries, training programmes had expenditure levels below 0.05 per cent of GDP. These included Australia, the Czech Republic, Hungary, Japan, Korea, Mexico, and the Slovak Republic. Between 1998 and 2005, in line with the shift away from training associated with the 'work first' approach, expenditure declined significantly in Sweden (from 0.96 to 0.34 per cent of GDP), Denmark (0.74 to 0.51 per cent), Finland (0.53 to 0.3 per cent), Germany (0.44 to 0.25 per cent) and France (0.41 to 0.29 per cent).

In 2005, training accounted for over one third of all ALMP expenditure in Austria, Norway, New Zealand, Portugal, Finland, the US, Switzerland, Ireland and Italy. The traditional importance given to training in Sweden has weakened in recent years. In 1998, 42.1 per cent of ALMP expenditure was devoted to training. By 2005 this had declined to only 25.8 per cent. Countries where little priority is currently given to training programmes included the Czech Republic (4.0 per cent of ALMP expenditure), Australia (8.9 per cent) and the Netherlands (9.8 per cent).

In conjunction with changes to the administration of unemployment benefit systems and the ‘activation’ policies pursued throughout OECD countries, many countries have made commitments to provide training places as a last resort for the unemployed who are unsuccessful in obtaining either subsidised or unsubsidised employment. This is often expressed as a duty to undertake training.

4.7 Findings of ALMP evaluations - who do they help and why?

This Section briefly outlines ALMP evaluation methods, discusses issues that impact on the veracity of evaluations and reviews the international evaluation literature to ascertain which programmes have proven to be effective in assisting the unemployed to return to work either by stimulating the demand side of the economy or by increasing employability through education and training. See Cook (2008a) for a fuller discussion and review.

ALMP seek to address several, and sometimes conflicting, objectives. Therefore evaluations have studied a variety of issues including: costs, effectiveness, efficacy, net impact, efficiency, sustainability and issues of programme implementation (Dar and Tzannatos, 1999). In general there are 2 main programme effects of interest to researchers. Macroeconomic evaluations provide a superior measure of the general equilibrium effects (EC, 2006d). Macroeconomic evaluations seek to determine whether programmes provide a net social benefit by increasing aggregate output, stimulating job creation, reducing the unemployment rate or increasing the employment to population ratio. In addition, they may produce estimates of displacement, substitution and deadweight losses that reduce the net social benefit. As mentioned previously, deadweight loss occurs when participants gain jobs that they would have obtained without programme assistance, while substitution refers to participants being employed at the expense of others. However, there are a number of impediments to macroeconomic assessments. Data restrictions mean that there are often only a small number of observations (EC, 2006d). In addition there are technical problems such as multicollinearity of explanatory variables and simultaneity bias due to the endogeneity of some variables (EC, 2006d).

Microeconomic effects compare programme participants with non-participants with similar characteristics to identify whether programme participation increases earnings, employment rates and speed of transition out of unemployment, or reduces reliance on social welfare programmes (Heckman, Lalonde and Smith, 1999). While this may result in findings of significant positive impacts which may not translate to the macroeconomic level, nevertheless, as Webster (1998) points out, positive macroeconomic effects are unlikely in the absence of positive microeconomic effects.

There are several issues that must be addressed in the process of evaluating the performance of ALMP. These relate to the characteristics of the programme under investigation, objectives, selection process, and the timeframe for evaluation. Evaluation methods may be either scientific or non-scientific. Experimental scientific evaluations involve random assignment to treatment or non-treatment groups. Alternatively, and more frequently, evaluations are non-experimental since participants are not randomly selected (Dar and Tzannatos, 1999). Non-scientific evaluations rely on administrative data rather than random assignment to control groups to assess programme effectiveness and are therefore more limited. A major difficulty arising from non-experimental design is the likelihood of selection bias since the most motivated, and therefore more employable, may self-select to many programmes or be selected by providers seeking to maximise positive outcomes rather than to provide assistance to those who would derive the most benefit from participation (Webster, 1997).

There are a number of other difficulties relating to ALMP evaluations that may affect outcomes. First, many evaluations are conducted by the government department responsible for programme implementation rather than independent researchers, and the data is not publicly available. Second, evaluations that rely on surveys may be adversely affected by response bias. Lack of comprehensive administrative data is a third factor that may impact on the ability to select matched control groups. Heckman, Lalonde and Smith (1999) also caution that decentralisation may mean that programmes differ between regions, and from the national programme specifications. Another important issue relates to the tendency for evaluations to estimate mean effects that do not provide comprehensive information on the impact of individuals with different personal characteristics or those living in different labour markets. Thus, regional effectiveness may be disguised because outcomes by region are not reported. Finally, evaluations do not take into account other social benefits of effective programmes such as reductions in crime, substance abuse, or child welfare services, nor do they account for social costs associated with reduced leisure time, especially for women where the 'cost associated with their time away from home may be significant' (Heckman, Lalonde and Smith, 1999: 2044-45).

The evidence on the efficacy of ALMP as a tool for reducing unemployment or increasing earnings is often contradictory, confusing or inconclusive. This section attempts to bring together some of the evidence from evaluation studies acknowledging that '[t]here are also severe problems of interpretation with much of the empirical macroeconomic research and a lot of conflicting evidence from the microeconomic studies' (Calmfors, 1994: 36).

Evaluations have included a range of dependent variables, commonly employment and earnings, and the coverage of studies has ranged from a single programme in one country to comparisons between the efficacy of various types of programmes within or between countries. It is important to note that programmes have differential impacts on different demographic groups, between different locations and over time (Heckman, Lalonde and Smith, 1999), and the design of programmes is a critical ingredient for determining net impact (Fretwell, Benus and O'Leary, 1999; OECD, 2006). In addition, evaluations are affected by the econometric techniques used and the particular characteristics of programmes. These factors make generalisations about the efficacy of individual programmes difficult and results in contradictory findings and a situation where there 'seem to be as large differences in results within programme categories as between them' (Calmfors, 1994: 32). Moreover, the small scale of programmes in most countries demonstrated by the generally low expenditure and small number of programme places, and targeting of the most disadvantaged job seekers means that programmes are able to deliver only modest gains at best (Heckman, Lalonde and Smith, 1999).

Cook (2008a) reports on the international programme evaluation literature, presenting assessments of various programmes over recent decades. Job search programmes have been found to assist disadvantaged job seekers, particularly women and sole parents, but are not generally successful for youth. Evaluations of Public Sector Job Creation programmes have obtained mixed results. However, several analysts have found that they assist long-term unemployed and disadvantaged job seekers. Wage subsidies have been found to be one of the most effective labour market programmes in terms of increasing employment outcomes but have been associated with large deadweight and substitution effects (Fay, 1996; Gerfin, Lechner and Steiger, 2002). They are generally effective for disadvantaged job seekers, the long-term unemployed and women re-entering the labour market. Self employment programmes are effective for a small group of job seekers, usually relatively well educated prime age adults. However there is a high rate of business failure. In general, training courses are more successful for women, particularly those returning to the labour market. Training

programmes are less successful for men and youth, particularly those with low levels of educational achievement.

4.8 Conclusion

In general there has been an increased concentration on ALMP in the past few decades in line with the recommendations of international organisations such as the OECD and EU. During this time the trajectory of ALMP has shifted from an initial concern with job creation as the traditional post war response to unemployment that was seen to emanate from demand deficiency. Over time public sector job creation programmes became relatively less important in the suite of ALMP as the diagnosis of the cause of unemployment shifted from recognition of inadequate demand to the proposition that unemployment was rooted in supply deficiencies. In particular, the unemployed were viewed as lacking the necessary skills and abilities to obtain employment, or were labelled welfare dependent and unwilling to work.

In many countries job creation in the public sector has been replaced with punitive workfare schemes where the unemployed are expected to work in return for the equivalent of welfare payments. As public sector job creation lost ground there has been a greater reliance on the use of wage subsidies to generate additional employment, reflecting programme evaluation findings that the most successful schemes are those that are closely linked to private sector workplaces.

In the 1980s training programmes assumed increased importance as governments sought to train the unemployed to ensure that they acquired skills and remained part of the effective labour supply. Maintaining job readiness of the unemployed was expected to exert a moderating influence on inflation when economic activity increased since the unemployed could compete for new employment opportunities. As the emphasis of training courses changed, the proportion of vocational courses declined in favour of shorter and cheaper courses that focus on job search and employability skills. Since the ascendancy of the “work first” approach that prescribes getting people back to work as quickly as possible, the proportion of resources devoted to training courses has declined. The contractual relationship between the PES and the unemployed has shifted the responsibility for finding work more firmly onto the unemployed by including a growing list of ‘activities’ and ‘responsibilities’ into contracts with the threat of withdrawal of financial assistance in the event of non-compliance.

Training covers a wide variety of programmes; hence results are likely to vary by the type of course, content, duration, target group and labour market conditions. Unsurprisingly large-scale training programmes during periods of recession have generally not produced high employment outcomes because of a dearth of job opportunities when training is completed and the fact that participant’s skills and confidence levels ebb as the length of unemployment increases.

The evidence on the efficacy of various programmes for different target groups is mixed. Job search assistance usually helps most groups of unemployed. Public sector job creation programmes assist the most disadvantaged job seekers and may be the only effective assistance available. Employment subsidies have been found to be effective for women returning to the workforce and the long-term unemployed. Women are also assisted by formal and on the job training, provided they have strong relevance for the local labour market. However, these programmes are less effective for men. Self-employment schemes are valuable for only a small sub-set of the unemployed. In general, ALMP are of limited assistance to youth. Heckman, Lalonde and Smith (1999) conclude that ALMP have had

modest positive benefits at best and both the individual and social gains are small because the programmes are of insufficient scale.

Evaluations are fraught with many difficulties, particularly in non-experimental programmes when there is no guarantee that control groups are comparable to participants, or in situations where programmes are universally implemented. Many evaluations have concluded that programmes that more closely mimic actual work situations are the most effective. For this reason employment subsidies to private sector employers have been seen in a more favourable light than public sector job creation as a demand strategy even though such schemes are associated with substantial problems with dead-weight loss and substitution effects. However, attempts to generate large numbers of wage subsidy positions during periods of recession have often failed as was the case with the Job Compact in Australia in the 1990s. Moreover, simple comparisons between programme results can be misleading because the target groups differ substantially so that programmes are not necessarily substitutes.

Over the past 3 decades the issue of insufficient labour demand has not been emphasised in ALMP evaluations. One of the most important lessons from the experience with ALMP in OECD countries is that supply-side interventions in isolation are inadequate to address unemployment. There is evidence of poor employment outcomes for a variety of programmes in times of high unemployment. In addition, the persistence of regions of high unemployment indicates that there is an urgent need to develop more effective spatial policies.

5 Regional and local employment policies

5.1 Introduction

The previous chapter provided an overview of the use of ALMP; the primary weapon in an attempt to combat unemployment since the economic crisis of the 1970s. The major conclusion that can be drawn from this international experience is that ALMP has been unable to restore full employment in a constrained macroeconomic environment. Despite a prolonged period of economic growth internationally, full employment has not been restored. Even in countries reporting unemployment rates at their lowest levels in decades, particular geographical areas have experienced persistently high unemployment.

One of the problems encountered in the examination of regional disparities in GDP, employment or unemployment rates, is determining the appropriate 'region'. While it is generally agreed that the relevant territory should relate to functional labour markets, much of the economic data is gathered at an administrative level such as states, provinces or counties that have little relationship to functional areas. In Europe, regions are defined using the Nomenclature of Territorial Units for Statistics (NUTS) while, in the US and Australia, states are the main basis for determining regions. Thus, regions include large geographical areas with considerable variations in internal economic and labour market conditions and it is hardly surprising that significant intra- as well as inter-regional disparities exist.

The OECD (2005a) reports that GDP, unemployment and labour market participation exhibit a high degree of geographical concentration. In 2001, 10 per cent of regions in the OECD produced 38 per cent of GDP, and accounted for 37 per cent of unemployment and 33 per cent of the national labour force. The degree of concentration varied significantly between countries. Australia recorded high concentration levels for all three indicators and also exhibited large differences in growth rates. Performance in reducing unemployment displayed similar tendencies: between 1996 and 2001, 10 per cent of regions in Australia accounted for the entire reduction in unemployment (OECD, 2005a).

In addition, there is a high degree of persistence. Between 1993 and 2003, 3 out of 4 of the European regions with very low unemployment rates remained in that position as did regions with high unemployment rates (OECD, 2005a). Most of the changes in position were recorded by regions with unemployment rates in the intermediate range. The OECD (2005a) points out that if the unemployment rate in the regions with the highest unemployment rate in Australia fell by 1 per cent, it would reduce the national unemployment rate by 0.7 percentage points. The OECD concludes that the uneven spatial distribution of unemployment provides a justification for specific policies targeted to regions with high unemployment.

Importantly, the OECD stresses the primacy of labour demand by concluding that "All in all, demand-side factors thus seem to play an important role in accounting for regional disparities in employment rates" (2005: 83). The OECD has provided data on the variations in regional unemployment rates in OECD countries in 2003 (see Cook, 2008b for further details).

According to this data, Italy has the largest variation in regional unemployment rates. In the region with the lowest unemployment rate, unemployment stood at just 15 per cent of the national average, while in the region with the highest unemployment rate, unemployment was

almost 3.25 times the national average. Unemployment in the lowest unemployment region was only 21 per cent of the national average in Iceland and 27 per cent in Finland. High unemployment regions in Germany and Canada recorded unemployment rates two and one third, and two and two thirds higher than the national rate. In Australia the lowest unemployment region had an unemployment rate just over half the national rate while the unemployment rate in the region with the highest unemployment was 1.71 times the national average. The OECD analysis defines Australian regions by state and this disguises significant intra-state variations in unemployment rates.

This Chapter examines the trajectory of regional employment and development policies in the post welfare state period which has been marked by a retreat from demand oriented policies designed to promote balanced growth and an increased focus on assisting lagging regions toward the implementation of 'new regionalism' that emphasises the development of global competitiveness at a regional level.

5.2 What is new regionalism?

In recent years a range of strategies and institutional arrangements have emerged which highlight the importance of regional and local economic development and fit broadly under the rubric of 'new regionalism'. While there is no universal definition of 'new regionalism' it includes a number of features (Haughton and Counsell, 2004; Rainnie and Grant, 2004). The overriding principle is that space is important and that aggregate economic development is an insufficient condition to assure regional development and employment outcomes. Rather, coordinated regional policies pursued through a variety of institutional and funding arrangements are essential to promote balanced growth. Within the new regionalism literature concepts such as clusters, networks, partnerships, the knowledge economy, co-operatives, social entrepreneurship and social inclusion are prominent and intertwined.

According to Jessop (2004) the role of the state has fundamentally changed due to the advent of globalisation. His theory of the 'hollowing out' of the state posits that the Keynesian welfare state has been transformed into the Schumpeterian workfare state as a consequence of the internationalisation of production and financial markets. The regulatory control of nation states has been lost and state facilitation of the accumulation process has changed. Under the welfare state, national capital was geographically tied to the nation state and had an interest in the availability of a healthy, educated workforce. However, unfettered capital flows after the demise of Bretton Woods meant that production could be shifted to areas offering reduced costs due to lower labour, infrastructure or regulatory costs, or proximity to markets. Jessop points to the shifting of some nation-state responsibilities to supra-national organisations such as the EU, while other functions have been devolved to sub-national spheres such as regional levels.

The latter development is consistent with the view that the traditional welfare state functions have been retrenched through the implementation of neo-liberal policies by the nation-state that include abandonment of the commitment to full employment and a withdrawal from functions such as provision of infrastructure. In this new scenario, the state focuses on the attraction and retention of mobile international capital and increasing international competitiveness at the expense of coordinated policies to promote balanced growth. Jessop's theory identifies common interests at a regional level as regions compete in the global market.

As noted, the emergence of new regionalism is closely associated with globalisation. The coexistence of regions that have been successful in the global economy and regions that failed to prosper, motivated an examination of factors contributing to successful adaptation to the new conditions and focussed attention on several 'successful' international regions such as

Silicon Valley in the US, Baden-Württemberg and Emilia Romagna in Europe. Proponents of new regionalism claim that:

...the nation state has been (or should be) displaced by regions both as a source and a locus for policies aimed at promoting institutional collaboration, organizational learning; policies facilitated by political devolution of authority for management and coordination to local governments. Accordingly, macroeconomic policies are deemed to be irrelevant for regions that can increasingly rely on inward flowing foreign direct investment, on the one hand, and the international export of goods and services, on the other (Juniper, 2006: 6).

Thus globalisation is credited with decoupling regions from national macroeconomic settings. Clusters are viewed as the drivers of economic growth through networking activities that facilitate provision and sharing of market information, research and development and skills and knowledge transfers within a region (Goodwin *et al.*, 2002).

In a related development, there is a shift from government to governance along the lines advocated by Osborne and Gaebler (1993) of 'steering not rowing'. Regional delivery of labour market policies and service delivery are viewed as superior to national policies that were the norm during previous time periods. New policies include the withdrawal of national governments from service provision in favour of devolution to lower tiers of government, place management approaches managed by local branches of government departments in partnership with business and non profit agencies, or contracting out to the private sector. Within this model, community development is to be achieved by the promotion of social enterprises, self-employment and small business development, training and work experience (Beer, Maude and Pritchard, 2003).

5.3 Clusters

5.3.1 Overview

In the forefront of the new regionalism phenomenon is the concept of industry clusters that have been promoted as the driving force for economic and employment growth through a dynamic process of competitiveness, productivity and innovation. Clusters came to prominence due to Porter's 'diamond of competitiveness' comprising: firm strategy and rivalry; demand conditions; related and supporting industries; and factor conditions (Porter, 1998a, 1998b). Competitiveness is determined by the degree of development and intensity of the interaction of these four components, and is enhanced when firms are clustered. Porter proposed that clusters occurred in locations that provided superior competitive opportunities in relation to these four components. Clusters vary in size and composition; they can comprise predominantly small to medium firms, a mixture of large and smaller firms, specialise in high-tech or traditional industries, or have a mixture of high and low technology manufacturing and service companies.

Porter defined a cluster as:

a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities. The geographic scope of a cluster can range from a single city or state to a country or even a network of neighboring countries (Porter, 1998b: 199).

Clusters include a range of industries that are important to competition including suppliers of raw materials, capital equipment, financial and business services, educational and research institutions. The two core elements of clusters are geographical proximity and that firms must

be linked in some way (Martin and Sunley, 2003; Malmberg and Power, 2006; Simmie, 2006).

Arnould and Mohr (2005) list the characteristics of clusters:

- Forward, backward and horizontal economic and social linkages;
- Geographic circumspection;
- Innovative products;
- The capacity to generate new firms within the cluster;
- Active and passive efficiencies in the flow of information, ideas, and technology; and
- Shared behavioural norms.

The process of cluster development is explained by Belussi (2006). Locations with favourable conditions of competitiveness initiate growth and attract new business to the area attaining critical mass. The initial cluster is then reinforced by the institutional system that is conducive to growth and the extensive co-operation between firms produces network benefits that enforce further growth.

According to Rosenfeld (1997), access to raw materials, capital equipment, education and training facilities, a skilled labour force, specialised services and finance are essential factors for successful operation of clusters. In addition, he emphasises the importance of: entrepreneurial activity in the form of business start-ups and attraction of needed firms; innovation to develop and adopt new technology; social infrastructure such as business associations, to facilitate effective networking; and a shared vision and strategy for maintaining competitiveness.

5.3.2 Benefits of clusters

Proponents claim clusters can raise productivity, innovation, competitiveness, profitability and job creation of participating firms, regions and the national economy (Martin and Sunley, 2003), as well as increase wages and the rate of firm formation (Henry, Pollard and Benneworth, 2006). Porter (1998b) states that clusters enhance productivity through access to specialised inputs and employees, access to information, complementarities between products of firms within the cluster, access to institutions and public goods and rivalry. Clusters are also credited with assisting firms to understand new consumer needs and management practices, concentrate knowledge and information, thereby facilitating assimilation of new technology, and foster ongoing relationships with institutions such as universities (Simmie, 2006).

Beneficial effects of clusters include reductions in transaction costs, transmission of contextual and tacit knowledge (Wolter, 2004), and are delivered through both passive and active processes. However, the major avenue for positive cluster effects is active participation through networks and relationships with other firms in the cluster to enhance innovation. It is also claimed that networks enhance opportunities for interactive learning through face-to-face contact by providing opportunities for direct observation of competitors and exploitation of collective knowledge (Bell, 2005; Malmberg and Power, 2006). For elaboration of these benefits, see Cook (2008b).

5.3.3 Towards a typology of clusters

Martin and Sunley (2003) argue that the diversity of the size and composition of clusters, combined with differences in organisation, dynamics and development paths are at odds with Porter's attempt to fit the theory to all clusters. This has important policy implications since

Porter proposes that cluster theory provides governments with effective policies to secure economic development.

Asheim, Cooke and Martin (2006: 4) contend that Porter's cluster theory is only one of several perspectives on the role of localisation as a source of increasing returns, with 'each having different theoretical foundations and employing different terminology'. Cook (2008b; Table 1) lists five different cluster theory perspectives described by different authors, whereby each perspective consists of a number of varying types.

Martin and Sunley (2003: 13) contend that typologies should 'be based on in-depth comparative analyses of cluster profiles and processes.' Paniccia (2006) contends that a typology must have predictive and explanatory power and the types must have internal coherence and be self-reproducing.

5.3.4 Identifying clusters and evaluating performance

A difficulty flowing from the absence of a universal definition of clusters is that identification, and therefore evaluation, becomes problematic. In addition to the lack of clear boundaries, both industrial and geographic, the threshold for the strength of relationships is not specified (Martin and Sunley, 2003). Simmie (2006) contends that cluster theory provides no *a priori* criteria that can identify cluster boundaries. Porter (1998b) suggests that the constituent parts of clusters can be identified by starting with an individual firm or a concentration of similar firms and then identifying vertical and horizontal linkages with other firms, institutions, that provide specialised services, and regulatory bodies.

Two major evaluation strategies have been employed; a macro approach that defines clusters using data relating to industry share, relative wages and growth rates, and a micro approach that starts with individual firms and examines their relationships with other firms in the geographical area. Martin and Sunley (2003) explain that top-down identification of clusters can be approached by selecting internationally competitive industries and constructing input-output tables to determine the trading linkages, or by focussing on a sub-set of industries regardless of whether they are internationally competitive. Analytical frameworks including top-down (Henry, Pollard and Benneworth, 2006) and bottom-up (Anderson, 1994; Mayer, 2005) approaches (see Cook, 2008b: Table 2).

Using the top-down approach Henry, Pollard and Benneworth use location quotients and input-output analysis to identify possible clusters. They then investigate a range of conditions and systems operating in the area: socio-economic characteristics, labour market conditions, knowledge systems and institutions, to confirm the existence of a cluster. Competitiveness of the cluster is then measured by comparing the performance of firms within and outside the cluster.

Martin and Sunley (2003) caution that the top-down approach contains several potential problems. The use of standard industrial classifications and geographical boundaries rarely coincide with the reality of the clustered activity. Over-identification of clusters occurs if the geographical area is too small, while cluster activity may be obscured if the area examined is too large. Further, they comment that there is no agreement on the degree of spatial concentration that constitutes a cluster and the top-down approach provides a shallow view with little insight into the 'nature and extent of inter-firm linkages (traded and untraded), knowledge spillovers, social networks and institutional support structures argued to be the defining and distinctive features of clusters' (Martin and Sunley, 2003: 21).

The bottom-up approach involves identifying the geographical area where economic activity takes place. Mayer (2005) then identifies the key industry partners such as industry and trade

associations, research institutions, developers, venture capitalists and other service providers. The next step involves quantitative analysis to identify potential clusters based on the theoretical attributes of clusters. Locational quotients identify the proportion of industry employment in the region compared to the national employment share in that industry. Clusters should exhibit a locational quotient greater than 1. Similarly, if a cluster exists, wages and the growth rate would be expected to be higher than the national average. A comparison of location quotients and employment growth rates provide an insight regarding the type of agglomeration under investigation. Mayer (2005) explains that areas with high location quotients and high employment growth rates, are clusters that enjoy competitive advantage and are likely to export their products to other regions. In contrast, areas with high location quotients but low employment growth rates exhibit a dominant position but are not experiencing significant growth. A combination of low location quotients and high employment growth rates indicates that the products of the region are in demand and may signify potential emerging clusters. Finally, those areas with low locational quotients and low employment growth rates are not clusters.

Quantitative analysis does not capture all the firms that are part of the cluster, especially firms providing professional services (Mayer, 2005). Therefore, qualitative analysis in the form of interviews to elaborate relationships is required to provide richer data to validate and refine clusters. After identification, the performance of clusters relative to other areas can be evaluated by examining economic and wage growth, knowledge creation, venture capital investments, new firm formation and labour market skills and education levels. Mayer (2005) suggests that policies or actions to improve performance may be developed in collaboration with the key partners in the cluster and national, state and local governments. This proposal accords with Porter's assessment that cluster theory provides a policy tool for managers and governments (Porter, 1998b). However, it is necessary to examine inherent problems and limitations of clusters.

5.3.5 Problems and limitations of clusters

Any assessment of clusters needs to counterbalance the proposed benefits outlined previously with potential risks. The major negative consequences of successful clusters are congestion, escalating prices for land, labour and services (Martin and Sunley, 2003; Henry, Pollard and Benneworth, 2006; Maskell and Kebir, 2006; Swann, 2006). The attraction of firms and workers to the geographical area puts pressure on transport systems, resulting in congestion and the necessity to increase infrastructure investment. Competition among firms bids up prices for inputs, property, and services, increases wages and housing costs. Benefits accruing to the cluster should be balanced against negative distributional consequences since certain individuals or industries within the area as well as rural and regional areas may be excluded from the benefits (Asheim, Cooke and Martin, 2006; Henry, Pollard and Benneworth, 2006; Swann, 2006).

Some claim that several other issues arise as clusters mature. For example, some claim that clusters have a life cycle; economies of agglomeration erode over time; waning competitiveness leads to decline so that it is difficult to arrest; firms may shift to low cost countries or regions; or that clusters may be adversely affected by external shocks such as technological change. Again, Cook (2008b) discusses these issues in greater detail.

5.3.6 Critiques of cluster theory

Porter claimed that the major function of clusters is to contribute to national competitiveness and subsequently asserted that export-oriented clusters drive regional prosperity (Simmie, 2006). Porter (1998a) proposes that national, state and local governments develop policies to

reinforce existing or nascent clusters by investing in the creation of specialised factors such as education and training centres and specialised infrastructure. In particular, he recommends that regional development policies for disadvantaged regions adopt this approach rather than policies that attempt to lure firms to an area by offering subsidies which are generally ineffective in creating competitive advantage. Similarly, Nooteboom (2006: 160) endorses facilitation of cluster development by ‘giving a nudge here and there’ but warns that policies that may be appropriate at one stage of cluster development may be counter-productive at another.

Other potential problems to be confronted include developing a strategy to integrate clusters into national and international networks, maintaining the benefits accruing from co-operation without becoming bureaucratic, and the difficulty of sustaining growth in fledgling clusters (Asheim, Cooke and Martin, 2006).

Cluster theory has been the subject of critiques on several grounds. Some accept that clusters make a valuable contribution to economic growth but contend they have been oversold and should be considered as ‘a’ policy option rather than ‘the’ policy (Martin and Sunley, 2003; Henry, Pollard and Benneworth, 2006). Several other authors also provide critiques.

More substantial challenges exist to the proposition that cluster promotion constitutes an effective policy instrument for stimulating regional economic and employment growth. Importantly, cluster theory ignores the importance of aggregate demand and conforms to supply-side prescriptions emanating from neo-liberal economic policy. Mitchell and Juniper (2005: 20) point out that by ignoring the macro-economy, new regionalism accepts and reinforces neo-liberalism.

Other issues arise such as significant confusion being generated by the lack of clarity and definition in cluster theory and that cluster theory assumes causation runs from clusters to productivity, competition and economic growth. We refer the reader to Cook (2008b) for further elaboration.

5.4 Regional and local development strategies

An integral component of the ‘hollowing out of the state’ thesis is the decentralisation or devolution of regional development and employment policies to lower levels of government, non-government organisations or individuals. These measures have involved the transfer of responsibility for provision to lower levels of government or newly created regional agencies with or without the transfer of resources to perform the task. As a consequence there is a danger that national governments may absolve themselves of responsibility and jeopardise service delivery by state or local governments that are financially constrained. There has also been a large degree of supra-national involvement in regional development, particularly through the EU structural funds.

According to Beer, Maude and Pritchard (2003), regional development strategies can be classified as institutional, supply-side, or demand-side. Supply-side strategies primarily aim to enhance the business environment. Provision of physical infrastructure such as road, rail, ports, and telecommunications are important for business efficiency. In addition, human capital development can supply a skilled workforce and enhance profitability, while improvements to local services may attract skilled workers.

Economic efficiency may be enhanced through business advice, mentoring and networking (Beer, Maude and Pritchard, 2003). Governments have attempted to entice businesses to particular regions or countries through the controversial strategy of ‘corporate welfare’ through the provision of tax exemptions, subsidies or reduced infrastructure charges. Beer,

Maude and Pritchard (2003) argue that this industrial recruitment strategy has failed, but persists due to political expediency; the chances of succeeding in attracting business are low, but the kudos for success is high.

Demand-side policies focus on marketing the region through initiatives such as advertising campaigns, the development of a regional website, attendance at trade fairs, hosting events, or 'Main Street' programs to encourage patronage of local businesses (Beer, Maude and Pritchard, 2003). Another strategy is to foster the development of new value-adding industries to process the region's products, contribute to economic diversification and skill formation.

As mentioned previously, full employment policies were abandoned following the economic crisis of the mid 1970s. Subsequently there was widespread adoption of neo-liberal policies: fiscal restraint, inflation targeting, labour market deregulation and the opening up of profit-making opportunities in areas previously outside the ambit of the market. The latter included essential services, in particular education, health and social services. The promised 'trickle-down effect', whereby neo-liberal policies were supposed to deliver economic growth and international competitiveness, with the benefits flowing to those displaced from the labour market or disadvantaged by economic restructuring, failed to materialise.

Decades of entrenched high levels of unemployment and underemployment, combined with retrenchment of income support and social service provision, resulted in high levels of social exclusion. As the legitimacy of neo-liberal policies was increasingly threatened, social democratic parties developed the Third Way to 'transcend both old-style social democracy and neo-liberalism' (Giddens, 1998: 148).

Third Way advocates accept the necessity for neo-liberal economic policies and use the existence of social exclusion and disadvantage to argue for the adoption of supply-side policies of inclusion, primarily in the form of workfare and local initiatives to generate employment.

The OECD defines local development as a:

bottom-up attempt by local actors to improve incomes, employment opportunities and quality of life in their localities in response to the failure of markets and national government policies to provide what is required, particularly in underdeveloped areas and areas undergoing structural adjustment (OECD, 2001c: 22).

Local development is viewed as a complement to national and supra-national programmes that can "significantly reduce unemployment and inequality" (European Commission, 2004b: 1). Local employment strategies have been promoted and supported by direct EU funding or participation in pilot projects with other international partners through initiatives such as the Local Employment Development Action Programme, Territorial Employment Pacts, and the Third Sector and Employment Programmes (European Commission, 2004a).

There are four major objectives of local employment strategies (European Commission, 2004a).

1. Local policies aim to create new jobs by promoting the location to inward investors, encouraging new business creation including self-employment and social enterprises, and identifying employment opportunities in adjoining areas that could be accessed by local job seekers;
2. Policies to address the employability of the labour force. Strategies may include training the unemployed to meet the skill needs of local industry or identifying future skill needs and implementing training programmes to ensure the adequate supply of skilled labour. Other initiatives include recognition of skills and abilities, creation of

‘intermediate’ labour market positions to assist disadvantaged groups in the transition to work, or encouraging inward commuters;

3. Assisting people to return to work by providing ancillary services such as child care, better labour market information, transport or forums for employers and job seekers; and
4. Assistance to the most disadvantaged will reduce inequality. These can be achieved by designing jobs that are suitable for disadvantaged job seekers, intensive job search assistance and encouraging employers to consider these job seekers by breaking down skill or attitudinal barriers.

The OECD examination of local development stressed that it is not possible to identify a ‘single model of best practice’ due to the range of initiatives that have been adopted at different times across diverse areas (OECD, 2001c: 29). Table 5.1 summarises the OECD outline of the essential components of best practice in local development, including the motivation behind local development, strategies, operational structures, evaluation methods and the consideration of transferability of local development initiatives to other areas (OECD, 2001c). Table 5.1 corresponds to Table 3 in Cook (2008b) which provides a detailed description of the components.

5.5 Social entrepreneurship

Social entrepreneurship (SE) is promoted as the solution to regional development and entrenched unemployment. The concept of social entrepreneurship emerged in the 1990s and has been promoted as a means of addressing regional disadvantage but has also been widely criticised or given qualified approval. It embraces a myriad of activities by innovative organisations (Austin, 2006; Mair and Noboa, 2006; Perrini and Vurro, 2006), who use business techniques to attain social goals (Latham, 2001: 23; Haugh, 2006).

In order to understand social entrepreneurship it is necessary to examine why it happened, what it is, and whether it represents an adequate response to the employment and social needs of communities. The literature identifies two related causes for the development of SE:

- Response to the retrenchment of state welfare provision in a period of increasing need due to persistently high levels of unemployment and significant demographic change (Cook, Dodds and Mitchell, 2003; Roper and Cheney, 2005). In addition, Wallace (1999) comments that provision of some products and services by social entrepreneurs is the result of withdrawal of the private sector.
- Reaction to the increased competition in the non-profit sector for limited funding opportunities, combined with moves away from untied funding to financing tied to performance of government-identified functions (Eikenberry and Kluver, 2004), especially with the advent of contracting out of services previously provided by the public sector. The development of for-profit activities by the non-profit sector has blurred the division between the private and third sectors.

A social enterprise has been defined as:

any business venture created for a social purpose—mitigating/reducing a social problem or a market failure—and to generate social value while operating with the financial discipline, innovation and determination of a private sector business (Alter, 2006: 5).

Table 5.1 Best practice in regional, local and community development

Motivation	Strategies and actions	Operational Structure and methods	Evaluation	Transferability
Stimulation of economic development and restructuring <ul style="list-style-type: none"> ▪ Creating jobs, raising incomes and encouraging structural change 	Development of strategy <ul style="list-style-type: none"> ▪ Shared vision ▪ Territory and timetable ▪ Resource commitment ▪ Development agency ▪ Strategic audit 	Partnership <ul style="list-style-type: none"> ▪ Community support ▪ Roles for each actor ▪ Results orientated ▪ Maintain autonomy ▪ Communication ▪ No one model of partnership-vary with local conditions 	Statement of rationale Statement of objectives Monitoring expenditure, activities and output Procedures Assessment of impacts <ul style="list-style-type: none"> ▪ Quantitative ▪ Qualitative 	Challenges and issues <ul style="list-style-type: none"> ▪ Identify best practice ▪ Bottom-up policy makes policy transfer difficult ▪ Resistance to change ▪ Weak institutional structures.
Encouraging social progress and improving quality of life <ul style="list-style-type: none"> ▪ Improving community facilities and services and combating social exclusion 	Evolution of strategy <ul style="list-style-type: none"> ▪ Foundation stage ▪ Using the know-how ▪ Self-sustaining development 	Professional management and local development workers <ul style="list-style-type: none"> ▪ Manage funds ▪ Local workers to promote strategies 	Assessment of processes Consider Alternatives Establish feedback mechanism	What is transferable? <ul style="list-style-type: none"> ▪ Methods, techniques, know-how and operating rules
Conserving and enhancing the environment				Conditions for exchange <ul style="list-style-type: none"> ▪ Enterprising and innovative people ▪ Viable activities ▪ Adapt programmes to local conditions ▪ Local development networks ▪ Identify recipients
Improving governance <ul style="list-style-type: none"> ▪ Strengthening institutions ▪ Community involvement 	Identification of actions <ul style="list-style-type: none"> ▪ Job creation ▪ Training ▪ Flagship initiative 	Visible and autonomous structure Leadership Mobilisation of local population		

Source: OECD, 2001c; European Commission, 2004b.

Dees (2001) defined social entrepreneurs as change agents in the social sector who: create and sustain social value; pursue opportunities to serve their mission; engage in continuous innovation, adaptation and learning; act boldly; and have a heightened sense of accountability to their constituents. Martin and Osberg (2007) characterise entrepreneurs as individuals who are inspired to alter an unpleasant equilibrium, and demonstrate courage and tenacity in implementing innovative and risky strategies.

In addition, Botsman (2001) defines direct community participation and attacking the fundamental causes of problems as an essential component of social entrepreneurship. Martin and Osberg (2007: 31) insist that any definition of social entrepreneurship must start with a clear conception of 'entrepreneurship' and then determine how the 'social' component moderates this. They state:

Entrepreneurship describes the combination of a context in which an opportunity is situated, a set of personal characteristics required to identify and pursue this opportunity, and the creation of a particular outcome.

Most commentators agree that the primacy of social benefit is what differentiates social entrepreneurs from other entrepreneurs; they seek profit-making opportunities as a means of achieving their social mission (Dees, 2001; Alter, 2006; Perrini and Vurro, 2006; Martin and Osberg, 2007). Cook (2008b) provides and discusses a typology of social enterprises.

There are significant benefits that accrue from SE. The major advantage is the additional funds that are available to achieve the objectives of the organisation. In addition to these benefits, the quality of services to the community may be enhanced because social entrepreneurs may be trusted and welcomed into disadvantaged communities and because they can design more flexible services than government departments. The introduction of a business culture and management techniques is claimed to increase innovation, efficiency and cost effectiveness (Eikenberry and Kluver, 2004; Roper and Cheney, 2005; Alter, 2006). However, Eikenberry and Kluver (2004: 135) caution that these benefits are 'at the expense of the nonprofit sector's role in creating and maintaining a strong civil society – as value guardians, service providers and advocates, and builders of social capital – may well be too high a price to pay.'

Nevertheless there are fundamental issues that must be discussed in relation to social entrepreneurship. At the very least business risk taking and the non-profit model that concentrates on social values, community participation and advocacy for disadvantaged groups, make odd bedfellows (Cook, Dodds and Mitchell, 2003; Eikenberry and Kluver, 2004; Roper and Cheney, 2005; Cho, 2006). The first issue that must be considered is the effect of entrepreneurial activities on the organisation's mission. Engaging in SE runs the risk of prioritising the bottom line rather than social objectives. In addition, the demands of running a business may force organisations to divert resources from service delivery or advocacy. A more insidious consequence could be the gradual erosion of the culture of the organisation as a result of the adoption of business methods. On the one hand, staff may lose confidence in the organisation's commitment to service delivery and leave the organisation. On the other hand, over time staff inculcated with the necessity to generate revenue may change their attitude to the organisation's original ideals. The use of business methods may erode the very characteristics that made these organisations effective in achieving outcomes.

Second, involvement with contracted services previously delivered by the public sector endangers autonomy of the social enterprise (Cook, Dodds and Mitchell, 2003; Eikenberry and Kluver, 2004). Organisations entering into these arrangements are obliged to comply with strict contract requirements. In an environment where disadvantaged groups are blamed for not being self-sufficient due to inherent personal failings, the potential exists for the

transformation of organisations with long histories of assisting disadvantaged groups; into enforcers of repressive policies detrimental to the very clients they seek to assist. For organisations engaged in service subsidisation, and particularly organisational support, it is conceivable that staff from different sections of the same organisation could be engaged simultaneously in assisting and punishing the same client. Moreover, reliance on contracts for financial resources undermines the ability or willingness of social entrepreneurs to act as effective advocates or criticise government policy. Another threat to autonomy comes from partnerships with the private sector where social entrepreneurs promote business using their relationship with the community (Cook, Dodds and Mitchell, 2003).

Thirdly, social entrepreneurship is overwhelmingly presented as an unmitigated good in relation to employment outcomes. Small programmes with employment outcomes are frequently portrayed as a blueprint for significant employment creation through duplication. This approach neglects the fact that these projects are not necessarily generalisable. In addition, the possibility of a negative impact on private sector employment is usually ignored.

A major issue rarely broached in the social entrepreneurship literature is the transformation of the relationship between the state and individual citizens (see Cook, Dodds and Mitchell, 2003). The welfare state ensured delivery of certain services as a right of citizenship or acknowledging societal responsibility to citizens wellbeing (Jamrozik, 2001). Advocates of social entrepreneurship promote initiatives designed and implemented at the community level, according to priorities developed at the community level. This approach presupposes that determining 'society's' interest is uncontentious; the potential for 'discord between sections of the community with divergent priorities, including intolerance of minorities' (Cook, Dodds and Mitchell, 2003: 66) is ignored. Everingham (2001) points out that transferring responsibility for social provision to communities absolves government of responsibility.

SE is based on two false premises (Cook, Dodds and Mitchell, 2003). The first is the failure to understand causes of unemployment. Acceptance of the non accelerating inflation rate of unemployment (NAIRU) proposition, that attempts to stimulate employment above the natural rate, generates inflation but has no long-term impact on employment levels, results in abandonment of expansionary macroeconomic policies to combat unemployment and provides support for supply-side policies that attribute unemployment to inherent deficiencies in the unemployed or labour market rigidities. The modern monetary framework summarised in Chapter 3 provides the conceptual structure for understanding the deficiencies of SE in this regard (see also Mitchell and Muysken, 2008). The second misconception is that expansionary Keynesian policies are no longer possible because of 'what has become known as the fiscal crisis of the welfare state – that is, the gap between the revenue raising capacity of an internationally competitive taxation regime and the public outlays required to fund social democratic programmes and the local costs of economic adjustment' (Latham, 1998: 31).

As mentioned previously, the rise of SE is attributed to the decline in welfare state provision and social entrepreneurs are portrayed as proactive, innovative individuals (organisations) who (which) seek to mobilise the resources necessary to fill the void and overcome disadvantage in communities. Advocates of SE claim that it gets to the root causes of problems (Botsman, 2001; Dees, 2001). In reality, SE becomes an activity that provides the illusion that problems are being adequately addressed while governments continue with neo-liberal policies.

SE provides opportunities for expanding social services through the use of entrepreneurial methods. However, it does not compensate for the retrenchment of services previously provided by the public sector and is not capable of creating enough jobs to deliver full employment. One major problem with the promotion of SE is that it becomes a vehicle for

assisting governments intention on retrenchment to cover over the withdrawal of services and shift responsibility to the community and individuals. For the social entrepreneur, there is the danger that the adoption of business techniques may divert resources from their central mission and bring about a change in the organisational culture that causes services to deteriorate. In short, social entrepreneurship cannot be distinguished from neo-liberalism and does not represent a viable solution to the problem of unemployment which is caused by systemic failure rather than the failings of individuals.

5.6 International regional policies

5.6.1 Overview

Regional policies are predicated on the belief that interventions are necessary to deliver acceptable outcomes in terms of convergence in economic and employment growth between regions. This section considers the major thrust of regional policy in the United States and Europe. In the United States the emphasis is firmly on improving regional competitiveness. In Europe these objectives are moderated by a concern for addressing regional disparities as an important component of regional economic and social development (SGS Economics and Planning, 2002).

5.6.2 Regional Policy in the United States

Governments in the United States have traditionally played a minimalist role in regional development with the exception of attempting to address market failures, although there have been interventions to address persistent unemployment, poverty and regional disparities (Bureau of Transport and Regional Economics, 2003). During the depression in the 1930s the government provided extensive job creation schemes centred around provision of infrastructure to sustain the large unemployed population. Since the 1960s there have been several phases of regional policies. Economic Development Districts were established in the mid 1960s to provide infrastructure funding and community development loans due to persistent regional disparities (Bureau of Transport and Regional Economics, 2003). The Districts operate through partnerships of local officials, business and community representatives in cooperation with state and federal government departments.

The roles of state and local governments in regional development have changed over time. The emphasis has moved from provision of infrastructure to a wider range of activities to encourage the establishment and expansion of business in the region. Initiatives have included 'pro-business tax systems, state sponsored enterprise or development zones, assisted loans, and direct grants for business training and community partnerships' (Bureau of Transport and Regional Economics, 2003: 43). Government have fostered the development of industry clusters to promote regional development. Strategies to improve competitiveness include: transport and infrastructure provision; research and technology incentives; trade promotion and market development; tax and regulatory incentives; education and workforce development; financing assistance; economic and community revitalisation; and, business development and attraction initiatives.

Promotion of industry clusters

Important industry clusters have been identified in San Francisco, Phoenix, North Virginia, San Diego, Seattle, Salt Lake City, Denver, Austin, Atlanta and Boston. While there is no federal cluster development programme in the US, several federal departments became involved in cluster activities. Economic Development Administration research had identified the importance of clusters in innovation and economic development and initiated programmes to encourage innovation and entrepreneurship in depressed regions. It has also realigned

funding to concentrate on developing economic regions and improving regional competitiveness through collaboration and innovation (OECD, 2007). The American Competitive Initiative seeks to increase R&D investment from US\$10 billion to US\$20 billion over a 10 year period and a Research and Experimentation tax credit will encourage private sector expenditure (OECD, 2007). In addition, the Workforce Innovation in Regional Economic Development (WIRED) programme will provide US\$195 million over 3 years to assist lagging regions affected by global trade to develop strategies involving public, private and community partnerships. The Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programmes also enable SMEs in high technology clusters to access funding.

Cluster initiatives are supported at the state level. OECD (2007) details developments in Georgia. Georgia has a number of programmes that support cluster development. The Georgia Research Alliance (GRA) is a private-sector organisation that commenced in 1990 and distributes state R&D funds to collaborative research projects in science and technology. It includes academics, research centres, business incubators and centres of innovation. There are six partner universities and hundreds of firms involved with the GRA. The alliance supports Technology Development Centers that assist emerging companies to access R&D resources of universities and refine the commercial potential of technology being developed. GRA supports development of technology through VentureLab which has pre-incubator services to identify the commercial potential of technology developments. In addition, the GRA Innovation Fund provides grants for projects in advanced computing and communications, bioscience and nanotechnology (OECD, 2007). In addition to the GRA programmes, Georgia also runs the Centers of Innovation programme to support innovation in industries outside the ambit of GRA such as aerospace, agriculture, life sciences and maritime logistics. The Intellectual Capital Partnership Programme provides linkages between the academic and business communities to ensure access to the latest research and business advice.

Local employment development policies

Deprived urban areas have been a major focus of place-based policies since the mid 1960s Community Development Block Grants (Bureau of Transport and Regional Economics, 2003). During the 1980s most states initiated enterprise zones to attract business investment in specified areas by offering tax advantages in return for job creation (Krupka and Noonan, 2008). There were over 1500 enterprise zones operating in 35 states by the late 1980s (Oakley and Tsao, 2007).

In 1994 the Clinton Administration announced a similar federal programme, with the creation of Empowerment Zones / Enterprise Community Sites for depressed urban and rural areas (Krupka and Noonan, 2008). Empowerment Zones were designed to stimulate employment, encourage economic self-sufficiency and revitalise economically distressed areas by providing financial incentives to firms and federal funds for community development. Empowerment Zones have operated in the era of welfare reform emanating from the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 and the number of Empowerment Zones has increased over time.

Empowerment Zones received a block grant of \$100 million over a period of 10 years and were also eligible for \$150 million federal tax credits (Rich and Stoker, 2007). Employers in Empowerment Zones are eligible for an annual tax credit of \$3,000 for each employee who lives and works within the Empowerment Zone. An additional credit of \$2,400 is available for the first year of employment of each 18-39 year old employee who lives in the Empowerment Zone. Businesses are eligible for deductions of up to \$35,000 for equipment purchases. Other incentives include low interest bonds issued by local and state government for construction

projects and no interest bonds for public school programmes. See Cook (2008b) for details of specific empowerment zones.

Several reasons have been put forward as possible explanations for the limited success of such policies. Some have commented that tax incentives have not been generous enough to overcome other perceived locational disadvantages for business while others have suggested that positive benefits for new firms have been counter-balanced by negative effects for existing firms (Krupka and Noonan, 2008). In addition, the fact that most job growth in enterprise zones is attributable to existing business, suggests that new business development may require initiatives such as business incubators, technology transfer programmes or assistance with obtaining finance (Bureau of Transport and Regional Economics, 2003). Another major finding of evaluations is that improvements in Empowerment Zones are not necessarily attributable to the programme (Rich and Stoker, 2007).

Social entrepreneurship in the United States

The US was a pioneer of the use of the non-profit sector as a delivery mechanism for government programmes dating back to the 1970s (Young, 2003). The turn to neo-liberalism by the Reagan government in the 1980s severely restricted funding of non-profit organisations and initiated a search for financial security through self-funding, a process that was to become known as social entrepreneurship, as earned income became the main source of revenue, outstripping government grants and donations (Young, 2003). The non-profit sector currently has involvement in a wide range of industries.

The sector currently employs 8.4 million workers and accounts for 5.2 per cent of GDP (Wolk, 2007). Advocates of social entrepreneurship acknowledge that its impact on meeting need is 'limited by its ability to sustain or scale initiatives' and suggest a closer relationship with governments and the private sector to obtain the financial resources necessary to solve the serious social problems confronting the US (Wolk, 2007: 13). Governments currently support social entrepreneurs by: encouraging social innovation by providing seed funding; creating an enabling environment by removing barriers and supporting collaboration; rewarding performance through financial support; scaling initiatives' success by funding programmes at other sites; and producing knowledge about problems and solutions that enhance social entrepreneurs' efforts (Wolk, 2007).

More recently the non-profit sector has been in direct competition with the for-profit sector in a range of services such as child care, family services and job training, including competition for government contracts. Non-profits have also formed associations with for-profit businesses that have provided financial assistance such as grants and scholarships and in-kind resources such as employee volunteer programmes. KaBOOM provides quality playground equipment to underprivileged communities by partnering with major companies that provide donations, service fees and employee volunteers in return for corporate team-building and social marketing by KaBOOM (Wolk, 2007).

There are dangers for the non-profit sector as organisations increasingly resemble for-profit organisations. Dedication to making profits from commercial activities, and the increasingly corporatised management model, risk the loss of the very attributes that set the non-profit sector apart and endanger the primacy of the mission.

5.6.3 How successful has regional policy been in eliminating spatial disparities in unemployment rates in the US?

Beer (2004) claims that regional policy is more developed in the US than in Australia. Dedicated local government tax revenues can be used for economic development with

advantages of scale and a strong focus on meeting business needs. Regional policy is geared to attracting business to the region and developing marketing opportunities in other regions of the US (Beer, 2004).

Nevertheless, regional employment and development policies have not proven capable of eliminating regional disparities in employment. An examination of demand shocks in the United States over 40 years to 1990 found that most of the adjustment following an adverse shock is due to out-migration, rather than job creation or attracting firms to the location (Blanchard *et al.*, 1992).

In March 2007 unemployment rates in the US varied considerably from the national rate of 4.4 per cent. Unemployment was highest in Mississippi (6.9 per cent) and Michigan (6.5 per cent) and lowest in Montana (2.0 per cent) and Utah (2.4 per cent).

5.6.4 Regional policy in the European Union

EU regional policy is premised on reducing disparities in economic growth and labour market access as the way to address social exclusion, reduce bottlenecks and inflationary pressures and maintain social cohesion (Commission of the European Communities, 2005a). Regional employment policy is implemented through a combination of the European Employment Strategy (EES) and nationally based policies. A local dimension was added to the EES in 2001 and National Action Plans from member countries outlined national, regional and local policies to support job creation (Employment and Social Affairs, 2004). The relaunched Lisbon strategy in 2000 re-iterated the objective of reducing regional disparities in employment and unemployment rates by ensuring that regional and national employment programmes targeted less prosperous regions (Commission of the European Communities, 2005b). National Action Plans (NAPs) from member countries outline national, regional and local policies to support job creation.

Delivery of the EES is underpinned by the Structural Funds that support regional programmes to combat unemployment and develop human resources to ensure a high level of employment. For the period 2000-06 there were 3 major priorities for the Structural Funds (European Commission, 2004a). Objective 1 funding promoted development and structural adjustment for lagging regions (regions with per capita GDP less than 75 per cent of the Community average). Financial support for infrastructure, investment, human resource development, and industry restructuring was provided to enhance productivity and competitiveness of the designated regions, and ultimately produce convergence. Objective 2 supported areas experiencing structural difficulties in industrial or service sectors, declining rural areas, depressed urban areas or areas reliant on fisheries. Modernisation of education and training, along with labour market integration of youth, the long-term unemployed and those at risk of exclusion, constituted Objective 3. For the period 2000-2006 expenditure on Objective 1 of €150 billion accounted for 74 per cent of total Structural Fund expenditure, while Objective 2 expenditure amounted to €24 billion and Objective 3 spending was €26.5 billion (European Commission, 2006c).

In addition, funding is provided under the Community Initiatives and Innovation Scheme and the Cohesion Fund. Community Initiatives expenditure of €1.4 billion supported 4 programmes: cross-border, interregional and transnational cooperation (Interreg III); support of innovative strategies in cities (URBAN II); rural development (Leader+); and EQUAL to combat labour market discrimination. Cohesion Fund expenditure of almost €20 billion co-financed major environmental and transportation projects in countries with GDP less than the EU average.

The Cohesion Fund was established in 1993 to provide financial assistance to countries with GDP per capita below the Community average (Boldrin and Canova, 2001; European Commission, 2006a). Funds are used to assist poorer countries with development of infrastructure and environmental programmes while complying with Maastricht Treaty requirements. Major beneficiaries of Cohesion Fund assistance from 2000 to 2006 were Greece, Ireland (until 2004), Portugal, Spain and the 10 new member states from 2004.

Priorities adopted in the Employment Guidelines in 2006 included:

- Preventing long-term unemployment and helping the unemployed and those not in the labour force to find work;
- Creating more jobs and encouraging entrepreneurship;
- Addressing change and promoting adaptability;
- Promoting human capital development and lifelong learning;
- Ensuring adequate labour supply and promoting an active older workforce;
- Ensuring gender equality;
- Integrating the disadvantaged into the labour market;
- Making work pay;
- Reducing undeclared work;
- Reducing regional employment and unemployment disparities.

For the current funding period, 2007-2013, the Structural Funds come under the reformed Cohesion Policy which focuses on knowledge and the information society, entrepreneurship, the environment and employment (European Commission, 2006b). Three priorities replaced Objectives 1 to 3 and funding has been increased to €308 billion (1994 prices). The bulk of the funding (82 per cent) is available to the poorest or 'Convergence' regions which are similar to Objective 1 regions and include most of the new Member States. The second priority 'Regional Competitiveness and Employment' will receive 16 per cent of Structural Funds. 'Regional Competitiveness and Employment' funding will: assist innovation and knowledge transfer; stimulate enterprise by promoting business clusters assisting with finance and incubators; promote social entrepreneurship, employment and public services; regenerate deprived neighbourhoods; and contribute to sustainable development, and improve accessibility to training projects (Third Sector European Network, 2007). The final priority provides 2.5 per cent of total funding for 'Employment and Territorial Cooperation' or cross-border cooperation.

The EU has a number of programmes designed to support clusters and regional specialisation to increase the international competitiveness of regions. Since the mid-1990s more than 100 regions have been assisted to develop regional innovation strategies while Innovation Relay Centres have been established in 33 countries to assist innovation and transnational technological co-operation by supporting SMEs (OECD, 2007). The 'regions of knowledge initiative' facilitates transnational mutual learning and co-operation between research-driven clusters through partnerships of regional authorities, industry, and research organisations (OECD, 2007). Similarly, the Europe INNOVA initiative encourages networking between clusters to establish joint research projects and business initiatives (OECD, 2007). The 'mapping and analysis of innovation clusters in Europe' project is developing a database on European clusters to identify best practice and develop future policy. In recent years there has been greater emphasis on developing effective local strategies (Section 5.4) and encouraging social entrepreneurship (Section 5.5). Evaluations of the effectiveness of regional policies in

achieving convergence in the EU is discussed in detail in Cook (2008b). Cook (2008c) uses the case studies of Sweden and the UK in this evaluation.

5.7 Conclusion

Central to the development of regional policy in the past decade has been the view that in an era of rapid globalisation regions are becoming more important and less dependent on the fortunes of the national economy. Consequently the traditional approach of concentrating regional policies on assisting lagging regions has been diluted in favour of encouraging all regions to concentrate on developing the innovative, knowledge intensive assets of the region and effective linkages between businesses.

Porter's contention that clusters are responsible for increased productivity and economic growth has resulted in the promotion of clusters as the vehicle for economic development that is appropriate to all regions. The major policy recommendation is that governments should facilitate cluster development through a range of supply-side measures. Moreover, policy prescriptions ignore the fact that clusters are a specific form of development that arise due to an often unique range of factors that are not easily replicated. The causal link between clusters and productivity growth has not been conclusively proven. Even if the benefits of clusters could be demonstrated, there are several impediments to their widespread use for economic development. First, and most importantly, cluster theory ignores the critical importance of macroeconomic environment in stimulating growth. Second, as the preceding discussion has demonstrated, transplanting strategies used by successful clusters is far from straightforward, precisely because these clusters are the product of unique and spatially specific conditions. These conditions, including dynamic networks and inter-firm relationships are not easily reproduced. Some authors contend that clusters have been oversold and should be considered as 'a' policy rather than 'the' policy (Martin and Sunley, 2003; Henry, Pollard and Benneworth, 2006). Thus, any positive impact of clusters should be considered as one of several tools to promote economic and employment growth; used in isolation policies to promote clusters are unlikely to have significant impacts, especially in disadvantaged areas.

The turn to SE and other local development strategies is closely related to new regionalism and government abrogation of responsibility for full employment and the desire to outsource services previously delivered by the public sector. While social enterprise is eulogised as a solution to unemployment, particularly in deprived neighbourhoods, McCabe and Hahn (2006: 396) point out that 'there is a gap between the rhetoric attached to social enterprise and its capacity to deliver economic and social policy imperatives'. They conclude that it has only a marginal impact at the macro level and is highly reliant on government support.

These strategies are inadequate for the task of restoring full employment in the presence of macroeconomic constraints and a situation where private sector job creation has proven to be insufficient to provide jobs to all those willing and able to work. While development of clusters may provide tangible employment and income benefits in particular regions, this may be at the expense of other regions, and is not capable of producing the quantum of employment necessary. Similarly, local strategies and social enterprises may increase the total number of jobs or they may simply replace some of the jobs lost in the public sector. Even if there is net job creation it is extremely doubtful that it will be on the scale required to restore full employment. The fundamental point is that the various components of the new regional approach to employment generation accept the tenets of neo-liberalism, concentrate on supply-side interventions and ignore the primacy of aggregate demand in determining the level of employment in the economy.

6

Australian experience with national, regional and local employment policies

6.1 Introduction

This Chapter examines the Australian experience in tackling the problem of entrenched unemployment and underutilisation in the past few decades. The persistence of regional unemployment disparities is well documented (Webster, 2000; Mitchell and Carlson, 2003; Trendle, 2004). Regional growth in Australia has been divergent and “there had been no trend towards long-run equilibrium growth for all regions” (Garlick, Taylor and Plummer, 2007: 9).

Detailed case studies of the Swedish and British experience with national, regional and local employment policies are provided by Cook (2008c).

The Chapter is organised as follows. Section 6.2 traces the development of ALMP in Australia. Section 6.3 traces the transformation of the Commonwealth Employment Service (CES) to the Job Network. Section 6.4 reports the findings of focus groups conducted with Job Network staff and assesses the effectiveness of the Job Network. Section 6.5 outlines Australian regional policy developments in relation to the federal, state and territory governments. Concluding remarks follow.

6.2 The Australian experience with ALMP

Australian expenditure on ALMP as a proportion of GDP has varied over time and remained in the lower half of OECD countries in 2005. Expenditure increased to 0.84 per cent of GDP in 1995 and then declined to reach 0.45 per cent in 2005 (Cook, 2008a: 5, Table 1). Over the past 30 years job creation, wage subsidies, formal training and job search assistance have assumed different levels of importance and have been supplemented with programmes to enhance employability, including jobsearch programmes and unpaid work.

6.2.1 The growth of labour market programmes

The job creation programme introduced by the McMahon Government in 1972 was replaced by the Whitlam Government’s Regional Employment Development Scheme (REDS) in 1974. REDs providing grants to States, local government and community groups to generate temporary, labour intensive jobs that were socially useful (Stretton and Chapman, 1990; Howe, 2001). Originally the jobs targeted regions of high unemployment but targeting was dropped as unemployment escalated in 1975.

The Fraser Coalition government eschewed public sector job creation schemes and shifted the focus to tackling the problem of youth unemployment. Wage subsidies to private sector employers were provided through the Special Youth Employment Training Program (SYETP) from 1976. SYETP was initially targeted at youth under 18 who had been unemployed for 4 months, in the preceding 8 months (Stretton and Chapman, 1990). In addition to subsidies, skill formation for youth was addressed to improve school to work transitions. Trade training was encouraged by the expansion of subsidies to employers of apprentices from 1977.

The Fraser government introduced programmes for disadvantaged job seekers, including the National Employment Strategy for Aboriginals, which provided work experience, and the

Community Employment Development Program (CDEP) enabled Aboriginal communities to organise work of community benefit in return for welfare payments.

Rapidly rising unemployment as a consequence of recession and drought in 1982, combined with growing desperation regarding the impending election in 1983, provoked a reconsideration of job creation schemes with the introduction of the Wage Pause Program and a shift from youth to long-term unemployment as the policy priority. See Cook (2008d) for further description of the above and other employment schemes.

6.2.2 ALMP under Labor

In March 1983 the Hawke government assumed office, pledging to tackling unemployment as the ‘most important single goal of our fiscal policy’, and the delivery of sustainable economic recovery, ‘fairly shared by the whole community’ (Hawke, 1983). The Community Employment Program (CEP) provided temporary employment for 3 to 9 months for the long-term unemployed, indigenous Australians, migrants with non-English speaking backgrounds and people with disabilities.

But the commitment to providing employment opportunities was short-lived as the government embraced neo-liberal policies and two reviews resulted in a major transformation in ALMP in the late 1980s. The Kirby Inquiry into Labour Market Programs published in 1985 criticised the existing suite of programmes as too numerous and complex and suggested a shift in emphasis from Job Creation to training (Committee on Employment Opportunities, 1993). The Social Security Review dominated employment policy from the late 1980s, focussing on supply side strategies to maximise employability and activation policies.

Following the reviews formal training programmes to enhance vocational skills assumed greater importance. The centrepiece of the new ALMP regime was the Australian Traineeship System (ATS) that provided combined work experience with accredited training opportunities for youth at reduced training wages (Committee on Employment Opportunities, 1993). A feature of the post Kirby period was the amalgamation of programmes and increased targeting of the LTU and disadvantaged. CEP was discontinued in 1987-88. The Jobstart wage subsidy subsumed the SYETP and the AWSS.

The Adult Training Program (ATP) and Youth Training Program (YTP) were amalgamated into Jobtrain in 1988-89. Under Jobtrain, short formal training courses were provided for LTU and disadvantaged jobseekers under contract with training providers including TAFE, community organisations and private training operators (Stromback and Dockery, 2000).

The concept of reciprocal obligation for receipt of unemployment benefits decreed compliance with an activity test including increasing participation through training and accepting part-time and casual work (Cass, 1986).

The introduction of the Newstart programme in February 1989 was designed to overcome long-term unemployment, which had grown from 28 to 37 per cent between 1983 and 1989, despite the creation of 1.5 million jobs (Dawkins and Duncan, 1989: 36). The Newstart strategy envisaged 40,000 joint CES / DSS interviews annually for LTU jobseekers aged between 21 and 54, to identify employment barriers, training needs, develop jobseeking strategies, and review benefit entitlement.

In the early 1990s the major ALMPs in Australia included: the wage subsidy programme Jobstart; vocational training programmes Jobtrain and Skillshare; job creation programmes, Jobskills and the Landcare and Environment Action Program (LEAP); and job search assistance through the CES and programmes such as Job Clubs (Stromback and Dockery, 2000). Jobskills was a job creation programme introduced in 1992 for LTU people aged 21

and over, that combined work experience with off-the-job training for approximately 40 per cent of the time (DEET, 1995).

Working Nation initiatives in 1995 were underpinned by a massive funding injection for ALMPs. Additional jobs for Job Compact clients, who were unemployed for more than 18 months, were provided through a revamped suite of ALMPs including Jobstart, Jobskills, LEAP, New Work Opportunities (NWO), the Community Action Program (CAP), and the National Training Wage (NTW) (DEET, 1997). The primary focus was to be private sector employment, facilitated by subsidies for up to 39 weeks under Jobstart (Daniels, O'Neill and Winter, 1994). Jobstart placements were to be supplemented by existing and new programmes. However, Jobstart placements constituted only one-third of JC placements rather than the projected 70 per cent because of insufficient demand and employer reluctance to employ the LTU (Vanstone, 1996). See Cook (2008d) for further detailed descriptions of the above initiatives and other employment schemes under Labor.

6.2.3 After Working Nation

While employability and compliance objectives assumed increasing importance under ALP governments, they became virtually the only policy of the Howard government after most labour market programmes were abolished in the 1996 budget. Expenditure on labour market programmes declined from \$1987 million in 1995-96 to \$1177 million in 1996-97 and the number of programme participants fell from 703,700 to only 416,400 (O'Neill, 1998). NEIS was retained and in 1998 the New Apprenticeship System was set up incorporating traditional apprenticeships and traineeships (NCVER, 2007).

Mutual Obligation (MO) replaced reciprocal obligation 'based on the principle that participants supported financially by the community should actively improve their work skills and give something back to the community that supports them' (DEWR, 2006c). Work for the Dole (WfD) became the primary means of satisfying mutual obligation.

WfD has similarities with the voluntary CAP programme but is a punitive Workfare programme designed to further stigmatise and discipline the unemployed by mandating participation in unpaid work experience. Initial MO and WfD requirements applied to youth but progressively expanded to incorporate most unemployed groups. Commencing in September 1997, WfD required 18 to 24 year olds, unemployed for 6 months or longer to 'work' on community projects.

'Welfare to Work' commenced in July 2006. It restricted access to Parenting Payments and introduced part-time work and MO requirements for some Parenting Payment recipients once their youngest child turned 6. DSP applicants assessed as capable of working 15 to 29 hours per week were also subject to MO. See Cook (2008d) for further detailed descriptions of the above and other employment schemes after Working Nation.

6.2.4 State government labour market programmes

While the majority of labour market programmes in Australia are implemented by the Commonwealth Government, these have been supplemented by a variety of state government programmes to encourage employment. They have included wage subsidies, payroll tax concessions and exemptions from workers compensation premiums for particular groups.

Many programmes attempt to lift apprenticeship and traineeship take up rates through assistance to employers and apprentices. In NSW apprentices benefit from travel concessions, rebates on car registration and an allowance to purchase tools and clothing. Queensland provides mentors to support Aboriginal apprentices, trainees and vocational students. The South Australian government also assists indigenous youth to obtain apprenticeships in the

private sector and supports them to complete training. The Northern Territory provides grants for all apprentices and trainees for work gear (DEET, 2008).

NSW employers receive a workers compensation exemption for apprentices and payroll tax exemptions for apprentices and trainees. In Queensland, employers are eligible for incentive payments of \$2,000 if they employ apprentices in trades suffering skill shortages, while Youth Training Incentives provides wage subsidies of up to \$4,000 for employers of school-based apprentices and trainees in rural and remote areas. Traineeships are encouraged through the First Start Program that offers wage subsidies of \$14,000 to the non-for-profit sector and up to \$10,000 for local government and Aboriginal and Torres Strait Islander Councils (Queensland Government Department of Employment and Industrial Relations, 2007).

Victoria provides subsidies of \$9,000 for traineeships and \$15,000 for apprenticeships to local governments. The Northern Territory Employer Incentive Scheme provides wage subsidies of \$4,000 for apprentices and trainees in areas of skill shortage and \$2,000 for employing disadvantaged job seekers (DEET, 2008). The Western Australian government provides payroll tax exemptions for employers of apprentices and trainees and funds the vocational training component (Department of Education and Training, 2007).

Several states operate training programmes to enhance skills of the unemployed or people returning to the workforce. Victoria assists parents returning to the workforce through a grant of up to \$1,000 for training under the Returning to Earning programme (Office of Training and Tertiary Education, 2008). The Queensland government has provided training assistance through Training in Communities since 2005 (Department of Education Training and the Arts, 2008). Pre-employment training is provided to parents and carers returning to the workforce through the Back to Work: Parents and Carers programme, while the Get Set for Work programme provides training and employment assistance to youth aged 15-17. In NSW the Corporate Partners for Change partnership between the government, unions, employers and registered training organisations provides free pre-vocational training for disadvantaged job seekers from Western Sydney in child care, aged care, disability work, electrical trades, hospitality, business administration, manufacturing and retail (Department of Premier and Cabinet, 2008).

In South Australia regions prepare Employment and Skill Formation Plans and operate training programmes in child care, aged care and pre-employment (Department of Further Education Employment Science and Technology, 2008). 'Abilities for All' is a training programme for people with disabilities in hospitality, viticulture, horticulture and office administration (Department of Further Education Employment Science and Technology, 2008). Other training assistance includes provision of literacy and numeracy training and training credits of up to \$1,200 to for parents returning to the labour market (Department of Further Education Employment Science and Technology, 2008). The Northern Territory programme Build Skills assists people to up-skill or re-skill to overcome skill shortages.

There are also programmes to assist workers affected by major retrenchments in Victoria, South Australia and Queensland. Cook (2008d) provides more detail on these programs and also explains Queensland's 'Breaking the Unemployment Cycle' programme.

6.3 The Public Employment Service in Australia: from the CES to Job Network

This section traces the changing role of the CES in the years prior to its demise and examines the extent to which its privatised replacement, the Job Network has delivered an efficient, effective employment and training service to improve labour market functioning and meet the

changing skill requirements of employers. This assessment incorporates evidence from secondary sources and findings from focus groups conducted with Job Network staff in 2007.

6.3.1 The demise of the CES

The Commonwealth Employment Service was established in 1946 and was responsible for the provision of employment services until being disbanded in 1998. The functions of the CES were then split between Centrelink and the privatised Job Network. This section outlines important changes in the operation of the CES as they relate to the delivery of employment services and the dramatic increase in the role of enforcing the conditionality of benefit receipt.

In addition to the provision of employment and training services, the CES administered the 'work test' that required the unemployed to actively seek and be willing to accept suitable work. With the restructure of unemployment benefits in 1991 'the onus was placed clearly on the job seeker to find work through active jobsearch backed by assistance to prevent long-term unemployment' (Department of Families Community Services and Indigenous Affairs, 2006). Unemployment benefit was replaced by 2 new benefits, Job Search Allowance and Newstart Allowance, and the introduction of the Activity Test brought a much greater policing role for the CES. Unemployed persons over 18 who had been unemployed for 12 months were required to apply for Newstart Allowance which entailed entering a Newstart Activity Agreement, a contractual agreement that detailed activities that the unemployed person would undertake to secure employment or enhance employability.

The Activity Test incorporated work test requirements and added new obligations to undertake additional work-related activities, including participation in vocational training or labour market programmes which were intended to improve employment prospects, and to attend or contact the CES on request. Also, Newstart Allowance recipients were required to take 'reasonable steps to comply with a Newstart Activity Agreement' that included requirements relating to job search, paid work experience, labour market programmes, 'measures designed to eliminate or reduce any disadvantage the person had in the labour market (but not so as to compel the person to work in return for receiving payment)', or an activity such as unpaid voluntary work (Department of Families Community Services and Indigenous Affairs, 2006). Non-payment periods could be imposed for breaches of the Activity Test with the CES assuming the decision-making function that previously resided with the Department of Social Security.

Implementation of the Working Nation reforms from 1994 was accompanied by an ambitious plan to introduce competition in employment services through contestable markets. Private for-profit and non-profit organisations were contracted to provide some case management services for the unemployed, with the share increasing from 10 per cent in 1994-95 to more than half by 1996-97 (DEETYA, 1997).

Contemporaneous with the increase in private provision of case management was the elimination of most labour market programmes by the incoming Howard government in the 1996-97 budget (see Section 6.2.3). Over the decade of the 1990s integrated employment services that delivered traditional labour market intermediation and assistance to disadvantaged groups through labour market programmes, were jettisoned in favour of specialisation under the case management model that dedicated resources to the administration, regulation and policing of the activities of the long-term unemployed and disadvantaged jobseekers. The responsibility for securing employment shifted firmly in the direction of individual jobseekers, irrespective of prevailing labour market conditions and with a declining commitment on the part of government to provide meaningful assistance.

6.3.2 The Job Network

Privatisation was extended by the Howard government with the introduction of the Job Network in 1998. The contestable market model for employment promised several benefits. First, it would address structural weaknesses in the system by introducing a purchaser-provider split and restrict the government's involvement to purchasing employment services that were delivered on a competitive basis. Second, job seekers had the choice of providers in their geographical area. Third, the competitive system would provide greater efficiency for taxpayers. Finally, and most importantly, delivery of services tailored to the needs of individual job seekers would enhance effectiveness and efficiency and achieve sustainable employment outcomes. This was to be facilitated by innovative and flexible approaches that were not possible under the previous bureaucratic system (DEWR, 2002). In 2005-06 there were 113 Job Network organisations with around 10,000 staff at 1,154 sites across Australia who received \$1,250 million for employment services in 2005-06.

The initial Job Network contract included private and community providers along with Employment National as the public sector provider and assistance consisted of Job Matching, Job Search Training and Intensive Assistance (DEWR, 2002). Contrasting the universal nature of CES, the Job Network initially restricted services to those on income support but this restriction was later lifted by a contract variation. In addition to the aim of quality improvements, the Job Network also assisted the government to contain expenditure on labour market assistance and entry level training from \$3.7 billion in each of the years 1994-95 and 1995-96, to \$5.4 billion over the 4 years 1996-97 to 1999-2000 (DEWR, 2002).

In contrast to the promise of increased choice for job seekers, the first contract period was characterised by an automated referral process implemented by Centrelink that provided no choice of Job Network agency in cases where job seekers nominated a provider that had no places available or if they failed to nominate a provider within 10 days. Choice was further constrained by limitations on movement between providers and caps on the number of job seekers that could be assisted by each Job Network provider during the contract period.

The Job Network has undergone several changes in the 10 years since its establishment as successive contracts have attempted to rectify serious inadequacies in service delivery, transparency and accountability and to stamp out unacceptable practices. The government introduced a major reform package in 1999, less than 12 months after Job Network commenced, to boost funding to struggling providers. Providers found that payments for job matching were inadequate and many providers subsidised job matching by using Intensive Assistance funds, thereby reducing services to disadvantaged job seekers (Dockery, 1999). The second contract round modified the 'black box' approach of awarding contracts and paying for outcomes without any specification of services to be provided to the unemployed (OECD, 2001b). DEWR attempted to ensure minimum service standards through the Employment and Related Services Code of Practice that outlines how providers will deliver services to clients. In addition, service guarantees provide clients with information on the types of services they can expect (DEWR, 2007).

Under the third employment services contract (ESC3) that commenced in July 2003 the government introduced the Active Participation Model (APM) which included Job Search Support, and Intensive Support that increases the intensity of activities required as the length of unemployment increases (ANAO, 2005b). In contrast to the earlier contracts, under ES3 job seekers would remain with the one Job Network provider for the entire period of unemployment and assistance provided would be measured against minimum service standards contained in the Service Guarantee and Employment Services Code of Practice. The

APM was an integral component of the implementation of the recommendations of the McClure report, especially the extension of MO to parents and people with disabilities.

Evaluations of the Job Network prior to 2003 concluded that the Job Network did not provide sufficient funds for services to assist job seekers (ANAO, 2007). In what amounted to an admission of the failure of the earlier system of requiring providers to use general funds to pay for training for job seekers, ESC3 introduced a dedicated Jobseeker Account that was credited with an amount according to the job seeker classification when s/he was referred to the Job Network. Accumulated monies in the notional account could be used by the Job Network to pay for training or other assistance for the job seeker, but there was no guarantee that any job seeker would be approved for assistance.

Over successive contract rounds the model has been significantly modified. In ESC1 contracts were shared by public, private and non-profit organisations. In ESC2 the public sector lost the majority of its business and contracts were divided between private and non-profit organisations. In both rounds competition was based on price and quality. However, ESC3 marked a departure from the competitive model with only about 40 per cent of contracts open to tender. In July 2006 ESC3 was extended. The government also fixed contract prices and limited competition to quality of service as measured by the DEWR star ratings for providers.

6.4 View from the coalface: report on focus groups with Job Network staff

6.4.1 Overview

This Section discusses findings from focus groups conducted with staff from non-profit Job Network agencies in late 2007 in conjunction with findings from other research and official reviews of the Job Network. In total, 25 staff from DEWR Labour Market Regions participated in 3 focus groups designed to cover a range of labour market conditions. Melbourne was selected to represent major metropolitan areas, with participants drawn from various parts of the city, including the Inner East, North West, West, Inner East and South East. In NSW one focus group was conducted in the Hunter and North DEWR Labour Market Region with participants from different locations throughout the Hunter and Lower Hunter. The final focus group included participants from Keepit, North East and Orana regions of Western NSW. Below is a summary of findings that are reported in full in Cook (2008d).

6.4.2 Eliminating bureaucracy?

Focus group participants were aware of the need for contract supervision but stressed that it was extremely time consuming and eroded the time to assist job seekers and market services to employers. They identified the role of DEEWR as impacting negatively on the effectiveness of the Job Network and the ability to deliver quality employment services to job seekers. One focus group summed this up as ‘administrivia’ and ‘compliance lock’. This assessment reinforced findings from the Job Network Frontline Staff survey where 80 per cent of staff indicated that the administrative burden was excessive (A C Neilson, 2005). One participant explained the impact administration and compliance procedures have on client interaction:

If I'm a Job Network person sitting down [with] my client ... the first thing is I've got to do is the administrivia...and next thing is... this whole compliance issue and every decision that I make with [the client] is actually subject to review by compliance. And then once I've done the administrivia, once I've got over the compliance, I can say to [the client] "How can I help you?"

6.4.3 Policing the jobless

The second major issue relating to DEEWR expectations was the role of the Job Network as a policing agency to ensure that job seekers complied with increasingly onerous activity requirements. Job Network agencies have contractual obligations to monitor compliance and advise Centrelink when job seekers fail to comply with their obligations. Serious breaches, include voluntary unemployment, failing to accept a suitable job, or failing to participate satisfactorily in Full-time Work for the Dole, incur an 8 week non-payment period.

Between 1997-98 and 2000-01 breach penalties increased from 12,718 to 346,078 annually (Commonwealth Ombudsman, 2002). Publicity surrounding the severe hardship endured by people who were breached and a major investigation by the Australian Council of Social Service (2000) resulted in modifications that reduced the number of penalties imposed.

During the first 6 months of operation of 'Welfare to Work' that commenced in July 2006, there were 86,761 participation failures including almost 6,000 cases where payments were suspended for 8 weeks. However, the incidence of non-payment periods increased over time. For the 2006-07 financial year a total of 19,217 people lost payments for 8 weeks, but for the 6 months to December 2007 non-payment periods were endured by 18,944 people. The rate of imposition of 8 week penalties declined after the change of government in November 2007. However, there were 32000 8-week penalties imposed during 2007-08 (O'Connor, 2008). See Cook (2008d) for further details.

The dual role of providing employment assistance and policing activities of clients presents significant issues regarding maintaining effective relationships with them. Several focus group participants expressed internal conflict about enforcing all obligations and submitting participation reports to Centrelink. One participant related an incident that demonstrated that the 'system' provided little room for discretionary action even in most extreme circumstances:

Well we had one woman run out yesterday and said "I'm going home to kill myself"... Her job capacity assessment says that she should not be in Job Network but the system says that she has to be referred for Work for the Dole. So her Work for the Dole provider has breached her ...and she's beside herself.

Despite acknowledgement that the WfD requirement was incomprehensible and the outcome extremely detrimental, the client nevertheless suffered a financial penalty and no action was taken to reverse the decision. Many participants felt compelled to initiate participation reports, indicating that they too were pawns of the system and powerless to act despite the fact that they sometimes felt that punishment was harsh, unjust and counterproductive. Sometimes staff indicated that they had feelings of guilt after breaching clients:

And that impacts on our souls, can I say. Because like I said before most of the people who join this industry...do it because they really care about people.

Participants indicated that they developed coping strategies to assuage feelings of guilt. One strategy was to try to ensure that requirements were viewed as reasonable by the case manager and the activities would be beneficial for the client. In these instances breaches could be considered justifiable because the client had not acted in their own best interest and there was no reason why they were unable to fulfil their obligation. However, one participant stated:

The concern for me is, I'm happy to back up a solid plan where you're asking a person to do things that are genuinely going to help them get employment, but when you have a high turnover of staff in a compliance culture, you have people being asked to do unrealistic things and not being able to do it.

The depth of resentment about the prioritisation of compliance was shown in comments such as:

We are no longer employment officers we are compliance. DEEWR wants us to make sure that we're breaching, we're doing this, they're looking for jobs, they're doing their job searching... A lot of us, like myself, joined the industry because I wanted to help people get jobs. That's not my job anymore. I don't help people get jobs. It's just making sure we're complying with everything DEEWR wants us to do.

The pursuit of compliance caused the ongoing relationship with the client to deteriorate by creating an 'us and them' environment which concerned Job Network staff. The Job Network Frontline Staff Survey identified similar concerns, with 61 per cent of staff stating that they were increasingly required to deal with angry or challenging clients (A C Neilson, 2005).

6.4.4 Providing effective, innovative services to job seekers?

In addition to favourable macroeconomic settings, delivery of effective employment services requires staff competency and appropriate policy instruments to assist jobseekers to overcome barriers to employment. The Frontline Staff Survey found that staff were generally satisfied that the Job Network was effective in its role as a labour market intermediary but expressed reservations about the ability to deliver effective services to disadvantaged jobseekers such as parenting payment recipients, indigenous jobseekers, people with disabilities, mature aged job seekers, and people from non English speaking backgrounds (A C Neilson, 2005).

Far from the dynamic, innovative, individually tailored service promised with the introduction of the Job Network, one focus group participant commented:

So Job Network now, if you go into a Job Network ... they look the same, they smell the same, they act the same.

Focus groups engaged in a wide-ranging discussion about the issues Job Network staff faced in dealing with disadvantaged clients who made up a high and increasing proportion of caseloads. Several issues were identified including: insufficient labour demand, particularly in regional labour markets; lack of motivation; poor soft skills considered essential to successful engagement in the workforce; transport problems; and the dearth of training options. Participants were generally critical of the current suite of labour market programmes and some were also critical of the dominant 'work first' approach.

There was a lively discussion in all focus groups about the attitude of job seekers to work and job seeking and the reasons why people remained unemployed. A minority view articulated the 'dole bludger' stereotype with comments such as: *'they don't want to work but they want their benefits.'* However, these views were vigorously challenged by other participants who stressed the complexity of factors impacting on the unemployed:

So you're looking at people who are 4 years or 10 years or 20 years [unemployed] and we're saying to them "we demand that you go into a full-time job"... I think we're unreasonable sometimes in our expectation and I don't think there is enough allowance for easing people back into a workforce.

All focus groups identified significant negative consequences for clients living in communities with high and persistent levels of joblessness, whether these were isolated rural areas or suburbs in major cities. One prominent issue was 'inter-generational' unemployment when no members of the job seeker's family or social network were working. It was claimed that in some communities it was socially acceptable not to work. Moreover, jobseekers often stated that the costs of employment, especially in precarious jobs, outweighed the advantages.

Several barriers to employment were identified by focus group participants. In some instances they indicated that most jobseekers left on their caseload were considered to be unemployable in the private sector because they lacked the vocational or soft skills necessary to sustain employment. Participants were in general agreement that training options through the Job Network were limited and that employers abrogated responsibility for training and expected a skilled workforce to be delivered to them.

One participant commented:

When we were talking about training before the one thing different between now and 10, 15 years ago is employers will not train their staff. The emphasis is on us to supply this ready-made product to them and they won't accept anything less.

A major topic of discussion in all focus groups related to people that Job Network staff considered were unemployable due to illness or drug and alcohol addictions. In particular, the changing role of the Job Network in relation to the Disability Support Pension (DSP) in the post-Welfare to Work environment was recounted with exasperation:

We are now getting disability pensioners in and telling them they have a requirement to look for certain hours of work. Two years ago we were actually assisting them to fill out their applications for disability pension, telling them they weren't fit to be in Job Network.

The Personal Support Program provides an alternative to the Job Network for up to 2 years for non-job ready clients such as the homeless or people with mental health, drug and alcohol or gambling problems (DEWR, 2007). However, focus group participants were disappointed with the operationalisation of the programme due to capped places and inadequate resources available to PSP workers. Restrictions on the number of places meant that clients went onto a waiting list, were not offered effective assistance and could not access the Jobseeker Account.

The skills, knowledge, and dedication of staff have been acknowledged as critical to the delivery of high quality employment services. However, DEWSBR (2001b: 8) noted:

[W]hile Job Network members recognise that investment in ongoing staff training and development may impact on performance, these activities, generally, do not appear to be a high priority.

In two focus groups there was general agreement that training and support for Job Network staff was inadequate. Participants were particularly concerned that the increasing proportion of jobseekers with serious employment barriers required highly skilled employment consultants and access to specialists such as psychologists but these were rarely available. Some indicated that the restricted Job Network funding model precluded the types of services that were provided nationally in the CES era, while high levels of staff turnover meant that many Job Network staff were relatively inexperienced and ill equipped to deal with jobseekers with complex problems.

The third focus group was less homogeneous in their perceptions of the quality of their training. While some indicated that there were training deficits others expressed a view that their employer provided comprehensive training.

The majority view, that staff are ill equipped to deal with very disadvantaged job seekers, echoes the findings of earlier research with staff of non-profit Job Network providers, where staff expressed concern that job seekers were not able to access specialist assistance such as support for people with disabilities, interpreters or culturally sensitive services when required (Eardley, Abello and Macdonald, 2001).

The final factor raised by participants that impacted negatively on the quality and quantity of service provided to job seekers was the commercial and competitive nature of the Job Network model. All participants were acutely aware of the fact that provision of employment services to the unemployed is, first and foremost, a business and the most important client is the government and DEEWR. This reality was explained with a great deal of feeling and justified somewhat apologetically:

Job Networks haven't effectively had any increase in our funding. For years the amount that we get per client hasn't gone up ... and as the clients become more and more difficult, requiring much more investment in time and effort from the consultant ... But there's actually a disincentive to work with a number of these clients because we're not paid to do it.

Our survival depends on our outcomes and so we will take whatever outcomes that we can grab. ... So, you know, we're driven a lot by what the government is asking us to do and at the end of the day we've got to look after ourselves. I mean, as a manager, the lives and livelihoods of every person working under my directorship or whatever you want to call it, depends on us getting those outcomes set by the government which quite frankly are unreasonable and they're not social outcomes they are economic outcomes and they are not addressing the triple bottom line at all.

In total, the picture painted by participants was of an increasing percentage of job seekers with severe employment barriers in need of extensive assistance that was not available in the Job Network due to funding constraints. There are few labour market programmes to refer clients to and the work first approach in combination with insufficient funding severely restricts training opportunities for clients, consigning many to continuing unemployment or transitions between short-term employment and unemployment.

6.4.5 Has the Job Network delivered?

While the contestable market model was supposed to deliver superior efficiency, innovation and choice, there were *a priori* concerns that received insufficient attention in the design phase. The Productivity Commission (2002c) noted that the delivery of complex services such as employment assistance involves many essential components that cannot adequately be measured by outcomes. Importantly, the use of price competition is likely to have a detrimental impact on the quality of service when providers are reliant on outcome payments to maintain financial viability in an uncertain environment. In order to ensure adequate service levels to the most disadvantaged the system must provide sufficient financial incentives to ensure that businesses concerned with the bottom line are prepared to devote resources to those for whom employment outcomes are the least likely. Moreover, the Productivity Commission (2002c) pointed out that client choice in the Job Network model was severely constrained. This section demonstrates that these issues have not been addressed comprehensively, either in the initial Job Network design, or through the subsequent restructuring which was undertaken as major deficiencies became evident.

The primary objective of the Job Network was to ensure better quality services and achieve sustainable employment outcomes. Pre- and post-Job Network comparisons are complicated by differences in labour market conditions, client characteristics and programmes available to those working in employment service delivery. The initial DEWRSB (2001a) net impact study found that the Job Network produced off-benefit results that were comparable to those achieved by the Working Nation programmes but that the Job Network was significantly less expensive. The net impact of Intensive Assistance, defined as the proportion of people who went off benefits, was 10 per cent which was comparable to the average net impact of the suite of Working Nation programmes. However, there was considerable variation in the

performance of Working Nation. While some programmes produced lower outcomes than the Job Network, outcomes for others were superior. Jobskills participants achieved a net impact of 14 per cent and Jobstart achieved a massive 31 per cent net impact.

In addition to consideration of the net impact of programmes it is necessary to acknowledge the qualitative differences in the characteristics of jobseekers. While the report does not indicate the length of time people had been unemployed it provided duration of benefit receipt which serves as a proxy measure. The proportion of long-term unemployed Intensive Assistance participants was considerably lower (59.9 per cent) than for any of the Working Nation programmes with the exception of Skillshare (57.9 per cent). Under Working Nation almost all Jobskills and New Work Opportunities participants were long-term unemployed (95.8 and 92.3 per cent respectively). Moreover, only 41.8 per cent of Job Network Intensive Assistance clients had been unemployed for 2 years or longer compared to over 60 per cent of Jobskills participants and almost three-quarters of New Work Opportunities participants (DEETYA, 1996; DEWRSB, 2001a).

More recently, the net impact of the current suite of labour market programmes was compared with a matched control group 12 months after commencement (DEWR, 2006b). In February 2005 the net impact of WfD was 7.3 per cent compared to 8.2 per cent for Mutual Obligation, 10.1 per cent for Customised Assistance and 11.2 for Job Search Training (DEWR, 2006b).

Sustainability of outcomes was a major justification for abandoning the Working Nation programmes that were accused of churning the unemployed between programme participation and periods of unemployment. Within the Job Network long-term outcomes are defined as placements of Intensive Support clients, disadvantaged job seekers and those registered for more than 3 months in jobs that last at least 13 weeks. Recent data suggests that employment outcomes are not being sustained.

Table 6.1 shows total placements and long-term placements for various groups of Intensive Support clients in 2006-07. The fact that less than one-third of placements for these groups lasts for 3 months indicates that the Job Network is not providing sustainable employment for disadvantaged groups.

Table 6.1 Placements for disadvantaged groups, 2006-07

	Total Placements	Long-term Placements	Long-term placements (% of Total Placements)
Indigenous	50,129	14,591	29.1
Parenting Payment	53,014	20,685	39.0
CALD	84,207	27,614	32.8
Mature Aged (50+)	78,240	25,825	33.0
PWD	49,018	14,495	29.6

Source: (DEWR, 2007)

The focus groups' perception of the inability of the Job Network to provide effective services to disadvantaged job seekers is borne out by the fact that the proportion of long-term unemployed and disadvantaged clients has increased under the Job Network. The proportion on benefits for 5 years or more increased from 18 per cent in 2004 to 29 per cent in 2008 (DEEWR, 2008b). Despite the fall in the unemployment rate in recent years, the number on benefits for 5 years or more increased from 74,000 in 1999 to 110,000 (O'Connor, 2008).

Similarly, the proportion of highly disadvantaged job seekers increased from under 20 per cent in 2003 to 29 per cent in 2008 (DEEWR, 2008b).

Client choice of provider was promoted as a major advance for job seekers who would be able to make informed choices and therefore drive innovation and excellence as providers vied for customers. It is important to note at the outset that, as consumers, job seekers are severely constrained due to Mutual Obligation requirements and the fact that the government is the primary client of the Job Network. In the first contract round automated referral processes severely limited the choice of provider (PC, 2002a). The Australian National Audit Office (ANAO, 2005a) concluded that job seekers could not make an informed choice of provider because they were given inadequate information at Centrelink seminars, or were required to make their choice prior to attending the seminar or were not invited to attend a seminar.

The quality of services provided by Job Network members has been found to be deficient in numerous ways. Perverse financial incentives have been blamed for ‘creaming’ and ‘parking’ so that providers concentrate on providing services to those considered most likely to gain employment, while failing to provide services to the most disadvantaged.

The Productivity Commission (2002c: xxxii-xxxiii) commented:

The providers often then direct their services to job seekers who are likely to be responsive to their interventions. They may park those with either insurmountable or high barriers to work who have low likelihoods of achieving payable outcomes.... Parking may mean that the net effect of participating in Intensive Assistance is negative for some job seekers.

ANAO (2005a) found that there was reason to believe that Intensive Support services were inadequate and that DEEWR could not ensure service delivery. The Job Network design means that members make decisions regarding assistance for individuals, subject to the Employment Services Code of Practice and the Job Network Service Guarantee. The ANAO found that levels of contact with clients rarely conformed to service standards, echoing an earlier DEWRSB survey of Intensive Assistance clients in 1999 that found that around one-quarter had met with their case manager only once or twice and only 38 per cent had ever been referred to a job (OECD, 2001b; ANAO, 2005a). Similarly, there was limited documentation of employment barriers (ANAO, 2005a) and few providers were addressing underlying barriers to employment by referring clients to counselling, training or other assistance (OECD, 2001b). Despite the fact that individualised assistance was one of the main justifications for the Job Network, the report found that there was very limited customisation of services. Moreover, variations in the use of the Jobseeker Account meant that some job seekers received ‘considerably less assistance than others’ (ANAO, 2005a: 139).

6.5 Regional and local policies in Australia

6.5.1 Overview

This Section outlines regional policies in Australia. The federal structure of governance in Australia has impacted on regional economic development policies. Vertical fiscal imbalance, whereby the Commonwealth Government has primary responsibility for raising taxes while state governments shoulder responsibility for programme delivery, has affected the provision of services such as health and education, along with the facilitation of regional economic development. Historically state governments played an active role in promoting economic development and provision of infrastructure while the attitude of Commonwealth governments has vacillated from abrogation of responsibility to active participation in top-down decentralisation policies and more recently policies that stress bottom-up, self

development approaches. Local governments are financially constrained in undertaking local economic development, are very small in terms of geographical area and / or population and are not politically autonomous. In contrast to local authorities in other countries, Australian local governments are responsible for a smaller range of services that have traditionally centred around development of physical infrastructure and waste services. However, in recent years local government has expanded its role to include a broader range of community services (Worthington and Dollery, 2000).

6.5.2 Commonwealth regional policies

In the post-war period it was not until the election of the Whitlam government in 1972 that the Commonwealth Government took an active role in regional development through the establishment of the Department of Urban and Regional Development and the Cities Commission. Decentralisation policies concentrated on establishing regional growth centres such as Albury-Wodonga, Bathurst-Orange, Macarthur, and Eden-Monaro (Bureau of Industry Economics, 1985). To ameliorate the impact of the 25 per cent tariff reduction in 1974 the government introduced the Special Assistance to Non-metropolitan Areas scheme.

According to Rainnie and Grant (2004) Commonwealth governments adopted a minimalist approach to regional policy from the mid 1970s. The Fraser government reduced funding to Albury-Wodonga. The Hawke government limited active regional policy to the Country Centres Project (CCP) that commenced in 1986-87 in areas suffering from structural change in rural and other industries. CCP funded community consultation and feasibility studies for small-scale self-help projects in partnership with the private sector in a small number of locations (Wilkinson, 2003). Taylor and Garlick (1989) claim that the CCP demonstrated that local committees worked best and outcomes were longer-lasting when there were multiple representatives such as business, community groups, education institutions, unions and local agencies of government departments. Subsequently, the bottom-up approach to economic development was continued through the Regional Organisations of Councils.

Commonwealth involvement in regional development increased in the 1990s. Area Consultative Committees were established to advise the Department of Employment Education and Training on local training needs and to develop local employment strategies (Rainnie and Grant, 2004). In the aftermath of the recession, the Keating government announced a local capital works programme, providing grants to local governments for economic and social infrastructure programmes in areas with above average unemployment rates. The 1994 Working Nation white paper on employment expanded regional development policies. Job creation schemes such as Jobskills and New Work Opportunities provided temporary employment and a stimulus to depressed regional areas.

Adopting a New Regionalism approach, the government also committed \$150 million over 4 years to the Regional Development Program in 1994, designed to facilitate export-oriented regional development by addressing obstacles to competitiveness through Regional Development Organisations consisting of local partnerships of business, unions, local government, and education and training representatives (Wilkinson, 2003; Rainnie and Grant, 2004; Beer et al., 2005).

The incoming Howard Coalition government scrapped the Regional Development Program in 1996 declaring that regional development was the province of state governments. However, the government subsequently introduced the Regional Australia Strategy in 1999, which has been interpreted as a political response to discontent in regional areas and the electoral success of Pauline Hansen's One Nation Party in the 1998 Queensland election, and independents in the NSW election in 1999 (Wilkinson, 2003; Rainnie and Grant, 2004; Beer

et al., 2005). The Commonwealth has attempted to address skill shortages in 14 industries through the National Skills Shortages Strategy (formerly the National Skills Initiative). In addition to strategies developed at the industry level, there have been regional pilots in Townsville, the Hunter and the Illawarra conducted in partnership with industry, educational institutions and local communities to examine existing and potential skill needs and develop strategies to meet those needs (Department of Education Employment and Workplace Relations, 2007).

The Regional Solutions Program was launched in 2000 to build stronger communities and increase access to services by funding the employment of people to coordinate the implementation of projects and improve the information flow from the government to the community (Wilkinson, 2003). The programme was integrated into the Regional Partnerships Programme in 2003, encompassing provision of opportunities for economic and social participation, improved access to services, and assistance with structural adjustment. Area Consultative Committees (ACCs) provided advice and assistance in the development of Regional Partnership proposals.

Regional Partnerships also deliver the Textiles Clothing and Footwear Community Adjustment Package and the Rural Medical Infrastructure Fund (RMIF) (DoTaRS2006b). The programme has funded community and sport and recreation centres, construction of accommodation for medical staff, and entrepreneurial ventures. Between 2003-04 and 2006-07 Regional Partnerships expenditure was \$327.9 million (The Auditor-General, 2007a). Of the 1413 projects considered during the 3 years to June 2006, 981 (72 per cent) projects were approved and 389 (28 per cent) rejected. In addition 34 projects were funded by the programme as a consequence of election promises by the Howard government in 2004 (The Auditor-General, 2007a).

A report by the Australian National Audit Office found that programme administration 'had fallen short of an acceptable standard of public administration' (The Auditor-General, 2007a: 20). The Report noted that on 9 occasions, the Ministers had approved projects that had not been assessed by the department as required under the Programme Guidelines, and in some cases without an application having been lodged. The Report indicated that such practices create 'an elevated risk of funding being approved for projects that either do not proceed as planned or which do not result in the anticipated outcomes and associated community benefits' (The Auditor-General, 2007b: 415).

In September 2007 the Minister for Transport and Regional Services announced the Growing Regions Programme to complement Regional Partnerships by providing funding for major projects requiring funding of \$1 million to \$3 million (The Auditor-General, 2007a). Regional Partnerships will be restricted to projects requiring funding of less than \$1 million and will be available for Enterprise Partnerships from private businesses and Community Partnerships for other applicants.

The Sustainable Regions Programme announced in 2001 is an example of local partnerships designed to develop bottom-up solutions to address major issues identified by the community in relation to social or economic change in depressed regions. A Sustainable Region Advisory Committee was established in each of the regions and they could receive up to \$12 million funding for projects such as construction of tourist information centres, cultural centres and education, training and research centres (DoTaRS2006a).

The mid-term evaluation reported that in the 4 years to 2005, the programme had funded 202 projects valued at \$244.6 million, comprised of \$77.3 million government funding and \$167.3 million of partnership contributions (Analysis and Evaluation Section, 2006). Projects were designed to assist business capacity and competitiveness, improve community capacity, and

service provision. Applicants included business, local government, community groups and regional organisations.

A number of programmes provide assistance at the individual or firm level in rural areas. The Rural Industries Research and Development Corporation funds research and development in production, processing, transporting or marketing agricultural products. The Food Chain Program provides matching funding for development and implementation of innovative approaches to food chain management and uses these as industry role models.

Food Processing in Regional Australia grants of up to \$200,000 to small and medium farm businesses and food processors are available on a matching basis for projects such as on-farm or regionally-based processing that value-add to food produced in rural and regional Australia. The New Industries Development Program (NIDP) provides assistance to commercialise agribusiness products, services and technologies. Also Higher Bandwidth Incentive Scheme providers receive incentive payments to provide higher bandwidth in regional Australia that is comparable to metropolitan areas.

Labour market skill enhancement in rural and regional Australia is addressed through the Young People in Rural Industries Program, and Rural and Regional New Apprenticeships, whereby employers in non-metro areas who take on an apprentice or trainee in an occupation in demand qualify for an incentive payment of \$1,100. In addition, the New Apprenticeships Innovation Incentive provides \$1,200 for New Apprenticeships in aeroskills, telecommunications, laboratory operations, information technology and electro-technology.

6.5.3 State policies

Historically the primary responsibility for regional development resided with state governments. In the period prior to 1970 the major regional programmes were delivered by state governments in the form of tax concessions and financial incentives to create growth centres and facilitate decentralisation (Beer, Maude and Pritchard, 2003). In the postwar period some state governments provided financial assistance to new or expanding industries, provided loans or loan guarantees, established industrial estates outside metropolitan areas and housing assistance for workers.

However, state governments have moved away from decentralisation toward locally driven economic development since the early 1990s, concentrating on support services to business including providing advice, marketing regions, supporting community groups, establishing Business Enterprise Centres, promoting Main Street programmes and providing labour market training initiatives (Beer, Maude and Pritchard, 2003). Many firms have benefited from payroll tax rebates, assistance for business planning and marketing, research and development, export development and trade missions. Most governments provide businesses with support for networking and clustering initiatives, the uptake and diffusion of technology and fostering innovation. Cook (2008d) describes the policies for each of the states.

State bidding wars

In Australia there is a long history of state competition to attract industry (Bureau of Industry Economics, 1985; Banks, 2002), that accelerated during the 1990s to reach around \$3.3 billion per annum by 2002 (Banks, 2002). Incentives offered included tax-breaks, tax holidays or discounts on charges for services such as electricity. Competition has occurred in a number of industries such as manufacturing and call centres and also major events such as the Grand Prix. Governments cite major economic and employment benefits that will accrue to the state as a result of attracting major companies but according to the Productivity Commission, the benefits are often overstated, the costs understated or not understood, and the assistance is

peripheral to firms locational decisions which are influenced more by a range of other factors so that the 'provision of investment incentives might have little influence on a firm's ultimate decision, wasting taxpayers money on firms who would have located in the jurisdiction without a subsidy' (Banks, 2002: 6-7). Moreover, there is no guarantee that firms will continue to operate in a specific location or offer the same level of employment.

South Australia provided about \$230 million in government assistance during the mid-1990s including specific assistance packages to lure firms to locate in South Australia. Assistance has been provided to Motorola, Bankers Trust and JP Morgan Investor Services. The combined assistance to Bankers Trust and Motorola for building premises was more than \$20-million. Motorola benefited from being named as the preferred supplier of the state government mobile radio network. This commitment was valued at \$60-million in 1996 but blew out to over \$100 million when the network failed to meet expectations. In a global round of job-cutting, Motorola cut about 120 jobs in South Australia. JP Morgan Investor Services was the beneficiary of a \$3.8 million financial assistance package and purpose-built premises estimated to cost the Olsen government about \$20 million, but has since announced that it would close down its Adelaide operations, leading to the loss of about 170 jobs. In 2000, the South Australian Government provided undisclosed incentives to attract Email to relocate from Victoria.

There has been competition between Victoria and South Australia for car industry developments. Over several years, South Australia has contributed to various Commonwealth initiated packages to retain Mitsubishi car plants. However, Mitsubishi has since closed its Australian operations. In 2000 Victoria was successful in a struggle against South Australia to secure a new Holden engine plant which was also the recipient of Commonwealth assistance. The Victorian government also outbid South Australia for the Grand Prix that had been held in Adelaide from 1985 to 1995 and the event has been held in Melbourne since 1996. The cost to taxpayers has escalated from \$1.7 million in 1996 to an estimated \$40 million in 2008. Similarly the cost to the ACT government of staging the V8 supercar event in 2001 was \$5 million which was more than double the benefit to the Territory (Banks, 2002).

Berri Fruit Juice used competition between the states to extract financial incentives to relocate. First the South Australian government persuaded Berri to relocate from Melbourne. Then in 2001, the Queensland Government lured the company's export production operations from NSW and South Australia. In 1999, Queensland outbid other States to have Virgin Blue locate its headquarters in Brisbane while, on a smaller scale, the ACT Government announced that it had successfully attracted Impulse Airlines to base its (ill-fated) operations in Canberra. The Commonwealth and Queensland governments also provided incentives of \$300 million to Comalco for an alumina project in Gladstone which equalled \$750,000 per permanent job (Banks, 2002).

The growth of call centres in the 1990s also sparked fierce competition between states. In an environment where certain regions exhibited persistently high rates of unemployment after the 1990s recession, attracting call centres was seen by some as an effective strategy for dealing with pockets of high unemployment, particularly in regions with few other prospects. The Tasmanian government seeks to attract future call centres by promoting the existence of national and international companies with established call centres and emphasising the lower cost structure in Tasmania compared to the mainland, as well as lower business establishment costs and labour costs. In many instances the government call centres were located in regional areas. For example the Centrelink call centre in Launceston was expanded from 100 to 350 in 2007 to compensate for the closure of the Telstra call centre that employed 250 people.

The Productivity Commission concluded that competition between states will, at best, tip the balance in favour of one state but that, at the national level, benefits may be dissipated so that the only winners are foreign shareholders (Banks, 2002). Most importantly:

The bottom line is that governments expecting to reduce unemployment through selective assistance are likely to be disappointed. Aggregate employment is related principally to aggregate economic activity and regulation that affects the labour market directly, not industry assistance (Banks, 2002: 8).

6.5.4 The role of local government

In contrast to the more comprehensive economic and social activities of local governments internationally, Australian local governments have traditionally played a limited role due to the division of responsibilities and revenue raising potential between the 3 levels of government in Australia. Local governments exhibit a high degree of diversity in terms of size, population, revenue raising capacity and the range of services they provide. Local government has traditionally been responsible for planning and building regulation and provision of basic services such as roads, waste removal, recreation and social services. In recent years responsibilities for community and social services have expanded in the areas of aged care, youth and child care services, health services, community housing and emergency accommodation, and a range of welfare services (PC, 2007).

The expansion of services provided by local government has been attributed to the devolution of responsibility or withdrawal of provision by other levels of government, or increased community expectations (PC, 2007). In an attempt to address cost shifting, an agreement was negotiated in 2006 that governs the delivery and funding of services that local governments provide on behalf of other levels of government (PC, 2007). Local governments attempt to increase economic activity by promoting the area to prospective businesses. They are also major employers or responsible for significant employment opportunities for companies that provide services to local governments on a contract basis.

Local government activities are funded through grants from the federal government in combination with rates and charges administered by individual local governments but regulated by state governments. During 2007-2008, local governments will receive a total of \$1.76 billion in grants from the federal government under the Local Government (Financial Assistance) Act 1995 (Department of Infrastructure Transport Regional Development and Local Government, 2007). The grants have 2 components; the general purpose component of over \$1.2 billion is distributed on a per capita basis, while the local roads component of over \$500 million is based on historical shares. Local governments also receive funding under the Roads to Recovery programme, and the Black Spot programme which are discussed in detail in Chapter 8.

6.5.5 Social entrepreneurship and other local employment strategies

The role of non-profit organisations has undergone significant change in the past few decades. Once an auxiliary to market and public social service provision, non-profits are now an integral component operating on a commercial basis and increasingly taking over provision of social services on a contract basis for government. Much of this transformation has been engineered by government decisions to reduce untied funding to non-profits and establish tighter control over what services are delivered and how. The 31,764 non-profits in June 1996 employed 579,367 people or 6.9 per cent of total employment and contributed around \$14.6 billion or 3 per cent to GDP (Novak, 2003). This sector provides a wide range of social services such as assistance to the poor, education, health, accommodation and care services.

Much of the growth in the sector in recent years is a result of government decisions to contract or outsource service provision in line with international trends towards a purchaser-provider split. The Job Network is an example of the shift from public sector employment service provision to mixed private and non-profit provision. Several large non-profit organisations are contracted to provide Job Network services including Mission Australia, the Salvation Army Employment Plus, Centacare Employment and Job Futures. Many non-profits are also involved in delivering other employment related services such as Work for the Dole and the Community Support Programme.

Another attempt by the Howard government to initiate social entrepreneurship initiatives was the launch of the Community Business Partnerships in 1999 that brought together business and community representatives to 'develop and promote a culture of corporate and individual social responsibility' (The Prime Minister's Community Business Partnership, 2000: 2).

A recent innovation are 'social enterprise hubs' which are partnerships between local government, Social Ventures Australia and a corporate partner (Social Ventures Australia, 2007). The hubs facilitate development of social enterprises that provide employment by providing a range of services and assistance such as mentoring, pro bono services, training in management tools and business skills, promotion. The first social enterprise hub was established in Brisbane in 2006 and consists of a partnership between Social Ventures Australia, Brisbane City Council and PricewaterhouseCoopers. A second hub commenced in Parramatta in 2007 with Social Ventures Australia, Parramatta City Council and Allco Foundation as partners.

Place management initiatives have occurred in several public housing estates that are undergoing regeneration or demolition and rebuilding. The Redfern-Waterloo Authority was established in 2005 to provide a whole of government approach to the area to focus on job creation, delivery of community services, facilitate urban renewal, improve traffic management and engage in community consultation.

The Built Environment Plan aims to create up to 18,000 jobs and includes development of community health centres, affordable housing for Aboriginal residents and improvements to the town centre, railway station and pedestrian access. Major construction projects will include a requirement that contractors incorporate an Aboriginal Participation Plan to ensure that local residents have access to employment opportunities. One of the options considered to maximise economic development was declaring the area an enterprise zone to provide payroll tax concessions to SMEs (Redfern-Waterloo Authority, 2006). To facilitate access to employment, training or educational opportunities, the plan includes provision of additional child care places. The Redfern-Waterloo Authority is also establishing partnerships with major industries to ensure training and employment opportunities for local residents in the construction, hospitality, commercial cleaning, facilities management and transport industries.

Major redevelopments are also occurring in other public housing areas including Bonnyrigg in NSW; South-East Queensland, Townsville and Cairns in Queensland; Playford, Hawksbury Park and Westward in South Australia; and Bridgewater-Gagebrook in Tasmania. In Victoria neighbourhood renewal initiatives using a place management approach have been credited with creating 4,600 jobs since 2001 through employment programmes and fostering the development of 33 social enterprises in neighbourhood renewal areas (Department of Human Services, 2007).

In conjunction with the Victorian Neighbourhood Renewal Strategy, the Brotherhood of St Laurence implemented employment strategies for job seekers in the Fitzroy and Collingwood areas. The programmes included intensive personal support, pre-vocational training and work experience to enable on the job learning, placement in ongoing employment and a period of

post-placement support to maximise job retention (Ziguras and Kleidon, 2005). Employment opportunities were increased by new state government policies such as the requirement that on-third of employees of cleaning contractors must be local residents.

Ziguras and Kleidon (2005) attribute the fact that around two-thirds of participants obtained paid employment to a combination of factors. These include strong linkages between training and job opportunities due to employment policies and the opportunity to participate in work experience. Further, they stress the benefits of a human capital rather than a work first approach, commenting that investments in training and experience that typically lasted between 6 and 12 months greatly increased the skills and confidence of participants. The gradual approach combined with post-placement support enabled participants to deal with major changes involved in moving from long-term unemployment into employment. Moreover, intensive personal support in concert with training and employment assistance enabled non-vocational barriers to be addressed progressively.

Another programme that was jointly operated by the Adult Multicultural Education centre (AMES) and the Brotherhood of St Laurence was an intermediate labour market approach involving establishment of a commercial cleaning business to provide training and employment for disadvantaged job seekers for 15 hours per week for 1 year. In addition to on-the-job training, participants completed the Certificate III in Asset Maintenance (Cleaning and Operations). The focus of the first 6 months is training and employment retention while the second 6 months focuses on placement in permanent employment in a similar fashion to the Step-UP job creation programme in the UK (see Cook, 2008c). Of the initial group of 12 trainees, 11 completed the traineeship and obtained full-time employment.

Other initiatives have also contributed to community development through the provision of information and advice. The NSW government 'community builders' website provides information on how to access funding and strengthen communities through inclusion, improving safety, encouraging economic and employment development through business / community partnerships and place management (NSW Government, 2005).

6.6 Conclusion

This chapter has provided an outline of employment and regional development policies in Australia over the past few decades. This period is marked by the demise of full employment that was characteristic of the postwar period until the mid 1970s. In addition, deindustrialisation occurred as major manufacturing industries such as passenger motor vehicles, and textiles, clothing and footwear were exposed to international competition in a rapidly globalising economy. There have also been periods of prolonged drought that have affected the viability of rural industries as well as significant changes in relative prices for goods. These major transformations have impacted unevenly over the Australian geography producing pockets of high and entrenched unemployment and labour underutilisation. There are a number of trends that are discernable in regard to the trajectory of Australian policies.

Developments in ALMPs in Australia have mirrored international developments. In the mid 1970s the emphasis was on reducing unemployment through the demand-side strategy of direct public sector job creation and this strategy resurfaced in periods of very high unemployment in the 1980s and 1990s but was short-lived. Over time employment conditions attached to these jobs deteriorated. In contrast to earlier programmes such as REDS, WPP and CEP that included payment of award wages, programmes in the 1990s such as Jobskills and NWO paid a reduced 'training' wage. In retrospect, these programmes can be viewed as a transitional phase between genuine job creation and the current Workfare situation characterised by Work for the Dole. From the late 1970s demand-side labour market policies

privileged wage subsidies to the private sector rather than public sector job creation. Subsidies were also intended to impact on the supply-side of the labour market by enhancing employability and improving equity by better employment outcomes for the long-term unemployed and disadvantaged groups.

From the 1980s the abandonment of the government commitment to full employment was evident in the shifting emphasis toward enhancing employability through an increased commitment to vocational training programmes such as Jobtrain and Skillshare. With the shift to the Active Employment Strategy other 'inadequacies' of the unemployed were addressed through programmes to provide jobsearch skills, improve literacy and numeracy and provide soft job skills. In the last decade ALMPs have been restricted to 'employability' strategies that concentrate on unpaid work experience in the form of voluntary work and WfD which is designed to discipline workers to accept any form of employment. There has been very restricted access to training courses. Since the abandonment of Jobstart, wage subsidies have been at the discretion of Job Network providers, with the exception of the Wage Assist programme that is restricted to the very long-term unemployed. The transformation of ALMPs represents a transition from full employment to employability and then Workfare.

Regional and local policies to stimulate economic and employment growth are implemented by all 3 levels of government to varying degrees, but Australian policies are notable for the lack of a coordinated national approach and attempts to shift responsibilities and costs. While Commonwealth involvement in regional development has fluctuated over time, state governments have provided the major impetus to regional policies. State governments have implemented a range of programmes designed to attract business, stimulate new business formation or expansion of existing businesses. Attempts to increase international competitiveness have included assistance with international marketing and trade fairs. States have also offered inducements to business including payroll deductions, discounts on charges, or reductions in regulations. There is a long history of interstate rivalry, particularly in attempts at business attraction, that produced few results at the national level and, in many cases, only short-term gains at the state level.

There is widespread recognition that although local government is ideally placed to assess community needs, councils are financially constrained due to limited revenue raising abilities and the increasing burden of service provision due to reductions in services provided by other tiers of government.

Major themes in the regional literature in Australia are: Australia lags behind North America and Europe in its commitment to regional development; regional Australia is vulnerable to economic shocks; and there is continued regional divergence of economic and employment performance. In contrast to Europe and the US, where regional policy has a strong focus on disadvantaged urban regions, regional policy in Australia has almost exclusively been restricted to regions outside metropolitan areas.

The major impetus for the development of localised initiatives has been the failure of national policies to address the major problems associated with unemployment over a prolonged period of time. Compounding the ineffectiveness of employment policy that has concentrated on supply-side solutions has been the preoccupation of governments with fiscal responsibility that is interpreted to mean that deficit budgets cannot be tolerated. Hence, there have been significant cuts in the financial resources devoted to public services by both federal and state governments and local government is financially constrained. Other policies, notably the contraction of public housing and restricted eligibility has further entrenched areas composed largely of people suffering extreme disadvantage and amplified social problems. In these

circumstances the contribution of initiatives such as social enterprise to solving the unemployment problem can only be described as woefully inadequate.

In summary, regional policies implemented by the federal, state and local governments have generally been small scale and incapable of addressing the major problem of labour underutilisation that has persisted over the past 3 decades.

Part 3

Local Government Survey

7

The Local Government Survey: research methodology and results

7.1 Purpose of the study

The underlying objective for undertaking this research was to investigate the feasibility of implementing a Job Guarantee. A national local government JG survey was conducted with two major aims:

1. To compile an inventory of unmet need for infrastructure and services in communities across Australia; and
2. To identify both the type and quantity of socially meaningful work (contributing to community development) that could be performed by low skilled workers employed under the JG to meet these needs.

The topic of the study had not been investigated through survey methodology previously, and thus an original survey instrument and processes had to be developed.

7.2 Survey population

Local governments were identified as the survey population as they cover a defined geographic area with clear non-overlapping boundaries. They are also a first point of contact for communities and have detailed information about local needs. This is evidenced through the production of local government documents, such as ‘The State of the Environment Report’, annual reports and ‘Social and Community Plans.’ The survey population consisted of 665 local governments throughout Australia (excluding Torres Strait Islands) of which 328 local governments, selected through a stratified random sampling technique were invited to participate in the study.

Other potential sources of information included organisations such as Conservation Australia, Meals on Wheels among others because they had close association with environmental and community activities. However, they were considered problematic due to their specialised interest areas and their ill-defined geographical coverage. Key informants from the Federal Government’s Work for the Dole scheme were originally involved in the sample to enhance the quality of the costing section of the survey. However, after conducting preliminary interviews and considering the extant research literature, it was decided that the survey would produce unreliable costing information (see Beer *et al*, 2003 for in depth examination of costing items in survey research). It was therefore decided that questions relating to costing would be investigated at a later date through an alternative methodology and sample.

The framework and key functions of local governments is provided by state-based legislation, and therefore varies by state across the 701 local government bodies throughout Australia. Table 7.1 outlines the scope of local government in Australia which extends well beyond the stereotype of “roads, rates and rubbish”. Australian local governments attend to planning, regulation and community development issues, act as community advocates and engage in social and capital infrastructure construction and maintenance activities. This is reflected in their expenditure patterns. Council expenditure is dominated by general public services (17.8 per cent), provision of transport and communications (22.2 per cent) and community

amenities (23.8 per cent). Revenue is obtained through a variety of sources, and councils face strict regulation regarding the amount of funds they are able to access through rate revenue. Thirty nine per cent of council funds are raised through rate revenue, a further 30 per cent is raised through sale of goods and services, and 9 per cent comes from grants and subsidies from state and federal governments (DOTARS, 2007).

Table 7.1 A typology of local government functions in Australia

Function	Example
Engineering	Local roads, footpaths and bicycle track construction and maintenance; Management of waste, storm water drainage systems, water and sewerage.
Recreation and culture	Management of sports facilities, recreation centres, community halls, swimming pools, community parks, libraries, galleries and museums
Health	Management of public toilets; Inspection of meat; Food and water sampling; Animal control services.
Community welfare	Management of child care, aged care, refuge and respite facilities; management of community welfare services such as Meals on Wheels and some counselling services.
Built environment	Site inspection; Project approvals; issuance of various licenses; administration of cemeteries, parking stations and street parking

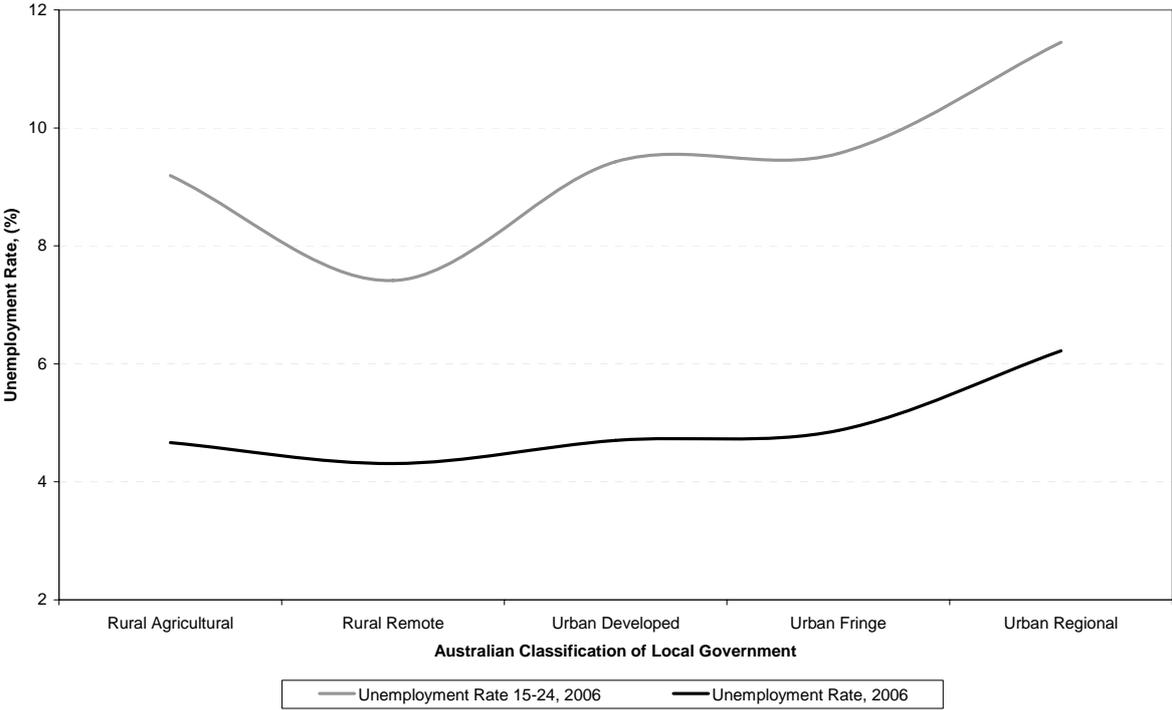
Source: Department of Transport and Regional Services (2007) 2005-06 Local Government National Report: Report on the operation of the local government (financial assistance) Act 1995, Department of Transport and Regional Services, Canberra.

Social planners and community development officers in Local Government were targeted to complete the main survey. Their main function is to develop strategies to research and remedy social problems and thus improve the social and economic environment of their local communities. They are key players in the development of long term social and community planning that culminates in the development of *Social and Community Plans*, which define local government social aspirations for their communities.

7.3 Sampling strategy

The Department of Transport and Regional Services (2007) developed a comprehensive regional classification that considers a local government’s remoteness from services and opportunity for social interaction as a basis for regional analysis. This system of classification enables a more detailed understanding of the socio-economic experience of Australian communities and how this is defined through access. This classification scheme reveals that significant differences exist across local government areas in terms of community involvement, employment outcomes, industry composition, income levels and income sources (DOTARS, 2007). For example, major cities have a much higher share of the population receiving the age pension (9.2 per cent) than do remote areas (5.7 per cent). Conversely, remote areas have a higher share of Newstart recipients (7.8 per cent) than do major cities (4.8 per cent). The SEIFA index identifies rural remote communities as most disadvantaged (884), while urban developed communities are the most advantaged (1059). Employment by industry is also highly variable across space. In remote and very remote areas 31 and 27 per cent of the population, respectively, are employed in agriculture or mining. In contrast, opportunities in private services comprise 50 per cent of those employed in major cities. Figure 7.1 shows that unemployment tends to be higher in urban regional areas, than in rural agricultural, rural remote areas or urban developed areas.

Figure 7.1 Unemployment by Local Government, Australia, 2006



Source: ABS (2006) Census of Population and Housing.

The composition of population by remoteness also reveals considerable diversity. For example, indigenous persons make up over 40 per cent of the population share in very remote areas. By contrast, 27.6 per cent of persons born overseas reside in a major city. Australia’s cities, inner and outer regions have a larger proportion of the population aged over 65 years than do remote and very remote areas.

The remoteness classification also reveals differences in community involvement and access to infrastructure. Major cities in Australia are rich in capital and social infrastructure, as well as opportunities for entertainment, in comparison to many of our rural and remote areas. The community participation of remote communities reveals itself in higher rates of volunteering, with individuals residing in rural agricultural council areas volunteering at a rate of 25 per cent, as opposed to 17.5 per cent of people living in urban developed areas (see below). Involvement in community organisations is also higher in rural areas (43 per cent) as opposed to urban developed areas (37 per cent). However, the isolation that rural areas face is evident in reduced amounts of weekly contact with friends and family (50 per cent, as opposed to 60 per cent in inner regional areas) (DOTARS, 2007). These statistics mean that urban policy makers face the challenge of enhancing community participation and community cohesion, while rural communities have well established social networks, but face problems associated with proximity.

The Australian Classification of Local Government (ACLG) was used to identify an appropriate stratified sample that ensured equal sampling of local government characteristics. The ACLG schema was initially developed by the Department of Transport and Regional Services (DOTARS), and groups local government over 3 variables. The first step defines if the local government is urban or rural, based on population size and density. The second step considers proximity to an urban centre, industry and population growth. This groups local governments into developed, regional, fringe, remotes, agricultural and significant growth. The final step looks at population size and classifies local governments as small, medium,

large and very large. Each step allocates a prefix to develop a three-letter identifier for each class of local government.

The national local government JG survey was conducted in 2006-07, after a pilot study was conducted in 2005. Fifty per cent of local governments were selected. The survey applied an open-ended, semi-structured approach, mediated through a telephone interview.

7.4 The Pilot and preliminary study

7.4.1 Overview

In order to ensure a quality research design, a comprehensive pre-testing and evaluation of the research objectives, processes and instruments was undertaken. This involved conducting a literature review, which investigated best practice in survey design and implementation; holding focus groups with fellow researchers; and the involvement of a sample from the survey population in a pre-testing and evaluation study. This comprised of a preliminary interview, the Pilot survey, and a post Pilot interview. Proximity to the University of Newcastle was also a consideration. Nineteen local governments (in New South Wales), which broadly reflected the composition of the main survey population, were invited to participate in the study.

The sample frame involved a range of local government employees from different positions, including economic development managers, human resource managers, community officers and social planners, across councils.

The main questions were organised into 2 main categories of local need: (a) Environmental protection; and (b) Community development. Respondents were asked to choose one of these categories which was then explored in more detail. Each main category was, in turn, divided into 6 response categories. The response categories for environmental protection were developed from the *Local Government Environment and Natural Resources Survey* conducted biennially by the Australia Bureau of Statistics (ABS). The categories were: waste water management, solid waste management, protection of soil and groundwater, conservation of biodiversity and habitat, protection of cultural heritage and other environmental protection.

There was no standard community development classification system available to draw upon, therefore response categories for the community development section were largely developed from two resources; the ABS *Australian System of Government Finance Statistics, Concepts, Sources and Methods*, and the New South Wales Department of Local Government's *Social / Community planning and reporting guidelines*. The categories were: transport amenities, recreation and culture, community amenities, welfare services, public health and safety and other community development. These categories and sub-categories were defined in an on-line glossary, available as part of the support resources which were developed.

Of the 15 local governments that were invited to participate, 13 attempted the survey. Twelve of these, chose the community development option.

The preliminary interview was conducted in a semi-structured format, and sought to investigate participant knowledge and response to concepts that were core to the investigation. Participants were first asked about their involvement with labour market programmes, and about potential employment opportunities within their local government area that could address unmet need within environmental protection and community development. Finally, participants were asked about the administrative and managerial capacity of local government to operate the JG programme. The interviews sought to identify the appropriate survey population or position title that the study should be directed towards; to develop a list of examples of JG jobs that could be used as examples throughout the survey

instrument; and to assess the capacity of human and material resources to facilitate the programme.

Eight respondents fully completed the survey, while the 5 remaining participants, including the one participant who chose to develop JG employment opportunities in environmental protection, only partially completed the survey. Respondents who had partial survey completions did not attempt any of the open-ended response questions. During follow up interviews it was revealed these participants felt they lacked the specific knowledge that they considered was needed to respond to the questions. Thus, their partial completions could be attributed to a coverage error arising from the fact that a range of local government employees, holding different positions, were included as respondents.

Respondents consistently indicated that the most appropriate person to undertake the community development option was the Social Planning or Community Liaison Officers. These officers were considered to have more community interaction and be more involved in developing the organisation's Social and Community Plans. As a consequence, they could offer more insight into unmet community needs and be able to quantify the employment resources needed to address these needs. Survey respondents also suggested that environmental protection questions would be best addressed to Environmental Health Officers or personnel who played key roles in the development of the compulsory *State of the Environment* report or the Survey titled *Local Government Environment and Natural Resources Survey* conducted by the Australia Bureau of Statistics biennially.

The interview process revealed that the survey was too broad. The outcomes suggested that two separate surveys would be necessary to fully document the unmet needs in community development and environmental remediation. However, budgetary and time constraints meant that only one target group was possible. The study also confirmed that a focus on community development, rather than environmental remediation would be more effective. Finally, the respondents considered questions across 6 categories of community development to be burdensome and so a reduction was considered for the full study.

The pre-interview process had also revealed that respondents should develop a conceptual understanding of the JG model to better allow them to answer the questions. To meet this need, an on-line survey resource page was developed which provided respondents with a wealth of information about the JG model as well as standard ethics information. Further, to help respondents understand the scale that JG would need to operate at within their own area, the on-line resources also provided information about the number of unemployed people and other relevant socio-economic indicators by local government area.

After evaluation of the information, gathering comments from the pre-testing processes, and making appropriate revisions to the proposed survey, a final version of the instrument was submitted for ethics approval.

7.4.2 Potential for jobs to service unmet service needs in regional Australia

There are a myriad of community services provided through government, private and volunteering sectors designed to enable the independent living of older people and people with special needs. However, despite the services that are available for aged care and people with special needs, the preliminary study identified considerable gaps in the provision of services for these people. The respondents also indicated that this unmet need was unlikely to be serviced without additional funding.

The responses identified a significant unmet need in terms of welfare services and corresponding potential for low skill employment. The study outcomes were consistent with

other research which has identified gaps in service provision (for example, Bill *et al.*, 2004; ABS, 2003).

7.4.3 Funding constraints

The respondents observed that local governments and other community organisations face an increasingly competitive yet unstable funding environment. Local governments report that these funding trends have led to the neglect of local and specialised needs, and the development of a funding bias towards larger organisations. This reality illustrates that agencies are being rewarded for becoming more competitive and achieving cost reductions, but in the same instance are denied the funding, resources and ability to address fundamental issues that are core to their organisation. As a result, local governments are under pressure from the public to fill the gaps caused by the reduced capacity of other organisations to deliver community services (Newcastle City Council, 2005).

The funding squeeze (actual or perception thereof) appeared to constrain what jobs respondents deemed possible. Local government and community organisations now frame proposals and build outcomes to increase the likelihood of achieving funding success. The process becomes guided by perceived possibility, which eventually adjusts into line with what is deemed feasible and achievable, instead of actual need (Earl, 2005: 914).

7.4.4 The funding squeeze and bounded rationality among respondents

The preliminary study revealed that respondents generally signalled a conservative understanding of the scale of need within their communities relative to the scale identified in the extant research literature. In turn, this reduced the estimates of potential jobs that could be generated to service the unmet need. For example, several respondents reported that unmet need within their community could be satisfied by employing an extra 1 or 2 carer / aides. Given the scale of need that the ABS described in *Disability, Ageing and Carers* (ABS, 1998), it would seem most unlikely that the provision of another 1 or 2 carers would suffice.

Some respondents were much more unconstrained in their imagination of the scale of JG. Interestingly, it was revealed in later interviews that these respondents had previously been involved in job creation programmes in one form or another. This suggests that responses to the study reflected respondents' bounded perception of they considered to be feasible.

Bounded rationality explains that decision-making processes, and the information that people use to aid them in this process, does not necessarily result in rational responses (Earl, 2005). The bounds on human rationality are steered by the incompleteness of knowledge, the prevalence of norms and the costs involved with achieving perfection (see also Simon, 1993). Bounded rationality becomes problematic when asked to consider possible alternatives that are contrary to the way we understand the world.

The JG model clearly requires consideration of the possibility of an alternative way of viewing the world and of concepts that are contrary to popularised understanding of how the economy works (Mitchell and Wray, 2004).

The preliminary study clearly reflected conservative responses. Given the type of needs identified and the scale of need identified by the public statistics (which were compiled in the on-line resources supporting the survey), it is clear that many more potential low / unskilled employment opportunities could have been identified by the respondents had they not been bound in their perceptions.

7.5 Survey administration method

The survey comprised structured telephone interviews combining in-depth interviews with the collection of information across the same variables. The nature of the research question did not allow researchers to apply a straight forward questionnaire style survey, however, the method of data collection did allow for formation of a case data grid (de Vaus, 2002).

Potential survey respondents were invited by letter to participate. The letter outlined the research purpose and costs and benefits of participation. The letter was followed up by a telephone call a week later to determine the person's willingness to participate in the survey.

For those who consented, the subsequent telephone interview commenced by giving each respondent an opportunity to clarify any aspects of the survey. The interviewer then provided an overview of the survey:

I'd just like to give you a brief overview of the survey format before we begin.

- You will be asked to comment on need for community development within your local government area under five subcategories including public health and safety, recreation and culture, transport amenities, community welfare services and an others category.
- The first part of the survey will ask you to identify need within your local government area.
- The second part of the survey will investigate further details of the needs that you have identified and identify tasks that could be undertaken by low and unskilled workers.
- You will then be asked to estimate the number of workers that could be employed to meet the outlined needs.

For each section of the survey the interviewer provided a definition of the category. For example, the section on transport amenity was introduced:

The definition of transport amenity includes the rehabilitation, maintenance, and construction of road/rail/pipelines, provision of transport aides, and other transportation services and affairs.

Interviewers then read a vignette to provide background information that could focus the attention of the participant in an attempt to broaden their conceptualisation of the topic area to reduce the problems of bounded rationality that were identified in the Pilot study. Participants were then asked the survey questions:

Question 1: Given this information and what you already know about your local government area could you identify NEED for transport amenities that is:

- NOT currently being undertaken by public, private or other sectors; or
- NOT being undertaken at a level which satisfies the community need within your LGA.

Question 2: What tasks could be undertaken by LOW/UNSKILLED workers to meet this need?

Question 3: Would you be able to estimate the number of full-time equivalent permanent low or unskilled workers that could be used to meet this need within your local government area PER ANNUM.

These questions were repeated for each identified need in the category and then for each of the other 3 categories in the survey: public health and safety; recreation and culture; and community welfare services. Respondents were then asked if there were any other needs for community development that had not been covered in the nominated categories. Definitions supplied to survey participants for the other 3 categories of need were:

- Public health and safety includes the support, provision and/or maintenance of health promotion services, fire prevention measures, disaster relief and development of community relations;
- Recreation and culture includes the support, provision and/or maintenance of parks, national parks and cultural facilities, and other recreation and culture affairs and services;
- Community welfare services includes the support, provision and operation of housing/accommodation, community sanitation services, and other community welfare services and affairs, and services for groups with special needs.

7.6 Responses and non-responses

The survey population consisted of 665 local governments throughout Australia (excluding the Torres Strait Islands). Table 7.2 shows the manner in which respondents who completed the survey was distributed between states and ACLG regions.

Table 7.2 Survey participants by state and ACLG region

State	Number of Respondents	Percentage of Respondents (%)
New South Wales	52	34.4
Victoria	18	11.9
Queensland	22	14.6
South Australia	15	9.9
Western Australia	22	14.6
Tasmania	10	6.6
Northern Territory	12	7.9
Total	151	100.0
Urban developed	27	17.9
Urban regional	30	19.9
Urban fringe	9	6.0
Rural	66	43.7
Remote	19	12.6
Total	151	100.0

In the following discussion, references or aggregates reported under State and ACLG region categories only refer to the location of local governments surveyed. For example, unemployment figures provided for NSW (see Table 7.5) refer to the total official unemployed (at March 2006) located in the surveyed NSW LGAs and not total NSW unemployment.

Table 7.3 shows the response distribution from the 328 local governments, which were invited to participate in the study after being selected through a stratified random sampling

technique from the 665 local governments in Australia. Forty six per cent of the sample (151) completed the entire survey. The rate of response is comparable to other contemporary telephone survey response rates.

Table 7.3 Description of national survey response

Status	Number	Percent
Completed survey in full	151	46
Partial completion	33	10
Declined to participate	115	35
Unable to be contacted	26	8
Invalid council	3	1
Total	328	100

The rate of response varied across states and ACLG regions. Of the LGAs surveyed in each state, New South Wales and Tasmania had the highest response for full survey completion (68.4 and 71.4 per cent, respectively). Responses were lowest for Western Australia, the Northern Territory and Queensland (between 30.1 and 38.7 per cent). The lower response rate for these states can be largely attributed to the higher number of local governments classified rural remote or rural agricultural small, where staffing is limited and populations are small and sparse. Recent political reforms that occurred while the survey was being conducted (2005-2007), including the federal government's Northern Territory Emergency Response Indigenous community intervention and reforms resulting in the mass amalgamations of local governments throughout Queensland also contributed to lower response rates in those states.

To ensure the sample remained representative of the overall population, the response data was weighted to adjust for non-response (de Vaus, 2002: 85). Weighting involves statistically increasing or decreasing the number of cases across particular population characteristics. The data was weighted by state and remoteness using the ACLG.

7.7 Survey results

7.7.1 Potential for job creation

Table 7.4 reports on the inventory of potential JG jobs identified from the survey by job classification (type of job) and broad community development categories (Transport Amenity; Community Welfare Services; Public Health and Safety; and Recreation and Culture). The responses show that 8 types of jobs were consistently identified as being urgently required to meet community needs with a number of other jobs considered to be less urgent.

The construction of public housing and public infrastructure; provision of additional teacher's aides; and community-based home care support for the elderly were considered the most suitable areas to generate socially meaningful jobs that were suitable for low and unskilled workers. Problems with localised and specialist transport were also identified as being a potential area to create low skill employment.

The socially meaningful work that respondents considered could be created nationally accounted for around 40 per cent of all unemployed people in local government areas that participated in the survey (at March 2006) (DEWR, 2006a).¹

Table 7.4 Potential JG employment opportunities by job classification and category

Description of Labour Type	TA	CWS	PHS	RC	Totals	% of total jobs
Builder's labourer	404	15,376	170	1,774	17,724	33.7
Personal care assistant/home support worker	300	5,010	0	0	5,310	10.1
Paving/surfacing labourers	4,983	14	10	139	5,146	9.8
Garden labourers	61	320	139	2855	3,375	6.4
Teachers aide	226	2,948	0	0	3,174	6.0
Environmental remediation worker	11	0	0	2402	2,413	4.6
Community development officer	41	1036	609	347	2,033	3.9
Bus driver	1,805	8	0	0	1,813	3.4
Sports development assistant	0	80	1,075	79	1,234	2.3
Refuge support worker	0	1,109	0	0	1,109	2.1
Rail track worker	1,047	0	0	0	1,047	2.0
Handyperson	18	595	120	259	992	1.9
Kitchen hand/food preparation assistant	0	625	289	0	914	1.7
Child care worker	0	883	0	0	883	1.7
Fire prevention	0	0	637	0	637	1.2
General clerk	179	146	239	32	596	1.1
Cleaner	54	87	331	68	540	1.0
Gallery/museum attendant	0	0	11	480	491	0.9
Youth support worker	0	0	476	6	482	0.9
Health promotions officer	0	0	428	0	428	0.8
Community arts officer	0	0	0	369	369	0.7
Event organisation assistant/promotion	1	5	305	31	342	0.7
Family support worker/mentor	0	216	8	0	224	0.4
Interviewer	30	30	31	126	217	0.4
Trekking guide/bush walking guide	0	0	0	216	216	0.4
Tourist information	0	0	0	201	201	0.4
Security officer	132	0	52	0	184	0.4
Railway assistant	131	0	0	0	131	0.2
Inspector/regulatory officer	4	58	54	4	120	0.2
Indigenous education worker	0	82	0	0	82	0.2
Caretaker	2	12	18	23	55	0.1
Sales assistant	13	0	0	15	28	0.1
Library assistant	0	0	22	6	28	0.1
Fencer	0	0	5	4	9	0.0
Trapper	0	0	6	0	6	0.0
Coding clerk	0	0	0	3	3	0.0
Café/canteen assistant	0	0	0	0	0	0.0
Total	9,442	28,640	5,035	9,439	52,556	100.0

Notes: TA is Transport Amenity; CWS is Community Welfare Services; PHS is Public Health and Safety; and RC is Recreation and Culture. Rounding to one decimal point means some of the small positive percentages are shown as 0.0.

Variation across states

The results varied considerably across states and local government types as well as by individual respondents. Table 7.5 shows the state by state breakdown of the total number of unemployed at March 2006, the number of JG jobs identified by survey respondents and the percentage of official regional unemployment that the identified JG jobs would eliminate.

The highest number of potential JG employment opportunities as a proportion of the unemployed population identified was in surveyed LGAs in South Australia (65 per cent), followed by Queensland (57 per cent), and Victoria (50 per cent). The lowest proportions of jobs identified were in surveyed LGAs in Western Australia (25 per cent) and New South Wales (28 per cent), although respondents in New South Wales identified the highest number of potential jobs (15,365).

Table 7.5 Unemployment and potential for Job Guarantee employment by state

Location of surveyed Local Government ^(a)	Number of official unemployed March 2006 ^(b)	Number of potential JG jobs	Percentage of total potential JG jobs ^(c)	Potential JG jobs as a % of UN in region
NSW	54,136	15,356	29.2	28.4
Victoria	29,839	14,875	28.3	49.9
Queensland	13,490	7,681	14.6	56.9
South Australia	10,568	6,907	13.1	65.4
Western Australia	11,920	3,199	6.1	26.8
Tasmania	3,763	1,781	3.4	47.3
Northern Territory	n/a	2,757	5.2	n/a
Total ^(d)	123716	49799		40.3
Total ^(c)		52556	100.0	

Note: (a) Refers to the state where the surveyed LGA was located. The sums are then of the LGAs surveyed rather than the overall state; (b) refers to the total unemployment in the LGAs surveyed rather than the whole state; (c) Includes the Northern Territory; (d) Total excludes Northern Territory for which incomplete unemployment data was available.

Variation across local government type

Spatial disparities are also evident when results are examined by the Australian Classification of Local Governments (ACLG) as displayed in Table 7.6. The highest proportion of potential JG jobs identified as a proportion of unemployment was in local governments in rural areas (57 per cent). This was significantly larger than in urban developed areas (40 per cent), urban fringe areas (36 per cent) and urban regional areas (36 per cent).

7.7.2 Community welfare services

Table 7.7 provides the spatial distribution of the JG jobs identified by survey respondents in community welfare services and shows how the identified quantum compares to official unemployment in the survey areas (as at March 2006). Victorian respondents identified the highest number of potential jobs in this category although as a percentage of total unemployment in the region, South Australian respondents estimated that community welfare services could support extra employment of around 45 per cent of the total unemployment in

the LGAs surveyed in that State. Similarly, around 35 per cent of the unemployed in the LGAs surveyed in Queensland and 30 per cent in Victoria could be employed in community welfare services positions identified by survey respondents. In contrast, this proportion was below 20 per cent in the LGAs surveyed in New South Wales (11 per cent), Western Australia (17 per cent) and Tasmania (almost 19 per cent).

Table 7.6 Unemployment and potential for Job Guarantee employment by ACLG

ACLG status of surveyed Local Government ^(a)	Number of official unemployed March 2006 ^(b)	Number of potential JG jobs	Percentage of total potential JG jobs ^(c)	Potential JG jobs as a % of UN in region
Urban developed	48,804	19,595	37.3	40.2
Urban regional	44,770	15,596	29.7	34.8
Urban fringe	12,008	4,436	8.4	36.9
Rural	17,862	10,238	19.5	57.3
Remote	n/a	2691	5.1	n/a
Total ^(d)	123,444	49,865		40.4
Total ^(c)		52,556	100.0	

Note: (a) ACLG status of LGAs surveyed refers to the ACLG location of the LGA surveyed rather than all LGAs in the ACLG regions. The sums are then of the LGAs surveyed rather than the overall ACLG region; (b) refers to the total unemployment in the LGAs surveyed rather than unemployment in the whole ACLG region; (c) Includes Remote LGAs. The percentages are based on this total. They may not add to 100 due to rounding errors; (d) the Total excludes remote and very remote local councils classified by the ALGC which identified a further 2691 potential JG jobs. The percentage gap is the number of potential JG jobs identified as a percentage of the number of official unemployed.

Variation across activity category

Table 7.7 builds on the information available in Table 7.4 by summarising the results for each survey category: transport amenity, community welfare services, public health and safety, and recreation and culture. Potential JG employment opportunities in community welfare services (27,194) are greater than the other categories in all states; with potential positions ranging from 11 per cent of the official unemployed in New South Wales to 45 per cent in South Australia. Transport amenity had the second greatest employment generating potential (9,151 jobs) followed by Recreation and Culture (8,680 jobs) and then Health and Safety (4,774 jobs). Table 7.7 reports the extent to which these jobs compare to official unemployment in each state by category. Overall the 49,799 potential jobs (excluding Northern Territory) account for about 40.3 per cent of the official unemployed in Australia in March 2006.

Table 7.8 decomposes the potential JG employment opportunities identified by category and ACLG classification (urban developed, urban regional, urban fringe, rural and remote). The results show that potential JG employment is not concentrated in urban centres. Thirty seven per cent of the potential opportunities would be available across categories in rural areas.

Table 7.7 Potential JG employment opportunities by community development survey category and location of LGAs surveyed

Location of surveyed Local Government ^(a)	UN ^(b)	Transport Amenity		Community Welfare Services		Public Health and Safety		Recreation and Culture		Total	
		JG Jobs	%UN	JG Jobs	%UN	JG Jobs	%UN	JG Jobs	%UN	JG Jobs	%UN
NSW	54136	4207	7.8	6021	11.1	2134	3.9	2994	5.5	15356	28.4
Victoria	29839	1932	6.5	8854	29.7	1536	5.1	2553	8.6	14875	49.9
Queensland	13490	1026	7.6	4816	35.7	363	2.7	1476	10.9	7681	56.9
South Australia	10568	1151	10.9	4720	44.7	378	3.6	658	6.2	6907	65.4
Western Australia	11920	420	3.5	2077	17.4	231	1.9	471	4.0	3199	26.8
Tasmania	3763	415	11.0	706	18.8	132	3.5	528	14.0	1781	47.3
Northern Territory	n/a	291		1446		261		759		2757	
Total ^(c)	123716	9151	7.4	27194	22.0	4774	3.9	8680	7.0	49799	40.3
Total ^(d)		9442		28640		5035		9439		52556	

Note: (a) Refers to the state where the surveyed LGA was located. The sums are then of the LGAs surveyed rather than the overall state; (b) refers to the total unemployment in the LGAs surveyed rather than the whole state; (c) Total excludes Northern Territory for which incomplete unemployment data was available; (d) Includes the Northern Territory.

Table 7.8 Potential JG employment opportunities by community development survey category and ACLG regions

ACLG status of surveyed local government ^(a)	UN ^(b)	Transport Amenity		Community Welfare Services		Public Health and Safety		Recreation and Culture		Total	
		JG Jobs	%UN	JG Jobs	%UN	JG Jobs	%UN	JG Jobs	%UN	JG Jobs	%UN
Urban developed	48804	3399	7.0	10713	22.0	2353	4.8	3130	6.4	19595	40.2
Urban regional	44770	2312	5.2	10590	23.7	1006	2.2	1688	3.8	15596	34.8
Urban fringe	12008	1044	8.7	1691	14.1	540	4.5	1161	9.7	4436	36.9
Rural	17862	2295	12.8	4510	25.2	836	4.7	2597	14.5	10238	57.3
Remote		392		1136		300		863		2691	
Total ^(c)	123444	9050	7.3	27504	22.3	4735	3.8	8576	6.9	49865	40.4
Total ^(d)		9442		28640		5035		9439		52556	

Note: (a) ACLG status of LGAs surveyed refers to the ACLG location of the LGA surveyed rather than all LGAs in the ACLG regions. The sums are then of the LGAs surveyed rather than the overall ACLG region; (b) refers to the total unemployment in the LGAs surveyed rather than unemployment in the whole ACLG region; (c) Total excludes Remote LGAs for which incomplete unemployment data was available; (d) Includes Remote LGAs.

Table 7.8 reports the same data for the LGAs surveyed by the ACLG. The rural LGAs identified the greatest proportion of community welfare services positions as a proportion of unemployment with the potential to employ over one quarter of the overall unemployed if these positions were created. All council types identified potential JG positions in community welfare services which would absorb around 22 per cent of the unemployed.

Table 7.9 details the community welfare service needs identified by survey respondents in 4 broad categories (see also the detailed job types identified in Table 7.4). The results confirm the perception of a serious lack of infrastructure investment in regional Australia (ABN-AMRO, 2006; Allen Consulting Group, 2005). The potential number of jobs in community welfare services was 15,254 for builder's labourers reflecting the widely recognised national crisis in housing and the long term neglect of public housing investment.

Table 7.9 Areas of need identified for the provision of community welfare services

Community Welfare Service subcategory	Examples of areas of need	Potential jobs for low/unskilled workers
Housing and accommodation	Expansion of public housing	Builder's labour
	Residential aged care facilities	Personal care assistant
	Refuge facilities for various groups	Refuge support worker
Services for children	Provision of teachers aides	Teachers aides
	Assistance to childcare services	Child care worker
	Before and after school care	
Community support	Elderly social isolation	Personal care assistant
	Hospital/nursing home visitation	Community development assistant
	Administrative support to community groups	General clerk
Independent living	Provision of domestic assistance	Personal care assistant
	Garden maintenance services	Gardener
	Meal delivery services	Food preparation

Investment in refuge facilities for victims of domestic violence, youth and homeless men were also important community needs identified throughout the survey. Both investment areas have been shown to add substantial social value by increasing beneficiaries' usage of auxiliary health care and community services and decreasing involvement in crime (Rog, 2004).

The two remaining areas of community welfare services that were comparatively employment intensive were associated with provision of aides to teachers and assistance for independent living, which accounted for 5.7 per cent (3013) and 9 per cent (4743) respectively, of the total jobs identified in this category.

Studies from the ABS (2003), various government inquiries, and a myriad of academics across Australia, reveal a consistent story of inadequate funding of services supporting independent living (Brotherhood of St Laurence, 2001; Austin, 2006; ABS, 2003; Community Affairs References Committee, 2005). Indeed, the Disability, Ageing and Carers survey (ABS, 2003) shows that 1 in 5 Australians have a disability, of which 1 in 4 report that they have unmet needs. These issues are explored in greater detail in Chapter 9.

7.7.3 Transport amenity

There were significant State differences in the proportion of jobs that were identified by survey respondents in the category of transport amenity. Table 7.7 provides the distributions for this category compared to official unemployment in each state. New South Wales respondents identified the highest number of potential jobs in this category although Tasmanian and South Australian respondents identified the greatest potential for job creation as a percentage of total unemployment at around 11 per cent of total unemployment in the surveyed LGAs.

Respondents from LGAs surveyed in New South Wales, Victoria and Queensland identified potential positions in the transport amenity area for between 6 and 8 per cent of total unemployment, while respondents from LGAs in Western Australia identified potential jobs for less than 4 per cent.

Table 7.8 displays these same data according to ACLG categories. As was the situation with community welfare services, respondents from rural LGAs identified the greatest proportion of transport amenity positions that could potentially be created as a proportion of unemployment in those LGAs, at almost 13 per cent of unemployed. Again, all council types identified potential positions in transport amenity which combined would be able to provide jobs for over 7 per cent of the total unemployed.

Table 7.10 Areas of need identified for the provision of transport amenity

Transport subcategory	Amenity	Examples of areas of need	Potential jobs for low/unskilled workers
Transport infrastructure		Bituminise roads	Paving/surfacing labourers
		Up-scale light rails services	Gardeners
		Manage road-side vegetation	Builder's labourers
		Footpath / cycleway expansion	
		Upgrade bus stop/shelter facilities	
Transport services		Dial-a-ride community transport	Drivers
		Increase inter-city service frequency	General clerks Personal care assistant
		Flexible community transport	

Table 7.10 shows that community needs for improved transport amenity fell broadly into 2 categories: (a) transport services; and (b) transport infrastructure development. The survey respondents echoed the research findings in ABS (2004) which revealed that the supply (frequency / timetabling) and quality of public transport alters usage of such services, entailing need for up-scaling and investment in transport systems before usage will increase.

Beyond this, there is a complete absence of public transport in some local government areas, indicating an urgent need for a comprehensive transport strategy and employment investment.

Poor access to reliable transportation is one of the major constraints that low skilled workers face in maintaining attachment to the labour market and being able to pursue new employment opportunities (Mitchell and Bill, 2006).

Table 7.11 outlines a particular type of transport identified by survey respondents that addresses the needs of the elderly and other marginalised groups in their regions. Survey

respondents indicated that the most prominent need for employment investment related to provision of “dial-a-ride” community transport services.

These services are largely involved in the transportation of elderly people to / from medical appointments and may also take the elderly shopping or to community centres. In many local government areas across Australia these essential services are undertaken by volunteer workers, with little or no remuneration provided. These services represent ideal JG positions.

Table 7.11 Potential JG jobs in transportation services in surveyed LGAs

Transport function	General clerical	Personal care	Driving	Total
Revision and expansion of public transport systems to increase connectivity	36	81	574	691
Provision/expansion of flexible community transport services	14	10	400	424
Provision of a community taxi service/ dial-a-ride community transport	105	139	686	930
Increase frequency of inter-city transport services	16	10	86	112

Table 7.12 shows the potential JG jobs for paving / surfacing labourers in surveyed LGAs. Survey respondents also identified transport infrastructure development in the areas of paving and surfacing as being in need of significant employment investment.

A common theme reflected by the respondents was the need for further investment in alternative transport infrastructure, including footpaths and cycleways. The estimates provided marginally out weighed the need for additional investment in road infrastructure.

Further, there were substantial differences relating to scale revealed by state and ACLG region. Chapter 8 explores the range of issues relating to transport provision, unmet need and the potential for JG jobs to meet those needs.

Table 7.12 Potential JG jobs for paving/surfacing labourers in surveyed LGAs

Location of local government surveyed	Road maintenance	Footpaths and Cycleways	Total
NSW	731	889	1620
Victoria	340	601	941
Queensland	466	342	808
South Australia	215	494	709
Western Australia	95	77	172
Tasmania	78	234	312
Northern Territory	157	17	174

7.7.4 Public health and safety

While the survey respondents identified significant unmet needs in the category of public health and safety, most of the jobs identified were typically not as employment intensive as the other 3 categories of community development. For example, many participants expressed need for provision of health promotion assistants or commercial cleaners, but indicated that this need could be met by employing an extra 1 or 2 workers in their LGA.

Table 7.7 provides the spatial distribution of potential JG jobs in public health and safety which were identified and shows the comparison with the official unemployment levels in the survey areas. Respondents from LGAs in New South Wales identified the highest number of potential jobs in this category, however, Victorian respondents identified the greatest percentage (just over 5 per cent) of the total unemployed that could be absorbed by providing JG jobs in public health and safety,. Respondents from New South Wales, South Australia and Tasmania estimated that between 3.5 and 4 per cent of the unemployed in the LGAs surveyed could be employed in public health and safety jobs. The corresponding figures were 2.7 and 1.9 per cent, respectively, for respondents from Queensland and Western Australia.

Many survey participants identified urgent needs for health professionals such as doctors, nurses, dentists and other health professionals, but these positions were excluded from the survey results since these needs cannot be addressed by employment of low skilled workers.

Table 7.13 Areas of need identified for the provision of public health and safety

Public Health and Safety subcategory	Examples of areas of need	Potential jobs for low / unskilled workers
Community infrastructure	Graffiti removal/ street mural	Cleaner
	Septic tank inspection	Caretaker
	Clearing of derelict land	Inspectors
Community safety	Support of alcohol free zones	Community development assistant
	Community patrols	Youth development assistant
Community cohesion	Youth café/youth drop-in centre	Community development assistant
	Support civic engagement: street festivals, block BBQs	Youth development assistant
	community newsletter/ community radio station	Event assistant/promotion
		Kitchen hand
Community health	Community fruit/vegetable garden	Gardener
	Community group exercise	Sport development assistant
	Assistance to sporting groups	Administration
	public health promotions	Health promotion assistant
Disaster prevention	Hazard reduction	Fire worker
	Bushfire prevention	Environmental remediation worker

The representation of these data for potential public health and safety jobs in the ACLG categories is shown in Table 7.8. LGAs surveyed from urban developed, urban fringe, and

rural areas all identified potential JG positions for between 4.5 and 5 per cent of unemployed, while urban regional areas identified potential jobs for over 2 per cent of the unemployed.

Table 7.13 shows that the needs identified by survey respondents in public health and safety fell into 5 broad categories. Most opportunities for low skilled job creation in public health and safety were in the promotion of community health with roles being identified for community walking groups, health promotion assistants, and assistance to sporting groups.

The perceptions of the survey respondents in public health and safety are in line with Australian public health research. ABS (2005) shows that Australia is becoming an increasingly overweight population with an increasing need for preventative strategies to contain escalating future health care costs.

7.7.5 Recreation and culture

Table 7.7 provides the results for potential jobs identified in the area of recreation and culture by the respondent LGAs and the percentage of total unemployed which would be absorbed by these jobs. While again respondents from New South Wales identified the most number of jobs, Tasmanian respondents estimated that the recreation and culture area could support extra employment of 14 per cent of the unemployed in the LGAs surveyed in that State. Similarly, almost 11 per cent of the unemployed in the LGAs surveyed in Queensland could be employed in recreation and culture positions identified by survey respondents. Victorian respondents identified almost 9 per cent, while respondents from South Australia (6 per cent), New South Wales (5.5 per cent) and Western Australia (4 per cent) also identified potential JG jobs in this area.

Table 7.14 Areas of need identified for the provision of recreation and culture

Recreation and culture subcategory	Examples of areas of need	Potential jobs for low/unskilled workers
Community facilities	Community hall/centre maintenance	Builder's labour Handyperson
	Skate park construction/up-grade	Paving/surfacing labourers
	Provision of an aquatic centre	
Cultural Activities	Admin support to cultural centres	General clerk Interviewer
	Linguistic/cultural heritage record	Community arts assistant Guide
	Public arts spaces	Tourist information
	Information brokerage services and maintain parks	
Environmental rehabilitation	Waterway rehabilitation	Gardener
	Upgrade parks and gardens	Environmental protection worker
	Removal of alien species	Handyperson

The representation of these data distributed into ACLG classifications can be seen in Table 7.8. Again, rural LGAs surveyed identified the great est proportion of positions in the recreation and culture area as a proportion of unemployment, with the potential to create employment for almost 15 per cent of the unemployed in these regions. All council types

identified JG positions that could be created in the recreation and culture area with the potential to absorb almost 10 per cent of the unemployed in urban fringe, 6.4 per cent in urban developed and 3.8 per cent in urban regional areas.

Many facilities and organisations that support the recreation of their community, including botanic gardens, galleries and museums, are largely supported by volunteers (ABS, 2006). The survey respondents identified several areas where employment investment could be made to improve recreation and cultural assets in their LGAs. Table 7.14 summarises the main areas identified under three broad categories.

The largest potential for JG employment was identified as labouring work in the environmental remediation of reserve areas (including national parks, crown lands and local government reserve land).

7.8 Limitations of survey

The data gathered from this study offer considerable insight into the nature of need for community development and indications of where service provision is inadequate throughout Australia. The study also effectively identifies the types of activities that could be usefully undertaken to reduce deficiencies in service provision. It was found that substantial needs exist that could be filled by the employment of low / unskilled workers, confirming the potential for job creation in the public sector in the form of a JG.

However, the number of potential jobs accounted for around 40 per cent of the official unemployment in the LGAs that participated in the survey as at March 2006 (DEWR, 2006a). Moreover, the Community Development survey did not specifically collect data on the potential for job creation in environmental protection. In total, 2413 potential jobs (4.6 per cent of total JG jobs) for environmental remediation workers were identified by respondents. There is vast scope for the creation of JG jobs in environmental protection and remediation to provide socially valuable employment opportunities for the unemployed. These include but are not limited to:

- Waste water and recycling management activities such as sewerage operations, waste water reuse, landfill operations, recycling operations and the implementation of programmes to reduce the amount of materials entering the solid waste stream;
- Conservation of biodiversity and habitat programmes relating to the protection and reintroduction of native flora and fauna, protection of habitats and the construction of barriers to prevent damage for developments entering areas specified as having value for diversity;
- Protection of soil and groundwater through remediation of contaminated soils, protection of existing soil and groundwater areas from contamination by wastes and degradation, and remediation of degraded soils in crown land and national parks; and
- Protection of natural and cultural heritage by establishing and maintaining natural and cultural heritage sites and programmes to encourage the implementation of cultural heritage preservation by business and households.

If the potential JG employment identified by the respondents defined a realistic inventory of jobs that would satisfy unmet need in regional Australia, then a JG targeted at youth and the long-term unemployed could be effective. As at July 2008, unemployment in Australia stands at 4.3 per cent of the labour force, and this means that 481,100 are officially jobless. Youth unemployment currently comprises 19.7 per cent (94,600) of total unemployment, and long-term unemployment constitutes 14.8 per cent (71,200) of all unemployed (ABS, 2008).

However, it is likely that the survey respondents adopted extremely conservative estimates of the quantum of available job opportunities in their regions and failed to fully appreciate both the scale of unmet need and how this would map into labour requirements necessary to alleviate the need.

Respondents were influenced by several factors when framing their estimates of potential JG employment in their regions, including:

- The uncertain and increasingly competitive funding environment that local governments face (negative factor);
- Previous involvement with public sector job creation programmes (positively influenced);
- A limited opportunity to fully consider all options (negative factor); and
- Lack of breadth of knowledge of all aspects of the local government enterprise (negative factor). A change in methodological approach, development of information databases and refocusing of the target respondents was implemented between the Pilot and main survey to overcome the issues arising from the lack of corporate knowledge. Despite improvement in the quality of responses, there were still notable problems.

The data analysis reveals that, while participants effectively identified areas of need within their local government area, the comprehensiveness and coverage of individual responses was related to area of expertise. Participants found estimation of the number of jobs that could effectively address documented needs challenging. Further, the scale of need described by the sample was frequently contrary to the scale of need that other research and various parliamentary inquiries have identified. For example, when asked about need for community care services, responses ranged from the need to employ 1 or 2 more personal care assistants, through to the need to employ hundreds. Obviously the size, demographic composition and location of local government will play a major role in need for such services, and some local governments will be better serviced than others. However, given the scale of need identified in Disability, Ageing and Carers (ABS, 2003), it would seem that provision for another 1 or 2 carers would hardly suffice, in the context of an ageing population. Further, qualitative feedback from interviewers reconfirms this conclusion. The interviewers reported the need for frequent reference to the local government demographic profile to ensure that scale of stated need reflected population composition.

The issue of scale in part reflects the nature of contemporary funding, which is increasingly prescriptive, competitive and non-committal. These characteristics subsequently reinforce the erroneous notion of a government budget constraint, and foster a mismatch between community need and funding allocation (Mitchell and Muysken, 2008).

An associated issue relates to the recent upsurge in volunteering as a community asset. It is now common to view activities that were previously considered worthy of wage remuneration (that is, were considered to be paid work) as being the tasks better suited to volunteer efforts. This shift in perception has reduced the range of activities which we identify as being suitable for paid employment. Many of these activities are at the local level and as such this perception shift has a direct impact on our survey responses – biasing the estimated job potential downward.

The respondents regularly suggested the need for additional volunteers in a particular area of need, but saw a limited role for paid workers. This view was especially prominent in food preparation and delivery services, assistance to sporting groups and cultural facilities, and in non-traditional areas of work.

In the Pilot study, one source of downward bias in job estimates was associated with bounded rationality among respondents (see Section 7.4.4). The data analysis of the main survey confirms this conclusion, that decision-making processes, and the information that people use to aid them in this process, is very much grounded in one's own prior knowledge (Earl, 2005). Access to information helps to enhance and augment knowledge (and thus survey responses), however, gaps in information continued to be influenced by prevalent norms and perceptions. When faced with proposals that challenge our norms and perceptions, such as the concept of a JG, the processes that typically guide rationality can be limited.

There was a general view that community needs could be better served through the creation of thousands of low skilled jobs under a JG-type policy. However, it remains that the data collected through this survey, while extremely useful in setting out the type of unmet needs that persist in regional communities, definitely under-reports the scale of employment investment that is needed to service these community needs.

7.9 Conclusion

The national local government JG survey confirmed that there exists in Australia a large amount of unmet need for infrastructure and services to enable full economic and social participation. Survey respondents outlined strategies that could be used to address these needs through provision of employment opportunities to members of the community seeking work or additional work. There was a general view that community needs would be better served through the creation of thousands of low skilled jobs under a JG-type policy. They were able to provide rough estimates of the numbers of people who could be employed, the duties to be performed, and the types of training opportunities that could be included to enhance the skills of the workforce and labour force productivity.

In total jobs identified could potentially create employment opportunities for 40 per cent of the unemployed and cover a wide range of occupations. The highest number of jobs identified was for builder's labourers (34 per cent of all jobs), personal carers and garden labours / handypersons (10 per cent), and teacher's aides and child care assistance (8 per cent). Other needs included environmental remediation workers, community and youth workers, health and fitness workers, food preparation assistants and rail workers.

The limitations of data collected from this survey relate to both time constraints that limited participants' responses, breadth of participant knowledge and the competitive and non-committal character of contemporary funding regimes that are applied to local governments and many other community development initiatives in Australia.

As such, the data generated from this study should be augmented with additional sources of information to ensure that the policy process is better informed of the extent of unmet community needs and the quantum of JG jobs that would be required to service the needs.

Therefore, in addition to the presentation of survey results in this chapter, we undertook further analysis in relation to two of the survey categories, transport amenity (Chapter 8) and community welfare services (Chapter 9). Survey results are compared with various sets of data documenting information on expressed or 'demand' need, such as the Socio-Economic Indexes for Areas (SEIFA) index and unemployment rates, to further investigate issues associated with regional development. Data are examined both nationally, by state and by remoteness indicators, with results revealing substantially different needs across space.

¹ Measures of unemployment for some Northern Territory Municipalities, Community Governments, Incorporated Associations and/or Special purpose towns were not available and so the percentage figure refers to the total jobs potential minus the employment identified in the Northern Territory.

8

Transport amenity

8.1 Transport amenity and social need

Effective transport systems are important for access and equity. They impact on wellbeing and the ability to participate in economic and social activities. Lack of sufficient access to transport can lead to a ‘poverty of access’ situation, which means that social exclusion is intensified through reduced opportunity to engage with society (Farrington and Farrington, 2005).

There is evidence of the need for extensive investment in transport systems to upgrade or replace and extend ageing transport infrastructure (see Chapter 11 for details on infrastructure requirements). The state of transport amenity in Australia has been critiqued extensively by peak engineering bodies, business councils and government departments.

The Howard Government responded to concerns regarding the adequacy of transport infrastructure by launching a new policy and transport amenity reform agenda in 2004 known as Auslink. Auslink acknowledged that both road and rail infrastructure, which is efficient, reliable and safe in character, is essential to the nation’s prosperity, and also acknowledged deficiencies in current infrastructure. Inefficiencies as a consequence of the short-term outlook and insufficient scale of government investment resulted in the conclusion that:

The existing planning and decision-making framework is short-term, ad-hoc and fragmented across transport modes and jurisdictional boundaries. The development and implementation of a national vision for critical land transport links is vital (Department of Transport and Regional Services, 2004: viii).

Auslink’s new vision for transport amenity in Australia aimed to create synergies across government bodies in order to transcend political and ideological boundaries to meet the transport and infrastructure needs of local communities. However, the white paper noted that ‘only projects of high national priority that meet Australian Government funding requirements will be considered’ (Department of Transport and Regional Services, 2004: x), and the additional funds constituted only 8 per cent of the shortfall in infrastructure investment identified by the Australian Council for Infrastructure Development (2001, cited in AFTF, 2007: 153).

The Rudd Labor Government has nominated infrastructure investment as one of its top priorities and has set aside \$20 billion for a Building Australia fund. The Infrastructure Australia Act 2008 established a taskforce, known as Infrastructure Australia that will be responsible for: auditing the nation’s infrastructure; developing an infrastructure priority list; identifying policy, pricing and regulation that may impact on the utilisation of infrastructure; and advising on reforms to encourage greater private investment in public infrastructure. Infrastructure Australia’s scope extends to transport, energy, communication and water related infrastructure.

As part of its strategic direction, the Department of Infrastructure, Transport, Regional Development and Local Government, is developing a National Transport Policy, a National Aviation Policy and further public-private-partnerships.

This Chapter considers communities' needs for transport amenity and associated infrastructure investment. This research is framed in part by deficiencies identified by the National Local Government JG Survey, which was outlined in Chapter 7. Clear themes have emerged through this analysis; namely that unmet needs for capital infrastructure, social infrastructure and environmental investment have imposed significant social and economic costs over time.

This Chapter initially provides an overview of transport and information on the need for further investment in road and rail infrastructure, footpaths, cycle-ways and walking trails. The latter part of the chapter considers the transport services needs and provides a comprehensive review of the state of transport services in urban, regional and rural communities throughout Australia.

8.2 Transport Infrastructure investment

State and territory governments have been responsible for arterial roads, public transport systems, urban design and the planning of transport systems. Local government authorities have been responsible for maintaining local low volume road systems and other infrastructure including footpaths and bicycle tracks. The federal government, through the Department of Infrastructure, Transport, Regional Development and Local Government (previously the Department of Transport and Regional Services) is responsible for national highways and highway link roads, which account for 18,500 kilometres of road throughout the nation. The department also provides funding for local and state governments through Auslink programmes that include the Strategic Regional Programme, the Roads to Recovery programme and the Black Spot programme (see Section 8.3.1 for details).

The federally owned rail network, Australia National Railways was sold in 1997. National rail projects will receive \$138 million between 2005-09 to maintain and upgrade tracks and bridges to allow higher mass to be transported. Some state governments have also privatised or corporatised sections of their networks.

Public transport in Australia includes: taxis provided by private providers; community transport which is provided by a combination of local governments, health authorities and community based organisations; buses provided by both public and private organisations; and rail transport (including trams, heavy and light rail) which was traditionally publicly provided, but in some instances has been privatised in recent years.

Both public bus and rail transport systems are generally only available in highly urbanised areas throughout Australia. Many public transport services in rural and regional areas have not been commercially viable for the private sector. Children of school age have been entitled to subsidised public transport services between home and school although, some isolated communities have faced the cancellation of these services. The 2008 NSW mini-budget introduced a parental co-payment of \$45 per primary school student and \$90 for high school students, capped at \$180 per family. Pensioners and others receiving social grants are able to use the public transport system at a discount.

Towards the end of the 1950s a model of urban development was adopted that favoured expansion of new residential areas that were based on private vehicle usage (Dodson, 2007). The shift to construction of highways competed with other modes of transport and gradually drew passengers away from public transport services and community hubs. Dodson (2007: 11.3) notes that from the 1990s onwards, increases in public transport usage have been linked to population growth, rather than any structural overhaul of the transport system. The inconsistency in appraisal methods concerning rail and road infrastructure investment has also seen a bias towards road and subsequent disinvestment in rail infrastructure.

The financial resources for the majority of transport facilities are provided through state and local governments, and significant transfers from the federal government are required. Local rate revenue and state related taxes also provide sources of funding. The distribution of funds from the Commonwealth is formulated to ensure distributional equity across states, rather than on a per capita basis (Allen Consulting Group, 2005: 9).

Several reports have identified the need for significant investment injections for infrastructure including roads and public transport in Australia (see Chapter 11 for further details). An estimated \$14 billion shortfall in local government expenditure on infrastructure has been attributed to insufficient growth in revenues (AFTF, 2007: 160).

Many respondents to the national local government JG Survey acknowledged the need for major funding to construct, improve and extend major highways, rail and light rail systems as discussed in Chapter 7. Although the survey asked for information on needs that extended beyond the boundaries of local government responsibility, this chapter focuses mainly on roads and other infrastructure that the local government is responsible for maintaining.

8.3 Local roads and local governments

8.3.1 Overview of local roads

Local government authorities are responsible for maintaining local low volume road systems and other infrastructure including footpaths and bicycle tracks. The purpose of these roads is to provide enhanced access to the local economy and residential areas. The maintenance of local roads accounts for a large portion of local government expenditure and they have been valued at \$75 billion (DOTARS and ALGA, 2003: 8). In 2005-06 local governments were responsible for maintaining 647,000 kilometres of local roads which represented an average of 923 kilometres of road for each local government (DOTARS, 2007). Funds to maintain local roads are primarily derived from local rate revenue and federal government grants, but also limited funding is available from State governments, for example, following natural disasters. Also, the NSW State government makes limited funds available for local roads with certain bus routes. In some cases state government traffic facility block grants are put towards both state and local roads. State governments also provide some support to local governments for programmes that focus on road safety rather than works programmes. Road usage changes over time, and if local roads attract sufficient traffic, they can be reclassified as state roads.

The major federally funded road programmes in Australia are:

- The Federal Assistance Grant (FAG) commenced in 1972 and funds local governments to maintain and enhance capital and social infrastructure. FAG has a 30 per cent general component distributed on a per capita basis to local councils, with the remaining 70 per cent being a grant which is allocated to states on an historical basis and then distributed to local governments on the basis of road length and population.
- The Roads to Recovery programme commenced in 2000 and provides funding for construction and maintenance of roads, bridges, tunnels, bicycle paths, and installation of traffic controls and street lighting. Roads to Recovery will provide \$1.23 billion between 2004 and 2009.
- The Strategic Regional programme encourages the construction of infrastructure that supports regional growth trajectories, job creation and development of industry clusters within regions. The programme will provide funding of \$250 million between 2006-07 and 2008-09.

- The Black Spot programme commenced in 1990 and aims to reduce road trauma by improving road conditions and traffic management on local roads with high numbers of accidents. Funds are allocated equally between urban and regional roads. Projects include construction of roundabouts, traffic signals and sealing of road shoulders. It was allocated \$47.5 million in 2007-08.

The distribution of funds is highly contentious and local roads maintained by local governments generally receive lower budgetary allocations than the roads maintained by Federal and State governments. This means that many local roads are inadequately maintained. The method and distribution of funds also leaves roads in rural and remote Australia in the worst condition, even though these areas contain 70 per cent of all local roads (Hardwicke, 2005). The framework for distribution of funds originally had its roots in the 1947 Commonwealth Aid Roads and Works Act, which provided for a subsidiary grant to be allocated for construction and maintenance of local rural roads (Burke, 1977: 7). This grant recognised that the condition of rural roads was comparatively poor and underdeveloped, and that local government authorities had limited resources to invest in roads. The Act also provided funding for strategic roads, roads accessing Commonwealth property and road safety.

Table 8.1 Australia Government funding to local governments for local roads, 2006-07 (\$millions)

Federal Grant	FAG, identified road grant	Supplementary funding	Roads to Recovery	Strategic regional programme	Black Spot	Total
NSW	149.5		85	97	11.1	342.6
VIC	106.2		62.5	39.6	10.3	218.6
QLD	96.5		62.5	84.5	9.9	253.4
WA	78.8		45	31	4.9	159.7
SA	28.3	13	25	29.7	3.2	99.2
TAS	27.3		10	6.6	0.8	44.7
ACT	16.5		5	0	0.9	22.4
NT	12.1		5	1.7	0.6	19.4
Aust	515.2		300	290.3	41.7	1147.2

Source: Department of Infrastructure, Transport, Regional Development and Local Government (2008).

Table 8.1 displays federal government funding for local roads programmes for 2006-07 which amounted to \$1.15 billion. In general total grant funds are population based with the largest allocation of \$342.6 million going to NSW and the Northern Territory receiving the smallest allocation of \$19.4 million. The exception is Queensland which received higher funding than Victoria although its population is lower. A likely explanation for this anomaly is that Queensland covers a much larger land mass and has the most dispersed population which tends to increase infrastructure costs (see Chapter 11 for a discussion of this phenomenon).

The relative need of local governments for road maintenance is extremely complex and difficult to measure. For instance, the standard at which similar roads are maintained varies across states, and maintenance needs increase with the age of the road. The allocation of

funding requires an ordering of competing priorities. For example, decisions need to consider whether priority should be established according to: the standard of roads; usage and population density; local economic development potential of the region; or road safety.

8.3.2 Analysis of survey results

Analysis of data collected from Local Government Social Planners indicates that councils typically have inadequate funding for road maintenance in the form of bituminising gravel and dirt roads, widening of local roads to meet increased traffic and filling potholes and clearing invasive vegetation.

Most roads in rural and remote areas are unsealed and of low quality. For instance, in rural remote Australia, less than 10 per cent of the roads are sealed, whilst in rural agricultural regions only 20 per cent of roads are sealed. Local governments should be frequently regrading local roads, while users are forced to tolerate fluctuations in road quality. Respondents from rural and remote Australia also referred to the impact of dirt roads on their communities arising from the increased air borne particle matter, which led to the increased incidence of respiratory disease. There are options that need to be further investigated. For instance, in South Africa, the International Labour Organisation's Employment Intensive Investment Programme has developed a road seal known as the 'ottar road seal'. This represents an economically viable alternative to the frequent regrading of dirt roads, and can be applied using capital or labour intensive techniques.

Older roads, particularly on the urban fringe, were built to prevailing construction standards, which specified narrower road widths. LGAs, such as those on the Central Coast, north of Sydney, were former holiday destinations, but are now home to many commuters and retirees. Much of the road (and social) infrastructure in these communities has not kept pace with population growth or community needs. Indeed over 90 per cent of Social Planners surveyed in urban fringe councils reported high levels of unmet need for road maintenance which is consistent with the findings of the Roads to Recovery study, which highlighted that funds were mainly devoted to the upgrading of roads in high growth areas, such as urban fringe and rural growth areas (DOTARS and ALGA, 2003).

The state of NSW receives the highest funding allocation for local roads from federal grants (see section 8.3.1), which may explain why the percentage of local governments in NSW reporting need for additional road maintenance funding was lower than the remaining states (see Table 8.2). The lower rates of reported need for local road maintenance in NSW may also reflect the benefits of population size and density, which allow expenditure to be relatively low per capita (\$52.32). Conversely, Western Australia which is sparsely populated and Queensland received federal funding of \$81.52 and \$64.90 per capita, respectively, during 2006-07, but also had the highest rates of reported need for additional funding of local roads, especially in rural and remote areas. While these areas receive the highest funding allocations on a per capita basis, overall funding is comparatively lower.

Similarly Victoria and South Australia received less federal grant funding than NSW, and had higher reported need for additional road maintenance funding than NSW. On the other hand, in spite of receiving the lowest allocation of funds for local roads, reported need in Tasmania was also comparatively low. Respondents from Tasmania were more concerned with improving public transport systems.

Thus the principles underpinning the allocation of (rationed) funds have important implications for infrastructure investment across space, which, in turn, is strongly correlated with development and economic growth. The degree to which investment coincides with need would impact on a region's growth trajectory.

Closer examination of the road component of the FAG and data collected from the National Local Government JG Survey also confirms that need for additional assistance increases across the Australian Classification of Local Government ACLG remoteness index. Total funding allocations decrease with remoteness while per capita funding increases. Rural and remote Australian local governments are responsible for maintaining a large number of local roads that span vast distances. However, these roads are low volume roads, and thus do not receive the same traffic flows that urban roads carry. As noted, population density is one of the main factors that is taken into account when funds are allocated to local governments.

Table 8.2 Need for additional local road funding and federal grant allocation for local roads, 2006-07 (\$m)

Variables	NSW	VIC	QLD	WA	SA	TAS
Need for additional road maintenance funding	41.67%	50.19%	83.76%	81.56%	60.95%	33.59%
Total Federal grant allocation 2006-07 (\$m)	\$342.6	\$218.6	\$253.4	\$159.7	\$99.2	\$44.7
Federal grant allocation per capita, 2006-07	\$52.32	\$44.32	\$64.90	\$81.52	\$65.51	\$93.81
Population, 2006	6549170	4932420	3904548	1959093	1514328	476481

Source: Department of Infrastructure, Transport, Regional Development and Local Government (2008); ABS (2006b) Census of population and housing; Author's own data.

Table 8.3 displays the survey results for the percentage of councils reporting need for additional road maintenance funding by ACLG, total funding and per capita funding. Reported need increases in tandem with remoteness despite the higher per capita funding in rural and remote areas. Ninety eight per cent of respondents from remote areas indicated there was unmet need for road maintenance compared to 75 per cent in rural areas and only 43 per cent in urban areas. Examination of the data by the Australian Classification of Local Government and the SEIFA advantage / disadvantage index (2001) reveals an inverse relationship, with a higher percentage of respondents in areas that have low (relatively high disadvantage) SEIFA scores indicating a need for additional road funding. The areas with the greatest reported need for additional road maintenance funding (remote areas) are also the least advantaged areas according to the SEIFA index. In the more economically advantaged urban areas (those with the highest SEIFA score) the reported need is lower.

Table 8.3 Identified roads component of the FAG for 2007-08 and need for additional road maintenance funding for local governments*

Variable	Urban	Rural	Remote	Average
Need for additional road maintenance funding	43.48%	74.63%	98.46%	61.34%
FAG roads allocations 2007-08 (average)	\$936559	\$688759	\$545197	\$785012
FAG road allocations per capita	\$16.00	\$76.89	\$248.82	\$25.96

Source: Author's own data and calculations; Department of Infrastructure, Transport, Regional Development and Local Government (2007) Financial Assistance Grants to Local Government: Estimated entitlements; ABS (2006b) Census of population and housing; ABS (2006b) SEIFA Index of Relative Socio-Economic Advantage/Disadvantage, Cat No. 2033.0.55.001.

*Table excludes data from the North Territory and Australian Capital Territory.

Research on the Roads to Recovery programme indicates that on average local governments directly employed an additional 3 to 4 employees as a result of the programme. The precise number of additional jobs created from funding provided under the Roads to Recovery programme is not available since some local governments, particularly those in urban areas, used contractors to undertake the work. Researchers suggested that it was therefore possible that direct jobs creation was higher, lying between 4 to 5 people per local government area (DOTARS and ALGA, 2003). The shortfall in funding for local roads is estimated at \$630 million per annum (DOTARS and ALGA, 2003).

Information obtained from the National Local Government JG Survey demonstrates an urgent need for infrastructure investment, including reparation and further construction of infrastructure vital to ensure the continued growth and prosperity of Australian regions. The neglect of infrastructure projects that will contribute substantially to the future prosperity of the nation illustrates a failure in governance, which is broadly associated with the neo-liberal project. The consequences of this are represented in increased traffic congestion, increased commute times, transport based inequalities, energy inefficiencies and growing spatial inequality.

8.4 Footpaths, cycle-ways, walking trails and local government

8.4.1 Overview of footpaths and cycle-ways

Mobility in Australia is primarily associated with vehicle ownership. Funds allocated to local governments for expenditure on alternative transport infrastructure, such as footpaths and cycle-ways competes with the pool of funds available for local road investment. For instance, funding provided by the Roads to Recovery programme can be put towards investment in bicycle and footpaths, but investment in local roads remains the priority. Only 1.6 per cent of Roads to Recovery grants between 2004 and 2005 were spent on footpaths and cycle-ways (DOTARS, 2006c). Indeed, in-depth interviews with Local Government Social Planners revealed that investment in footpaths and bicycle tracks was one of their major unmet needs, which was attributable to funding constraints and the subsequent prioritisation of projects.

Investment in auxiliary transport systems has a very strong public good component and facilitates the use of other modes of transport such as public transport. Many footpaths in urban communities are inadequate, unsafe or non-existent, and many rural communities only have footpaths on their main street (Hensher, 2007).

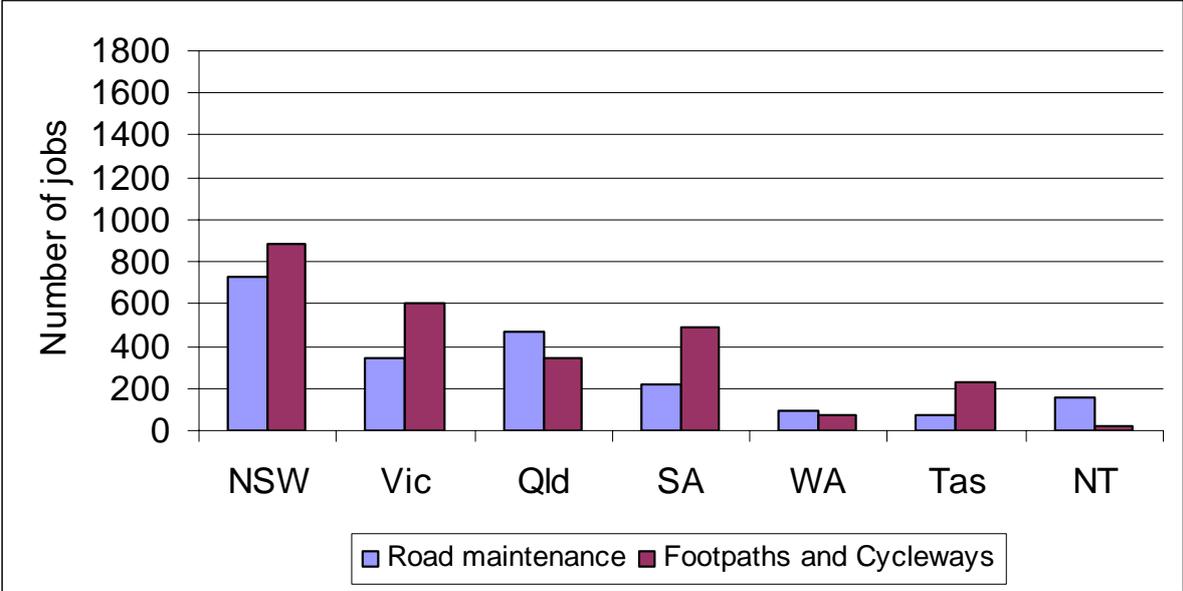
Reporting about expenditure on footpath and cycle-way infrastructure is not consistent across states. While local government is ultimately involved in processing project approvals, the source of funds through which such infrastructure is created comes from a range of sources. In some cases it is classified as 'road expenditure' as an ancillary service. In other cases footpath and cycle-way projects are undertaken for local governments through schemes such as Work for the Dole which provides funding for supervision, materials, safety equipment, protective clothing and other project expenses. Elsewhere, developers may undertake construction of footpaths and cycle-ways.

8.4.2 Analysis of results from the National Local Government JG Survey

Around 85 per cent of respondents from remote areas indicated a need for additional funding for footpaths, cycle-ways and walking tracks compared to 72 per cent from rural areas and 56 per cent in urban areas. This pattern of unmet need for additional funding is similar to that for local roads which is documented above.

Urban areas reported a greater need for investment in alternative transport infrastructure (56 per cent) than for additional local roads funding (43). This may reflect the comparatively better condition of urban roads and also the relative feasibility of using alternative transport systems in areas with a relatively high population density. It is likely that this is because funds made available for these investments come from the same or similar sources. For instance, funds from the Roads to Recovery programme can be put towards footpaths as well as road infrastructure. Funds available for footpaths, cycle-ways and walking trails therefore compete with funds that would otherwise be spent on local road construction and maintenance. State governments provide limited funding for investment in this infrastructure.

Figure 8.1 Potential JG jobs for paving / surfacing labourers in surveyed LGAs



The results of the survey indicate that there is substantial potential for employment creation for low skilled workers in the construction and maintenance of local roads, footpaths, cycleways and walking trails. Figure 8.1 shows the potential JG positions that could be created for paving / surface labourers in the LGAs included in the survey. The highest numbers of potential jobs are in the most populous states of NSW, Victoria and Queensland. As discussed in Chapter 7, substantial differences relating to scale exist across states, possibility indicating the link between population density, projected growth areas and road infrastructure. The scale of potential job creation in Tasmania and the Northern Territory is indicative of the high level of reported need.

8.5 Rail infrastructure

8.5.1 Overview

There has been a persistent lack of investment and maintenance in the rail infrastructure resulting in the closure of rail lines, particularly in regional areas. Australia’s rail system requires substantial outlays to bring it up to a level of efficiency that is consistent with international best practice. The amount of domestic freight transported in Australia has increased by 58 per cent over the past two decades (ABS, 1997). However, much of this freight is conveyed by road as noted by Port Jackson Partners Limited (2005: 30): ‘30 years ago rail held a 70% share of inter-capital freight by net tonne kilometres, with road having a 30% share, today this position is reversed.’

It is widely recognised by local government that the shift from rail to road, which was touted to promote flexibility and cost efficiency for transport, involved a redistribution of transport costs across layers of government, and this cost shifting has been contentious (ALGA, 2005).

For rural and regional Australians, rail provides a means for attending medical appointments and a travel environment that is friendly to the needs of an ageing population. For example, in comparison to bus and coach transport, rail transport provides the opportunity for motion during transit and stations are equipped with mobility aides such as ramps. Further, concerns and doubts over public transport utilisation have proven to be unwarranted.

For example, Perth's Joondalup rail line, which opened in 1993, exceeded its forecast usage rate for in 2000 within only a few months of its opening. A fast and well connected public transport system, accompanied by suitable public amenities such as 'park and ride' facilities, can achieve a 50 per cent market share of transport services (Harris, 2007: 35).

Infrastructure Partnerships Australia (2007: 35) supports public transport investment, which is vital to the preservation and sustainability of our urban landscape. This includes construction and extension of metro and light rail systems in major urban centres, and construction and expansion of heavy rail links from major urban centres to residential growth corridors and key infrastructure points, such as Sydney's North West and South West areas, The Dandenongs, Melbourne airport and the Gold Coast. Investment in fast or 'bullet' train technology to link for example, Albury-Wodonga to Melbourne, has been proposed, but has not occurred. Governments must prioritise these investments to avoid further compounding the social, environmental and economic costs of an inadequate and unsustainable transport system.

8.5.2 Analysis of survey results

Investment in rail infrastructure is beyond the scope of local government, as state or federal governments typically undertake this investment. Survey respondents were therefore not best placed to assess needs in relation to rail infrastructure. While many respondents reported additional need for rail transport, several expressed a high level of pessimism regarding the likelihood of further rail investment within their communities.

Several respondents of the National Local Government JG Survey identified rail links as important community infrastructure that provided efficient transport to other locations. The need reported was most evident in both urban developed and urban regional areas, particularly in New South Wales and Victoria. Urban developed councils also pointed to the need for investment in light rail systems. Regional councils (rural agricultural) stated that rail services should be reinstated or that rail lines should be extended to service their communities.

The precise scale of need was typically unknown as the provision of rail infrastructure normally falls beyond the jurisdiction of local governments and, as we reported in the previous chapter, this suggests that need was probably underreported by survey respondents. The potential for job creation was also identified in service provision at rail stations and maintenance of the rail tracks. These services were recognised as highly labour intensive. Respondents were generally unable to quantify the number of jobs that could be created.

8.6 Transport services

8.6.1 Overview

Car ownership has been steadily increasing, and grew by 7 per cent between 1985 and 1995 (ABS, 1997). About 80 per cent of people travel to work or study in a private vehicle; 95 per cent of these people are the driver, while only 5 percent are passengers (ABS, 2008d). The remaining 20 per cent used either public transport (14%), walked or cycled. This trend has

remained fairly constant over the last decade, with only a 2 percent increase in public transport usage since 1996, which is consistent with population growth, rather than structural changes in the economy (Dodson, 2007).

In non-urban areas, distances travelled increased by 63 per cent between 1974 and 1993 (ABS, 2008d). Usage of rail networks has declined considerably. Public transport systems in regional and rural Australia are underdeveloped and in many local government areas non-existent. Thus most travel by rural and regional Australians is undertaken in private vehicles.

Usage of urban heavy rail systems amounts to only one third of the usage of rail systems in European cities with similar characteristics (IPA, 2007: 33). There is, however, considerable scope and need for increasing light rail systems in major cities and heavy rail systems to increase connectivity throughout rural and regional Australia. Moreover, the experience of other OECD countries suggests that investment in such systems, that is, rail and bus public transport, offers commuters an attractive and reliable alternative to private vehicle usage.

Transportation is not only about accessing services, it is also about enhancing the social fabric of communities and overall wellbeing of society. Effective public transport services provide opportunities for social exchange and interaction, and these opportunities promote a sense of community and belonging amongst users. An effectively designed transport system can also enhance social cohesion by helping to break down negative perceptions of crime and stigma attached to other social groups (Stanley and Stanley, 2007).

Public transport raises many issues for communities, in particular citizens' rights to services and the social consequences of inadequate service provision. Often significant unmet need for transport services is reported, while existing services are underutilised. The reasons for underutilisation are typically the high cost of services, inconvenient timetabling and routes and inadequate marketing of the services. Further research needs to be conducted into how a more efficient and effective system of transport services can be achieved.

Transport disadvantage occurs when mobility and access to goods and services is restricted by a lack of transport options that are attributable to the geography of transport; availability; cost; and accessibility. Transport disadvantage further entrenches social disadvantage endured by women, the elderly, the unemployed and those on low incomes. Issues with transport and accessibility can be grouped into four categories: spatial, temporal, systemic and personal (Denmark, 2007). They may be related to distance of the transport from one's residence, the state of the facility (disability friendly; sheltered), cost, information dissemination, poor connecting services, or reliability of services.

Effective transport systems are important to ensure social equity amongst communities so that accessibility to employment, education, health services, shopping, and social activities is not restricted. A submission to the Productivity Commission from the Public Transport Users Association (2004) urged government at all levels to increase their commitment to alternative modes of transport, including public transport systems. The submission reported that Australia's public transport infrastructure had suffered institutional neglect and persistent under funding at the federal level. Remediation requires provision of accessible, reliable and efficient transport amenities.

8.6.2 Urban transport challenges

Transport systems play a major role in the socio-economic opportunities that people are able to access, and this acknowledgement has penetrated into the strategic development plans of metropolitan centres, such as the Melbourne 2030 strategy, the City of Cities strategy from Sydney and the South East Queensland Regional Plan. However, the extent to which these

strategies will be able to affect transport disadvantage has been questioned (Dodson, 2007). Many of the strategies note the problem, but have not produced detailed plans outlining the local scale of service provision. In the case of Sydney, the determinants of service quality and coverage are to involve negotiations with private providers and the Ministry of Transport. Dodson (2007: 11.7) notes that: 'leaving service planning to private operators, who over the past 60 years have failed to reduce transport disadvantage in the areas of Sydney that they serve, is unlikely to achieve the goals of integrated transport and metropolitan planning.'

Prior to 1990, most urban public transport services were provided by the government or subject to government fare regulations (PC, 2002b). However, major reforms of public transport have occurred over the last two decades which has led to increasing privatisation or corporatisation of public services, increased competition amongst service providers through the use of competitive tendering and a reduction of government subsidies so that prices more accurately reflected the cost of delivering services. For instance, the Victorian public transport reform programme of 1993 led to a reduction in funding for public transport of \$245 million per year and an increase in fares of 10 per cent (Auditor-General of Victoria 1998, cited in PC, 2002b). Since then further reforms have taken place in Victoria, including the privatisation of the Melbourne train and tram line in August 1999.

The issue of urban congestion and the need to engage in strategies to promote ecological sustainability represents an increasingly urgent challenge. In 1945, 50 per cent of urban journeys were by rail compared to only 4 per cent currently (BCA, 2005). Urban congestion has been estimated to cost in the vicinity of 2 per cent of GDP or \$16 billion per annum (Cosgrove, 2000). Moreover, these costs are predicted to rise to \$30 billion by 2015, unless there is major structural change. It will take considerable political will, capital and social investment, and public education campaigns to induce a behavioural shift in the Australian population to enable a more sustainable system of transportation within our society.

In urban areas, where incomes are generally higher, it is important that public transport services remain attractive and represent a feasible alternative to private vehicle transport. This requires services that are timely, conveniently located and timetabled, clean, safe and inexpensive. Local Government Social Planners who participated in the survey reported that in many cases communities still experienced a dependence on private vehicles to travel to work and that public transport was too expensive (comparatively) to induce behavioural change. Indeed, figures from the ABS confirm that little has changed in public transport usage over the last 10 years.

Further evidence of this problem is found in the Wyong shire community plan (UFV-urban fringe very large). The plan noted that, 'transport routes were often indirect and services are almost non-existent at night and on weekends, especially in the outlying rural areas' (Wyong Shire, 2002: 196). Community members reported needing to change buses many times and that journeys by bus would take up to 3 times as long as comparable travel by car. The report also argues that transport services are urgently needed in the more remote and less populated parts of the shire. Yet privately operated public transport systems in these areas have often not proven profitable. Moreover, some government concessions do not extend to these private providers, leaving people 16 years and over paying full fares for transport. This same problem has been noted by many urban LGAs. The Auburn Council (UDM-urban development medium) reports concern regarding reliance upon private bus services and the quality and cost of the service (Auburn Council, 2005).

The role of local government has been reduced to lobbying for improvements in their transport networks and / or acting as a facilitator of development. Wyong Shire stated in their

community plan that they aim to enhance transport within their community by encouraging private bus companies to extend trial services to regular bus routes (Wyong Shire, 2002: 199).

Transport safety is also a significant issue, particularly for young people in urban areas, and at destinations such as universities and shopping centres. One survey respondent from a metropolitan area commented that transport safety was a significant issue for females, especially ethnic females, with reports of verbal harassment, and also physical and sexual abuse. Increased staffing of transport hubs was needed and also the installation of lighting and clearing of bushland to decrease this problem. The actual and / or perceived lack of safety of public transport in urban areas leads to underutilisation and a stigma associated with its use. Moreover, the issue of safety extends beyond the actual public transport services, to the car parks and local streets that people must also use. For instance, the Burwood social plan (UDM) (2004: 58) notes that ‘virtually all discussion group respondents commented that they would not go out alone at night in the Burwood local government area and would not feel safe on public transport at night.’

8.6.3 Rural and regional transport challenges

With low population density and associated social isolation, Australia has very high car ownership but relatively low costs are associated with private transport (Nutley, 2003: 68). Often higher levels of car ownership in rural areas reflect necessity rather than prosperity. Many transport problems in rural areas are aggravated by single vehicle ownership in households. The Bega Valley Social Plan (URM-urban regional medium) (2006: 49) notes that:

The public transport needs of the community are affected by the relative remoteness of some areas, access to existing infrastructure and the particular needs of different groups within the community. For example households with only one car are commonly reported as experiencing problems when the sole vehicle is used to transport one person to work. This exacerbates the isolation felt for families with small children. For families with older children it can mean that young people are not able to access the family car to travel to training, work, education or recreational activities.

In rural and regional areas there is almost a complete absence of public transport services outside of town centres. For example, the Bellingen Shire social plan (RAV-rural agricultural very large) (2004: 21) noted that ‘lack of adequate public transport remains one of the biggest issues for the Bellingen Shire, as it is for the rural North Coast of NSW.’ Likewise, the Ballina Shire (URM) (2004: 1) observed that:

Many families and individuals who don’t have access to private transport find accessing medical, financial and recreational services very difficult. The limited public transport options and the associated costs of using the system were identified as being a significant impediment for some in fully engaging the community of Ballina Shire.

The availability of services on weekends and after hours is also extremely limited in regional / rural areas of Australia. The Queensland Sarina Shire local government (RAL) undertook a transport needs assessment of their community. The main problem identified related to adequacy of transport provision on the weekend and after hours.

Rural areas also feature problems of adequate transport systems allowing travel between local government areas, to other employment centres. The Sarina Shire also noted the problem of services that connect satellite towns within the local government area to the major economic centre of the area. This issue was also raised by many who participated in the National Local Government JG Survey, and it seems that these issues are consistent with unmet needs across

Australian communities. There are generally bus services that travel inter-city routes, but they vary in frequency and quality. Users of these services mainly come from low-income households, and are also commonly elderly or young people (Nutley, 2003: 58). Moreover, the costs associated with transport in rural and remote communities can be prohibitive, especially when one is required to access major metropolitan centres.

Youth are particularly disadvantaged by limited provision of transport services. Travel by private vehicle is often infeasible for this low income group. They may have to rely on public transport for commuting, attendance at appointments with Job Network agencies, or interviews with potential employers. Problems with the availability and timing of services can be acute in certain industries, such as hospitality and trades, which have non-standard work hours. The option of revising the timetable to cater for these unmet travel needs deprives others of access to public transport for work and school. Some young people are forced to resort to private transport but a public safety issue then emerges, because people under 25 have higher rates of involvement in road accidents and drink driving than those over 25.

The lack of transport services available in remote communities, including indigenous communities, also creates problems associated with drink driving and other unsafe driving practices. Of additional concern is that many roads in remote and rural Australia are unsealed and of low quality.

Survey respondents reported that in several cases apprentices had resorted to hitchhiking, only to find that the reliability of this transport mode did not allow them to arrive at their workplaces or return home in a timely manner, nor was it a safe mode of transport. Apprentices often abandoned their apprenticeship after a short time due to these difficulties, which weakened their long term attachment to the labour market. In this case, provision of additional transport services is the only feasible solution but local councils faced funding constraints when considering additional services.

Rural communities have the added challenge of potential loss of both bus and rail public transport services. For instance, the community of Byron Bay (URM) along on the Northern NSW coastline lost their train service in 2004. This has led to increased hitchhiking throughout the community (Byron Bay, 2004: 9). In addition, the community transport service has had to close its books to new referrals due to capacity limitations.

For economies in decline, such as former textile and manufacturing communities, the lack of public transport represents a significant issue. These individuals face the choice of either relocating to a growth area, which may entail higher living costs, particularly for housing, or enduring a transport environment that requires commuting with private transport. Indeed rural Australians endure comparatively lower incomes, poorer housing, and poorer access to facilities than their urban counterparts (Sorensen and Epps, 1993).

The literature often explains that public transport is limited in rural areas due to a low customer base and low population density, which creates problems for the viability of services. However, these transport problems extend to urban regional centres, such as the coastline of northern New South Wales, where the population density and customer base warrants additional transport provision. This suggests that the problem of public transport provision is not a simple rationalisation of services, but rather reflects a transformation in the role of the state, to one that privileges private provision and withdrawal of the government from core services (Cook, 2006).

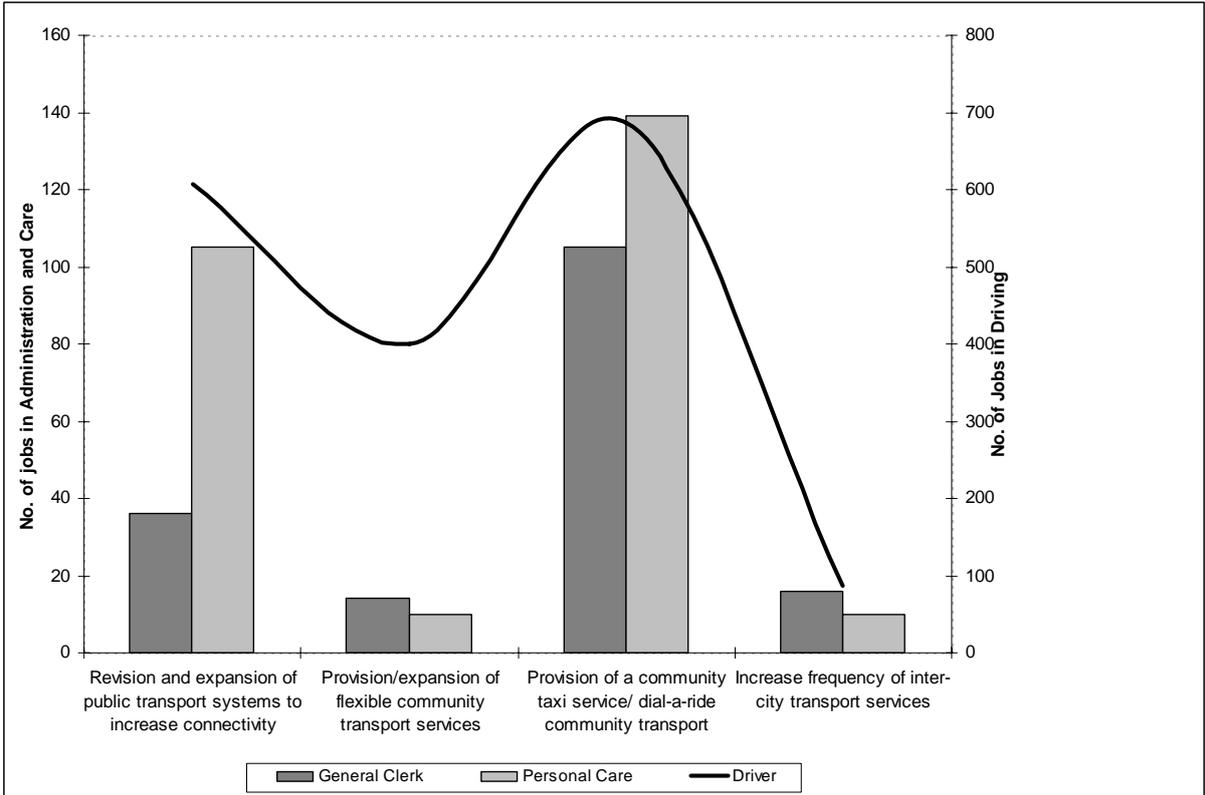
8.6.4 Analysis of survey results for transport services

Table 8.4 details the major needs identified by Local Government Social Planners. For many communities lack of regular public transport was a serious impediment to social and economic participation. Respondents emphasised the need for transport that was flexible enough to accommodate community needs. Several respondents from rural areas noted that major services were often located in larger towns which necessitated overnight stays for those without private transport. Employment opportunities that could be generated by an expansion of transport services included drivers, clerical workers and personal care assistants.

Table 8.4 Areas of need for transport services

Transport	Examples of areas of need	Potential jobs for low/unskilled workers
Transport services	Dial-a-ride community transport	Drivers
	Increase inter-city service frequency	General clerks
	Flexible community transport	Personal care assistant

Figure 8.2 Potential for job creation for low/unskilled workers in transportation services, as reported by Local Government Social Planners



Respondents identified transport needs, particularly for the elderly, under 4 categories, which are outlined in Figure 8.2. Potential employment opportunities are associated with increased frequency of public transport services, flexible community transport, community taxi services and dial-a-ride community transport. These services largely involve the transportation of elderly people to / from medical appointments, to shops or community centres. The transport

needs of elderly people are reported in Chapter 9. In many local government areas across Australia these essential services are undertaken by volunteer workers, with little or no remuneration provided.

The greatest number of jobs that could be generated for drivers of different types of vehicle, including cars to buses. A substantial number of positions would also be available for personal carers to accompany the aged and disabled to ensure that they could maintain an independent lifestyle and delay the necessity to enter care facilities. A smaller number of jobs would be generated for clerical personnel.

8.7 Conclusion

This chapter has considered unmet need for transport infrastructure investment, focusing on local roads, footpaths, cycle-ways and walking tracks, and transport services. Data from the National Local Government JG Survey and other data sources were analysed.

Unmet need for investment in construction and maintenance of local roads reported by Social Planners indicated that there was greater need in the states with the smallest populations (with the exception of Tasmania), despite the higher per capita expenditure in these states. There were considerable spatial disparities in the proportion of respondents reporting need for increased investment in roads, footpaths, cycleways and walking trails. Reported need was higher for rural and remote LGAs than for their urban counterparts and reflected disadvantage as measured by the SEIFA index.

Substantial needs for enhanced public transport systems were identified by respondents. Many respondents also indicated that there was a need to invest in rail services, either to restore services that have been decommissioned or to extend existing train services. Several respondents identified deficiencies in public transport that deterred usage. In particular, bus routes operated by private bus companies were difficult to use due to poor route planning, inadequate connections with other services and problems associated with scheduling. In many rural and remote areas public transport was not viable for travelling to work, medical appointments or social activities. Respondents from rural and remote areas frequently reported that there were no public transport services in the local area with the exception of school buses. In order to enhance the capacity of residents to participate fully in economic and social activities Social Planners identified a need to substantially increase public transport coverage and service frequency as well as extending community transport by introducing dial and ride services. Flexible community transport was viewed as essential for residents with mobility restrictions due to age or disabilities.

Additional investment in transport infrastructure and services has the potential to enhance individual wellbeing and create socially meaningful work opportunities for the unemployed and underemployed. Jobs that could be created include construction workers, drivers, clerical workers and personal carers.

Potential strategies to reduce energy consumption and greenhouse gas emissions have been the focus of considerable research during recent years, as reflected in drafts for the Sustainable Energy Policy and the National Greenhouse Strategy. Reductions in the number of journeys by private motor vehicles would also have significant environmental benefits, reduce congestion in major urban areas, and the financial cost of transport for low income groups. A substantial investment in rail, road and public transport systems is required to meet the immediate needs of local communities and to contribute to their long term sustainability.

9

Community welfare services

9.1 Introduction

This chapter will investigate the extent of unmet need for community welfare services associated with housing and accommodation services, and services for the elderly. This chapter is in part framed by deficiencies identified by Local Government Social Planners, with whom a qualitative survey was completed (see Chapter 7). The respondents were asked to identify areas of unmet need that could be addressed by the provision of low-skill workers.

The chapter is split into two sections: i) housing and accommodation services and ii) services for the elderly. Following an overview of the important issues in each of these areas, data collected from the survey will be compared with data from other sources, including reports from government departments, the Australian Bureau of Statistics (Census, National Accounts) and evaluations from researchers, to assess more accurately the adequacy of current service provision. Each section will conclude by considering the potential to address unmet needs while providing meaningful employment for the unemployed. We shall not address other important social needs notably the provision of childcare services, respite services, education support services, and visitation services.

9.2 Housing and accommodation

9.2.1 Overview

Affordable housing is a prerequisite for full participation in economic and social life. Since the 1990s, affordable housing in Australia for households in the bottom two income quintiles has been defined as housing costs not exceeding 30 per cent of income. Those households paying more than 30 per cent of their income are considered to be subject to housing stress (Harding, Phillips and Kelly, 2004). This is an arbitrary measure that has been criticised because it ignores the actual impact of housing costs on living standards and distortions due to differences in household size and type (Seelig and Phibbs, 2006).

Research has confirmed that poor housing and poor or inaccessible services / infrastructure are closely associated with limited social opportunity. Indeed, the analysis that follows reveals that areas with high levels of need for public housing, crisis accommodation and housing brokerage services are also those communities that are comparatively disadvantaged and often experiencing higher rates of violence. While research has traditionally focused on disadvantage located in public housing estates, these tendencies transcend both public and private housing. Randolph and Holloway (2005: 174) explain that:

The creation and maintenance of concentrations of disadvantage in private housing is just as much an outcome of the way the private market allocates those with least choice to the least desired locations, as the concentration of disadvantage on public housing estates is the outcome of increasingly targeted allocation and eligibility criteria among public landlords.

Arthurson and Jacobs (2008) found that the affordability and secure tenure of social housing assisted tenants to obtain and maintain employment which contributed to reduced social

exclusion. Expansion of social and public housing would assist in addressing the housing affordability crisis. Beer, Kearins and Pieters (2007) note that the debate on housing affordability is significantly affected by tensions associated with land containment policies and ecologically sustainable development. As a result, the debate focuses on planning responses rather than policy that would lead to an increase in the affordable housing stock.

The lack of affordable housing and accommodation options was viewed by 87 per cent of respondents to our survey as a major social issue within their communities. The majority of those who did not mention affordable housing as an unmet social need were from rural local government areas. Respondents claimed that investment in state housing, as well as by private developers, would help to address the affordability crisis, but expressed considerable doubt whether this would eventuate. However, it was noted that affordable housing constructed for private ownership was often inaccessible to low income families, and also not taken up by local residents. For instance, respondents from mining communities throughout Australia reported that affordable accommodation was provided for the transient population that work within the mining industry, rather than local residents experiencing accommodation stress. The tight housing market had impacted negatively on the welfare of lower income groups. Respondents in growth areas reported that investment in public housing had not been in line with projected residential growth.

Data was collected from a small number of local governments in indigenous communities. However, the issues that emerged from the analysis were vastly different from those that presented in other local government areas, and comparative data sets on unemployment and social indexing of these communities are not reliable. For the purposes of this report, this data has been excluded. Analysis of data collected on the specialised accommodation needs of the elderly and those with disabilities is also beyond the scope of this report.

The need for crisis accommodation services and housing brokerage services was also noted in the survey responses. Many of the issues relating to housing affordability were attributed to government policy and residualisation of the supply of state accommodation options. As this analysis reveals, an inadequate stock of affordable housing can have a cumulative effect on the social welfare of the most vulnerable. Thus this crisis, which has penetrated the majority of communities throughout Australia, also requires expansion of social services to address its adverse consequences.

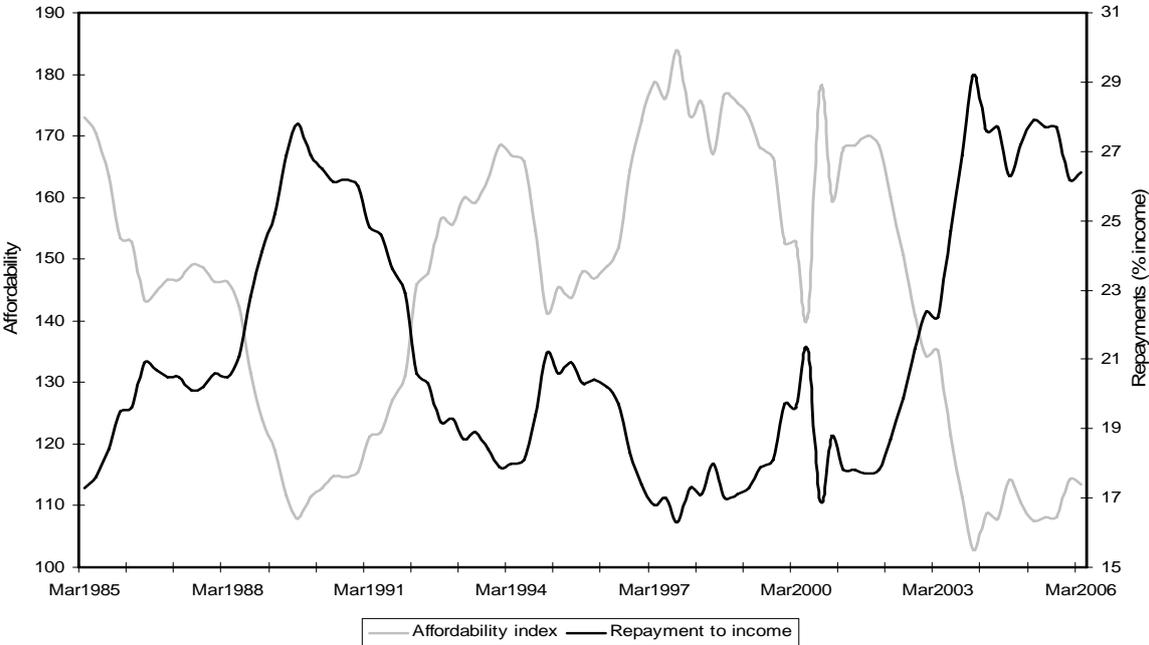
The following section provides a summary of the current extent of affordability by considering both the rental and home ownership markets. The results of the survey with Local Government Social Planners are reported in the next section and contribute to an understanding of the social issues that communities are facing as a consequence of the housing affordability crisis. The need for the expansion of social housing, crisis accommodation services and housing brokerage services is considered across the Australian Classification of Local Governments remoteness index.

9.2.2 Trends in housing affordability and housing policy

Affordability issues are evident in both the rental and home ownership markets. The rate of home ownership in Australia has been fairly stable at around 70 per cent since the mid 1960s. There are however major concerns that it will decline in future as low income earners are priced out of the market (Beer, Kearins and Pieters, 2007). The Productivity Commission report *First Home Ownership* found several adverse demand side impacts which have contributed to the rapid growth of house prices (PC, 2004). In relation to owner-occupiers, the major factors were the availability of finance, lower interest rates, the injection of \$4.3 billion over three and a half years through the First Home Owners Scheme, growth in real incomes,

population growth and smaller households. Investment in housing has doubled in the past decade, reaching 17 per cent of the housing stock and 40 per cent of new housing loans. This trend was primarily driven by negative gearing, changes in the capital gains tax in 1999 and the decline in the share market from 2000 to 2003 (PC, 2004).

Figure 9.1 HIA affordability index 1985-2006



Source: HIA First Home Buyer Affordability Index (HIA Economics Group, 2007)

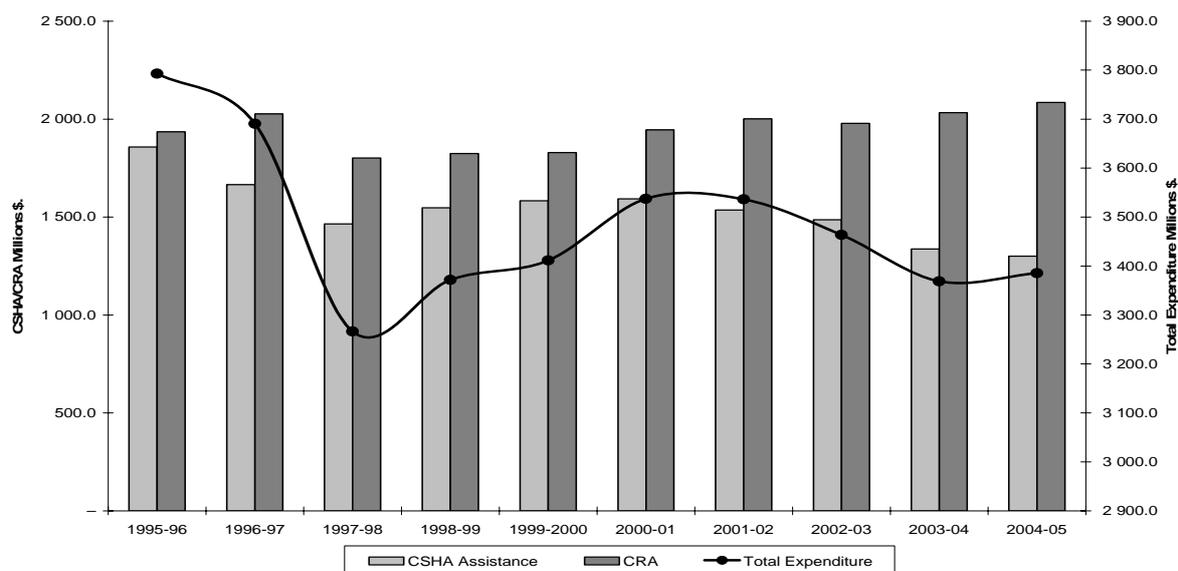
Figure 9.1 shows that the housing affordability index for first home buyers has declined dramatically since the early 1980s reflecting the rise in the proportion of income required to service a mortgage (from 19.3 per cent in 1985 to 26.4 in 2006).

In the private rental market, which accommodates about 20 per cent of Australian households, there is also widespread evidence of housing stress which has increased over time (Beer, Kearins and Pieters, 2007). Mowbray (2006) explains rising rental housing stress by reference to market failure, including the concentration of new investment at the top of the rental market, longer duration of renting due to falling housing affordability, and a fall in low cost private rental stock due to increased property management fees and higher maintenance costs.

The number of Commonwealth Rent Assistance (CRA) recipients increased from 480,000 in 1984 to 941,306 in 2006 (SCRGSP, 2007) while Commonwealth assistance to state governments for public housing under the Commonwealth State Housing Agreement (CSHA) has declined over time in real terms. Figure 9.2 shows that between 1995-96 and 2004-05 total real expenditure declined by almost 11 per cent with CSHA expenditure declining by 30 per cent while CRA expenditure increased less than 8 per cent.

Social housing waiting lists seriously underestimate demand for social housing due to strict eligibility criteria in most states. Also many eligible people are not on a waiting list for reasons including lack of local public housing and perceptions of futility due to long waiting lists (IC, 1993). Respondents to our survey also noted that many members of their community viewed public housing to be inaccessible, so that preparing an application was futile.

Figure 9.2 Real CSHA and CRA expenditure 1995-96 to 2004-05 (2004-05 dollars)



Source: Review of Government Service Provision (SCRGSP, 2006)

Wait times for people on public housing lists vary with severity of need, but reports of wait times lasting between 2 and 10 years would be seen as an unacceptable period of time to be experiencing housing stress. For example, in 2005 there were 385,440 social housing dwellings in Australia and an additional 252,463 households were waiting for social housing (SCRGSP, 2006). Sufficient provision of social housing by government is most important because it can have a major impact on housing affordability with rents being set at a maximum of 25 to 30 per cent of income. In 2004-05, 94.8 per cent of tenants paid less than 30 per cent of their incomes in rent.

In contrast to social housing, rents for CRA recipients are determined by the market. The average rent assistance for the 941,319 CRA recipients in 2006 was \$82.50 per fortnight, while average rent payments were \$303.90 per fortnight (ABS, 2007b). This means that CRA provided an average subsidy of only 27 per cent of the average rent. The ineffectiveness of CRA in delivering affordable housing is highlighted by the fact that one-third of recipients remained in housing stress after receiving rent assistance (SCRGSP, 2006). Residualisation of social housing has become entrenched through increased tightening of targeting mechanisms. Now, a high proportion of social housing is only available to people with complex needs. The increased reliance on CRA for financial support by those outside the labour market has resulted in reduced access to affordable housing.

9.2.3 Analysis of survey results

Need for Social Housing

Public housing stocks have declined due to both a lack of new construction or acquisitions and the sale of existing stock. Some respondents reported that all public housing stocks within their local government area had been sold. The significant social consequences of the reduced availability of public housing are exemplified in the research findings of Burwood Social Plan (2004: 56), which concluded that:

There is a long waiting list for priority public housing, with more service providers stating that many women involved in protracted family law disputes are forced into the private rental market and subsequently face bankruptcy proceedings in order to obtain public housing.

As noted, 87 per cent of respondents noted that housing affordability was an issue in their LGA and also 77 per cent reported that expansion of public housing was needed. Ninety one per cent of Queensland respondents reported the need for expansion of public housing, whereas just 68.1 per cent of Western Australian respondents identified this need. Examination of the data by the Australian Classification of Local Government, a regional classification that considers remoteness from services and opportunity for social interaction, and the SEIFA advantage / disadvantage index (2001) reveals an inverse relationship, with a higher percentage of respondents in areas that have low (relatively high disadvantage) SEIFA scores indicating a need for additional public housing, as would be expected.

While most respondents reported the need for investment in public housing, they stated that the scale of need was unknown and were not able to offer any further information. This is due to inadequate data, which, in part, reflects the characteristics of those experiencing housing precariousness. For instance, the Byron Shire Council Social Plan (2004: 52) notes that:

There have been an increasing number of reports of homeless women and children with strong connection to the shire. These are women who are not necessarily visible as being homeless as they are moving around – staying with friends one week, in a caravan park another week, at times sleeping in their cars.

Many respondents commented that public housing was needed, and also that an adequate maintenance programme should also accompany this investment. Respondents commented that many public housing estates remained in a poor state of repair, and this contributed to the stigma that public housing tenants face. In communities that did have a greater public housing stock, respondents reported that due to the stringent eligibility requirement, highly disadvantaged individuals and families had been attracted into their community.

Local government is often a first point of contact for communities, so when federal and state governments withdraw from provision of adequate and affordable public housing, local government and / or community groups are expected to plug these gaps. Some local governments, particularly those in rural areas, continue to ease the shortfall in public housing by providing residents with a small amount of social housing. However, the rate base of and funding for local government is not adequate to address these needs. Only the federal government has the fiscal capacity to adequately meet the public housing needs of Australia's population.

Public housing was not only needed by local residents suffering housing stress, it was also needed, especially in rural agricultural and rural remote areas, to attract skilled or seasonal workers.

Need for Crisis Accommodation

Crisis accommodation is sought for a number of reasons including eviction, usual accommodation being unavailable, relationship or family breakdown, including domestic violence, and financial difficulty. Forty four per cent of respondents reported the need for additional crisis accommodation facilities within their LGA, and noted that demand for services / facilities far outweighed the supply. Investment in additional crisis accommodation facilities for those involved in domestic violence was the most frequently cited need; this was followed by refuges for homeless men and homeless youth.

The government currently provides crisis accommodation through two main programmes. The first is the Crisis Accommodation Program (CAP). CAP commenced as part of the Commonwealth State Housing Agreement (CSHA) in 1985 to assist people who were homeless or at risk of becoming homeless. Under CAP the Commonwealth provides funds to acquire, construct or upgrade buildings that are used by local governments and various

community groups to provide emergency accommodation under the Supported Accommodation Assistance Program (SAAP). SAAP is jointly funded by the Commonwealth and State governments (AIHW, 2007). The objectives of SAAP have evolved over time, from the simple provision of accommodation to include a range of support services to assist clients achieve independence and return to the community. The objective of the current SAAP agreement that runs from 2005 to 2010 is to focus on prevention and early intervention (NSW Department of Community Services, 2007).

In 2004-05 there were 1,294 providers who assisted 100,400 SAAP clients (AIHW, 2006). There is evidence that agencies are operating at capacity in the presence of unmet need since 56 per cent of applicants were turned away. Program evaluations have found that SAAP's effectiveness is constrained by the lack of affordable and appropriate housing and 'the impact of high rates of unemployment and poverty, and the diversity of problems faced by SAAP clients including mental health and domestic violence' (Erebus Consulting Partners, 2004: 5).

Despite the demarcation between social housing and crisis accommodation, many people move between the two. A review of the use of SAAP services in Victoria between 2002 and 2004 found that 8 per cent obtained public tenancy during SAAP support. Of those who moved into public housing 25 per cent needed SAAP support again and 20 per cent had moved out of public housing before the end of the following financial year (Kelly, 2006). Similarly, those in public housing prior to accessing SAAP services used 11 per cent of SAAP support periods, primarily due to financial difficulty and domestic violence. Of public tenants using SAAP services 40 per cent were single women with children.

Kelly (2006) found that single people under 25 years and Indigenous Australians were the most likely to be repeat service users. The early intervention *Reconnect* program began in 1999 to provide various forms of support to reduce homelessness among youth aged 12 to 18. *Reconnect* provides a range of services to improve outcomes relating to family and community relationships, and employment, education and training outcomes (Erebus Consulting Partners, 2004).

A higher percentage of survey respondents from local governments outside metropolitan areas reported much higher rates of need for domestic violence refuge facilities (28 per cent), than their counterparts in urban developed areas (8 per cent). Many respondents from non-metropolitan areas reported the absence of any emergency accommodation facilities, which meant that those seeking refuge were faced with the additional challenge of leaving their local area. The absence of such services can disrupt daily life, employment, education, community interaction, and interaction with family and social networks. For instance, when accommodation services are made available to youth at risk of homelessness they maintain stronger links with education and the community (NSW Department of Community Services, 2007). Similarly, high levels of mobility for school aged children disrupt education, the formation of lasting friendships and participation in sport and other activities in the community (Erebus Consulting Partners, 2004). The United Nations (2007: 13) concludes that a 'transitory and insecure life leads to numerous forms of other disadvantage, including social isolation, poor mental health, increased exposure to crime, greater vulnerability to being a victim of crime, lack of employment opportunities, and persistent stigmatization and discrimination.'

Respondents revealed that even when emergency accommodation was available within their local communities, it was only provided for certain social groups. In several cases, it was revealed that in spite of documented need, political decisions had undermined the sustainability of some refuge services, particularly those for youth. In isolated cases

respondents reported that residents had mobilised to block refuge facilities opening in their neighbourhoods.

The need for investment in crisis accommodation services was not closely related to trends evident in either unemployment or other social indexes, but the responses are indicative of homelessness and broader social processes. For example, the need for (additional) youth refuge accommodation was reported by 17 per cent of respondents in urban developed areas and 18 per cent in rural agricultural areas. The latter is most likely associated with the residualisation of social services to these communities. On the other hand, urban developed areas have become the destinations for homeless people, which may provide some explanation of the survey results. The Youth Needs Audit of Penrith City Council (2002: 18) provides an illustration of this:

Refuges in Emu Plains and Penrith are often full, with young people having to go to the city for emergency accommodation or organise to stay at a friend's house. Young people believe that this could be improved by providing more crisis and long-term accommodation services in Penrith.

About 42 per cent of medium sized urban regional local governments, particularly those along the NSW coastline reported unmet demand for accommodation to cater for homeless men (as did 35.7 per cent of local governments in urban fringe areas). Analysis from Erebus Consulting Partners (2004) found that single men accounted for almost one-third of those seeking support in 2002-03.

The need for domestic violence refuges, as reported by respondents was far higher in the urban fringe (33.1 per cent), urban regional (26 per cent) and rural agricultural (25.7 per cent) than in urban developed areas (8.8 percent). Data from the NSW Bureau of Crime Statistics and Research (2007) on reported rates of domestic violence confirm this spatial trend.

Respondents suggested that there was great potential for expansion of collective housing, which provides post-crisis accommodation for vulnerable groups. Indeed, research has shown that this housing model has proven to be somewhat beneficial to tenants, as it provides a space for the development of household management and communication skills (Ziersch & Arthurson, 2005). Respondents reported that the needs of those people seeking refuge were complex and varied across each individual case. A range of social support, childcare and substance abuse services were needed for people using crisis accommodation facilities. Previous studies have found that at least 30 per cent of people who access these services required ongoing assistance with mental health issues (Erebus Consulting Partners, 2004).

Need for Brokerage services

The crisis of housing affordability, and the deficient stock of state accommodation, in turn put significant pressure on emergency relief services. People increasingly seek the assistance of social services to identify appropriate accommodation options. Not surprisingly, these services are struggling to address the demands of their growing client pool, largely because of the supply constraints on affordable accommodation. Survey respondents most commonly reported deficiencies in brokerage and referral services for those seeking temporary or medium term accommodation and they sought additional administrative support for these services. Brokerage services assist in locating affordable accommodation, preparing rental applications and locating furnishings, while also providing visitation services and mentoring. These services assist those in crisis to maintain connections to community and institutions that they need to access, while also minimising the disruption that housing precariousness entails. These services are especially important because the lack of availability of affordable housing options and reduced access to public housing stocks creates conditions where

discrimination may flourish against individuals and families facing crises and housing precariousness. This was a particular issue for metropolitan areas. The Ashfield Social Plan (Municipality of Ashfield, 2001: 69) exemplifies this point:

Young women with children, whose partners have left, not only find the cost of housing too expensive but also face discrimination from real estate agents and landlords in obtaining appropriate private rental accommodation. Because of the scarcity of public housing these groups are forced into paying a disproportionate amount of their incomes in accommodation costs.

Respondents in urban fringe and developed areas surrounding the capital cities were most likely to report deficiencies with respect to brokerage services. This undoubtedly reflects the dramatic increases in housing prices over the last decade. For instance, 20 per cent of respondents from urban developed areas reported need for additional brokerage services. One respondent reported that within the local government area there were 3 staff available to provide accommodation brokerage services for 1200 homeless people. Medium to very large rural agricultural areas also reported complete or near absence of brokerage services to support members of their communities during times of accommodation crisis. There is a weak inverse relationship between the percentage of respondents in each state identifying unmet need for brokerage services and the corresponding average state SEIFA score for 2001.

In tight rental markets, such as those in the mining areas in Western Australia and Queensland, the scarcity of affordable rental or post-crisis accommodation is evident in the waiting periods faced by people seeking to move out of crisis-accommodation. Respondents reported that at times these exceeded 6 months. The absence of options for people in accommodation crisis has led to welfare support workers placing people in caravan parks as a medium term solution.

9.3 Services for the Elderly

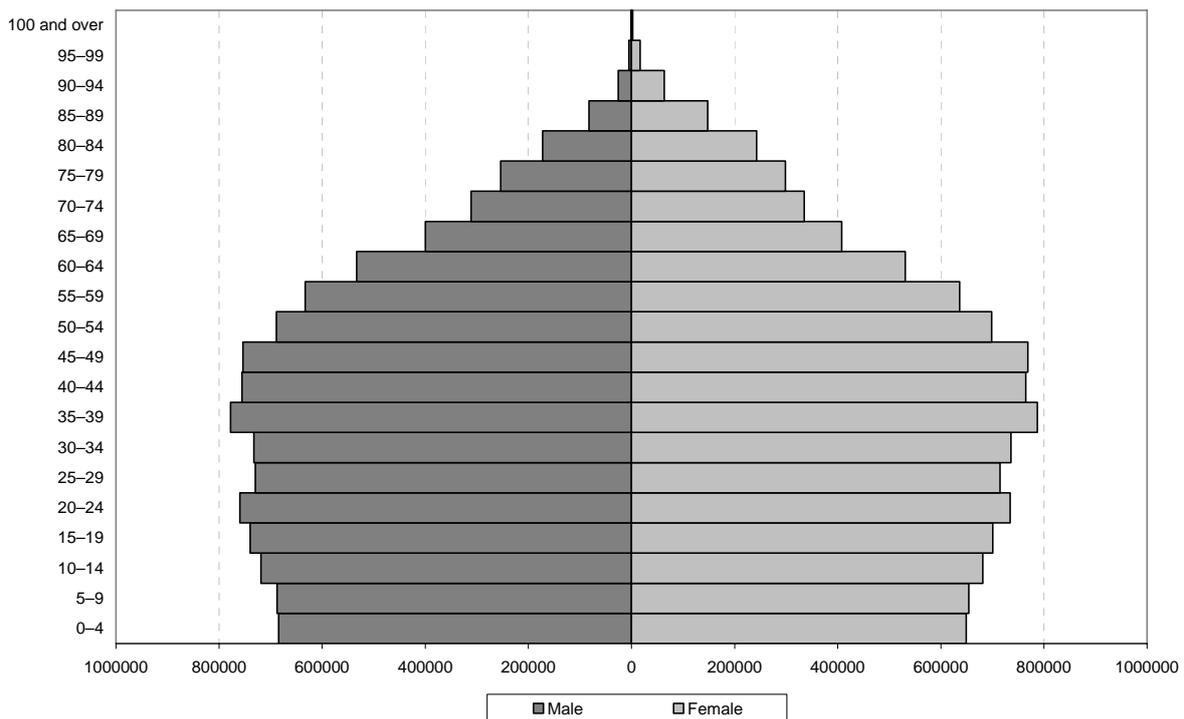
9.3.1 Overview

Australia has an ageing population and systems to cater for the needs of our evolving demography are needed urgently. Policy solutions must move beyond consideration of aggregate totals and allocations, and come to grips with the realities facing the ageing population and their families (Courtney, Minichiello and Waite, 1997).

Demographic change has resulted in a greater proportion of the elderly living alone or without familial support. This means that there will be a growing need for aged care services, particularly those to assist the elderly to remain in the community. Figure 9.3 shows the age distribution of the Australian population, which is expected to age significantly over the next half century as 'baby boomers' reach retirement age. The share of the population aged 65 is projected to increase from 13 per cent in 2004 to between 26 and 28 per cent in 2051, while those aged 85 or older will increase from 1.5 to between 7 and 10 per cent (ABS, 2006a).

The Productivity Commission (2005) examined demographic change at a regional level between 1981 and 2001 and found there was a rising proportion of people over 65 in coastal and inland urban areas due to both inward migration of older people and outward migration of younger people to inland rural areas. In contrast, the average population age fell in metropolitan and remote areas.

Figure 9.3 Age profile of the Australia population in 2006



Source: ABS (2006a)

Aged care services have high social value, because by assisting people to maintain independent living brings dignity and maintains their access to social networks and enhances social cohesion. Also, provision of respite care, provides primary carers with necessary relief from caring responsibilities. Services supporting the maintenance of independent living are less expensive than the provision of residential accommodation. However, many of these services have stringent eligibility criteria, long waiting lists, are inappropriately funded or operate only with assistance of volunteers, who receive little or no remuneration for their valuable contribution (NSW Auditor-General, 2004). Also there is currently a volunteer crisis.

9.3.2 Residential and community aged care services

Aged care services can be divided into residential and community care. Residential aged care facilities are subsidised by the Commonwealth Government and are provided by a range of private and public sector organisations. In 2004-2005, 194,000 people received residential care (Department of Health and Ageing, 2006). Implementation of the Aged Care Reform *Strategy 1985* produced a change in the balance between residential and community care in Australia which ‘reflects a commitment to provide flexible, responsive services, including services for people who would prefer to receive care in their own homes’ (Gray, Crofts and Healy, 2001: 35). Residential care accounted for 76 per cent of Australian government expenditure on aged care in 2004-05, but funding increased by only \$17 million compared to an increase of \$189 million for community care (Department of Health and Ageing, 2006).

Three major community care programmes provide support to the frail elderly to remain at home: Home and Community Care (HACC), Community Aged Care Packages (CACAP), and Extended Aged Care at Home (EACH). HACC provides frail elderly and younger people with disabilities with assistance, including nursing and allied health care, meals, domestic assistance, personal care, home modifications and maintenance, and transport.

The HACC programme is jointly funded by state and federal governments. It is administered under the Home and Community Care Act 1985 and the HACC Amending Agreement, 1999. CACP and EACH are funded by the Australian government and have grown significantly in the past decade, expanding from approximately 4,500 clients in 1995 to over 32,000 by 2005. Both programmes provide an integrated package of services to the frail aged to enable them to remain at home but EACH is restricted to those assessed as requiring assistance equivalent to high level residential care and includes nursing care.

In addition to the effects of population ageing, growth in the demand for community care is driven by the preferences of older people to remain at home and the availability of informal support provided by relatives and friends. In 2003, of the Australian population needing assistance with daily activities such as mobility, showering, meal preparation and housework, 79 per cent received assistance from family and friends while 53 per cent were assisted through formal community care (ABS, 2003).

The direct relationship between age and need is reflected in usage of HACC and CACP services. In 2004-05, 50.2 per cent of those aged 85 and over used HACC services compared to 13 per cent of 70-74 year olds (Senate Community Affairs References Committee, 2005). Similarly, 36 per cent of CACP recipients were aged over 85 years in 2001 (AIHW, 2002).

The ABS survey on Disability, Ageing and Carers (2003) found that 41 per cent of people aged over 60 years required assistance with health conditions or daily activities, due to disability or age, but the rate increased from 26 per cent for those aged 60-69, to 84 per cent for those aged 85 years or older. Assistance was required with property maintenance, health care, transport, housework, mobility and self care (ABS, 2003). Approximately half of the 170,000 dementia sufferers in 2005 were residing in the community. Since the number of people with dementia is expected to climb to 730,000 by 2050 there will be a need for additional residential and community care places (Productivity Commission, 2005).

Informal care has played a crucial role in meeting current care needs. The ABS (2003) Disability, Ageing and Carers survey found that of 2.45 million carers in Australia in 2003, approximately 475,000 were primary carers, who provide most of the informal assistance, in the form of help or supervision, to a person with one or more disabilities. Informal care constituted the main form of assistance used, even though 61 per cent of people over 60 years used some form of formal care. Most informal care was provided by partners (47 per cent) and almost half of these were aged 65 or over.

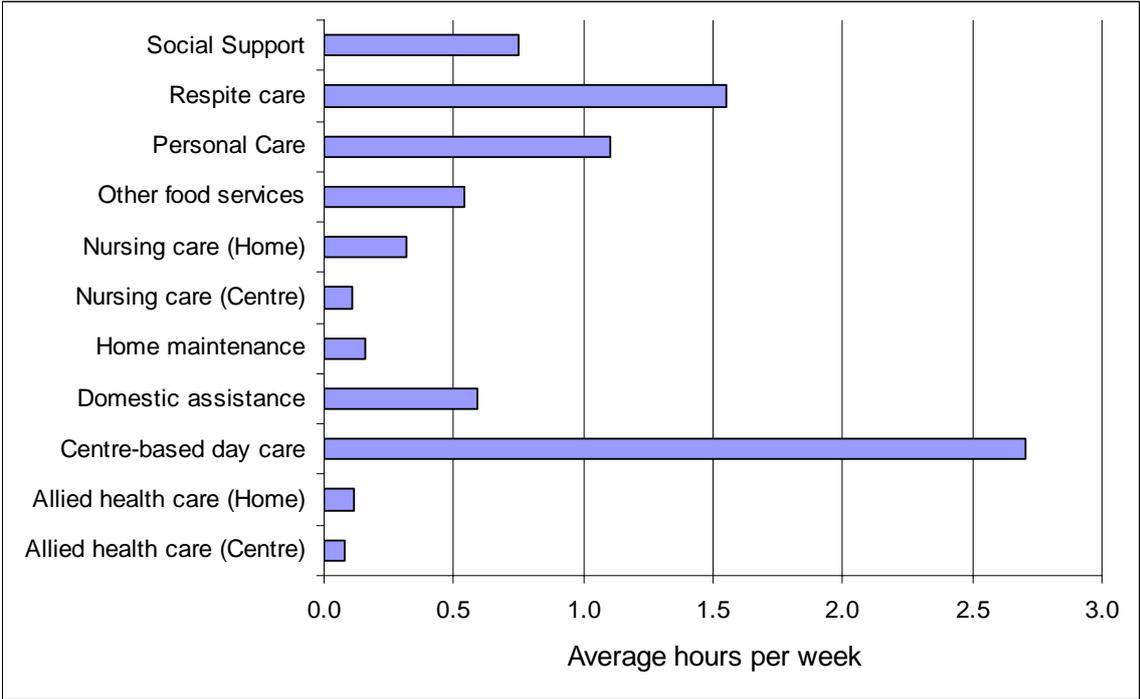
9.3.3 Unmet need for community care services

There is substantial evidence of unmet need for community care services. Research into HACC services in Melbourne by the Brotherhood of St Laurence (2001: v) indicated that due to insufficient services, elderly people needed to prove that they were incapable of undertaking activities such as showering and meal preparation and were forced to 'advocate strongly and demonstrate a significant need in order to receive a service'. The ABS Survey found that 25 per cent of those self-identifying a need for assistance with everyday activities felt that their needs were not being fully met, including 50 per cent of those with a profound limitation (ABS, 2003). In some instances it is claimed that services are reserved for those with no family support and the quantum of services rationed to provide assistance to the largest number of people (Senate Community Affairs References Committee, 2005). In addition, community care programmes have been found to be fragmented, inflexible, and provide inadequate levels of service (The Myer Foundation, 2002; Senate Community Affairs References Committee, 2005).

Testimony to the Senate Community Affairs References Committee in 2005 indicated that there was a high level of unmet need. The Senate Community Affairs References Committee (2005: xii) concluded:

Community care programmes make a significant contribution in enabling older people to successfully live at home or in the community. While current programmes provide valuable services to older people, significant reform is required to achieve a system that better responds to the needs of consumers, care workers and service providers. The current system is not providing adequate levels of service; services are fragmented; and there is a complex mix of services that are often difficult to access.

Figure 9.4 HACC services in Australia, 2006-2006



Source: Australian Government Department of Health and Ageing (2007).

The HACC minimum data set 2005-06 quantified service provision and confirmed the low levels of service intensity highlighted by submissions to the Senate Community Affairs References Committee. Three services were provided in excess of 1 hour per week. Centre-based day care provided a weekly average of 2.7 hours to some 83,000 users while respite care and personal care averaged 1.55 hours for almost 36,000 users, and 1.1 hours for 65,500 users respectively (Australian Government Department of Health and Ageing, 2007).

The inadequacy of provision is highlighted by Austin (2006) who points out that in 1998 there were 30,000 people being cared for informally who could not be left alone for one hour and 33,800 who could only be left for a few hours, and stressed that access to supplementary formal care was essential to the health and well-being of carers. Users of other services achieved even lower service levels. Figure 9.4 shows the average amount of assistance received by users of HACC services. Domestic assistance averaged less than 36 minutes per week for 220,278 clients and home maintenance, less than 10 minutes per week for 114,569 clients. Home meal deliveries averaged just over 2 meals per week for 99,048 clients and transport services less than 0.7 trips per week for the 125,621 passengers (Australian Government Department of Health and Ageing, 2007).

An insight into the extent of unmet need for HACC services in NSW is provided by the Auditor General's (2004) report that stated only 53 per cent of eligible clients were assisted in 2002-03 and this fell to only 26 per cent in 2003-04. The reduction in client numbers was attributed to the prioritisation of those with complex needs requiring more hours of assistance, combined with a policy of replacing only one of each 4 clients exiting the programme, to prevent budget overruns (NSW Auditor-General, 2004).

9.3.4 Future demand for community aged care services

The future availability of informal care will be the main determinant of future need for formal care. Access to informal care is expected to fall due to changes in family structure, increased labour market participation by women and population ageing (Donato and Scotton, 1998). The Productivity Commission (2005) survey of future availability of informal care indicates that, in the over 65 year age group, couple families will represent less than half of all families. The need for assistance will increase by 160 per cent between 2001 and 2031, outstripping the expected growth of informal carers of 57 per cent. Also, carers aged over 65 will increase by 110 per cent, while those aged under 65 will increase by only 19 per cent (Austin, 2006).

Estimates of future need for formal care, based on the rate of unmet need remaining unchanged, are generally obtained by determining the proportion of particular age groups currently using various programmes and applying these proportions to estimates of future populations. The Department of Health and Ageing estimated that community care programmes for people over 85 will rise from 81,000 in 2002 to 140,000 by 2019, while the total number of community care clients will increase to 970,000 over this period (Senate Community Affairs References Committee, 2005). The number of people receiving assistance under HACC is expected to increase from 750,000 in 2004-05 to 1,166,000 by 2024-25 and 1,559,000 by 2044-45, while CACP assistance will more than treble from 30,500 in 2004-05 to 107,000 by 2044-45 (Productivity Commission, 2005). To address current unmet need and the anticipated failure of the quantum of informal care to grow at an adequate rate, the amount of formal care will have to grow faster than is anticipated.

9.3.5 Transport

The second important form of assistance required by the elderly to continue living in the community is access to transport systems in order to participate in the community, as well as to perform everyday activities such as shopping and attending medical appointments.

Much of the settled landscape of Australia has been geared to the use of private transport, however, so, unless services are provided, the elderly, who are unable to drive, will find it increasingly difficult to travel within their communities. The importance of effective transport systems has been increasingly recognised for their significant role in the alleviation of structural and intergenerational disadvantage and their contribution to social integration.

For the elderly, who are often reliant on public transport, the ability to participate in social outings and day programmes, improves wellbeing and reduces social isolation. The most commonly identified need for the elderly is the provision of flexible transport services which are often provided by teams of volunteers, who are themselves ageing. The ABS Survey of Disability, Ageing and Carers (2003) reveals that 18.2 per cent of elderly people aged over 60 living in households required assistance with transport.

The United Nations Report of the Second World Assembly on Ageing (2002: 34-35) challenged governments to improve the availability, accessibility and affordability of transport systems so that the needs of the elderly would be better met.

To achieve this outcome, the Report outlines three objectives:

1. Improve the availability of efficient public transportation services in rural and urban areas;
2. Facilitate the growth of both public and private alternative forms of transport in urban areas, such as neighbourhood-based businesses and services;
3. Encourage the training and assessment of older drivers, the design of safer roadways and the development of new kinds of vehicles that cater to the needs of older persons and persons with disabilities.

The National Strategy for an Ageing Australia (Department of Health and Ageing, 2001) notes that elderly people will increasingly want to use public transport as their main mode of transport. All Australians should have equitable access to appropriate transport. The strategy focuses on design modifications, fare pricing and scheduling of transport routes to enhance the suitability of services. The strategy urges business to consider the benefits that could be gained from provision of free or subsidised transport to retail and service centres and seeks a market-led approach to address the transport needs of our ageing population.

This strategy clearly aligns with the second objective from the United Nations Report. However, it is interesting to note that in the past, provision of alternative modes of community transport services have not been the result of initiatives of the private sector. These transport services have typically been provided by volunteers from community and non-for-profit organisations, and have been principally motivated by failure of government and the private sector to provide adequate and appropriate services.

Declining health and eye sight cause many of the elderly to relinquish their driving licences. In Sydney there is a sharp decline in licence holding amongst men beyond the 75-84 age range, whereas for women with partners there is a significant decline beyond the 45-54 age group which accelerates beyond the 65-74 age group. The decline in licence holding for women without partners accelerates after the 55-64 age group, which has potentially serious consequences for their capacity to participate in their communities, as well as access essential services (Golob and Hensher, 2007). Women tend to relinquish their driving licences, even when they are still physically capable. Also elderly women also drive less than their male counterparts (Unsworth et al, 2007).

The opportunity for spontaneous outings is reduced, if use of a car is not possible. Further, the reliance upon limited public transport systems becomes an increasing barrier to social engagement and dependency on family and friends for transport is viewed as burdensome. Research has shown that driving cessation is associated with symptoms of depression in elderly people (Davey, 2007).

Compulsory assessment strategies which vary between states are used to evaluate the skills of older drivers. The OECD (2001a) found that mandatory testing of elderly drivers appeared to be ineffective, and that a community based referral systems, involving health professionals, community stakeholders and elderly drivers themselves would provide a more equitable assessment service. Moreover, the New Zealand high court ruled that annual driving tests for specific age groups were discriminatory (Hensher, 2007).

In line with the third objective of the United Nations Report, the New South Wales Roads and Traffic Authority (2008) recently announced that it would institute reforms for drivers over the age of 85. These reforms would at best moderate the decline in licence holding amongst older Australians. The reliance on non-private forms of transport will continue to increase as Australians get older.

The first objective of the United Nations Report challenges governments to enhance their transport services in both urban and rural areas. In rural areas the elderly typically have to rely on people to volunteer their time to transport them to nearby regional centres for health and medical appointments. State health departments provide some assistance for essential health related travel. However the limited accessibility of these services often deters those in need from seeking assistance. Further, these services typically focus on specialist services, rather than primary health care and also require co-contribution (Aged and Community Services Australia, 2005). For instance, New South Wales operates the Isolated Patients Travels and Accommodation Assistance Scheme, which transports patients who live more than 100kms from their nearest treating specialist. The scheme requires a co-contribution of \$40 or \$20 for concession card holders per return journey. Community transport is also available to provide health related travel but some organisations charge a contribution fee.

Services in urban areas have improved in their accessibility and availability, but mainstream passengers rather than the elderly have typically benefited. In urban areas the elderly have also reported that prices of private taxis are prohibitive and that the taxi services can be unreliable with long waiting periods or failure to complete bookings. A coordinated system of transport services is required to increase service quality and efficiency and to address inequities with respect to access. There are however many innovative initiatives that operate within local communities that are highly effective at improving the accessibility of selected groups who experience transport disadvantage. These include 'council cabs', community buses, public transport systems and community volunteer programmes.

The 'Council Cab' model is used by the Gold Coast City Council. It is a public private model, which allows the elderly and disabled access to subsidised transport from private taxi companies during off peak periods. This system requires passengers to book their trip in advance, the service then collects passengers from their homes in the morning and takes them to a designated shopping centre where they will be collected after lunch. The service costs passengers \$2.00 and the local council pays the difference.

Despite these innovative arrangements, transport services for the elderly across both urban and regional areas remain fractured and lack coherence because they are supplied through a number of different not-for-profit organisations, private providers and government agencies, including state and local governments as well as allied health agencies. Services remain grossly inadequate to meet need.

Community Transport

Community transport (CT) provides the elderly, disabled and other disadvantaged groups with transport services. CT was first conceptualised as providing door to door services, tailored to the needs of individuals, in order to maintain the independence of the elderly and delay their admission into aged care facilities. Passengers who access these services can receive funding from state health departments as well as the federal government, through programmes such as HACC.

The HACC programme plays an important role in the provision of transport services to elderly people. Many of the transport services provided by HACC are performed by volunteers. The CT services provided through HACC are used for a range of purposes, including social, recreational and medical reasons and also for shopping. In 2005-06 125,621 clients or 16.2% of all HACC recipients received transport assistance through this service, which amounted to just under 4.5 million single trips (Department of Health and Ageing, 2006). The eligibility criteria are very narrowly defined, however, which deters some individuals in need from seeking the service and also restricts the opportunities of those who do have access to the service.

Local governments provide community transport services and a range of different supporting services, including office administration, organisational support and security, provision of vehicles, maintenance of vehicles, and car and public liability insurance. In NSW in 1997 there were a total of 227.5 community transport services across 73 councils, (NSW Department of Local Government, 1997). However, many HACC services, including those other than CT have come to rely on the fees paid by consumers to maintain service viability. Local government social plans throughout New South Wales consistently note the inadequate provision of CT. The problems of HACC services in NSW are exemplified in the following quote from the Bathurst Regional Council Social Plan (2006: 45), which notes that:

Health related transport issues included older people having to drive themselves to Orange for services and the policy of the Health Department which determined that only In Patients were eligible for health related transport. This excluded those going into hospital for dialysis ... Participants believed that there was a need for Bathurst and Orange Hospitals, senior management to discuss the issue of transport for patients accessing services.

Stanley and Stanley (2007: 13.10) report five difficulties that face community transport nationally. These include:

1. Restricted hours of operation,
2. Precedence of medical appointments over social interaction,
3. Difficulty in accessing sufficient volunteers to deliver the service effectively,
4. Poor public information dissemination strategies
5. Investment in vehicles, rather than transport services.

9.3.6 Analysis of survey results: assistance for the elderly

The analysis reveals two distinct areas of community welfare need for the elderly that are suffering from gaps in service provision. The first relates to appropriate accommodation options for the elderly. The second is concerned with provision of services to enable them to live independently. Respondents emphasised the importance of local provision, to ensure that the elderly are able to live in a familiar environment and maintain social networks.

The need for investment in residential aged care facilities was a prominent theme. Respondents reported the demand for such options was increasing, and far outweighed supply. The importance of providing a range of accommodation facilities, such as nursing homes, unit complexes and retirement villages, in order to cater to the diverse needs of the elderly was emphasised. Indeed, analysis of the survey data reveals that there is also a spatial patterning to the accommodation needs of the elderly. For instance, respondents from Victoria indicated a preference for the construction of public facilities coupled with provision of services to enable independent living, rather than investment in residential aged care facilities. Similarly, responses from NSW were much more focused on service provision to enable independent living, rather than provision of transitional accommodation.

Respondents indicated considerable unmet need for basic care services to promote independent living of the elderly. Many organisations providing services to the elderly and frail are external to local government, and thus in many cases respondents had incomplete information about the demand for these services. However, the inadequacy of these services was consistently noted.

Jobs identified by Local Government Social Planners associated with community welfare services in aged care accounted for a large portion of jobs identified across the entire survey.

Such work would entail provision of general household assistance, including cleaning, basic meal preparation, basic personal care assistance, yard maintenance, basic handyman assistance including activities such as changing light bulbs and painting. The incidence of unmet need for these services as identified by respondents varied over states, and reflected extant policies, and also lifestyle and locational factors. For instance, in the metropolitan areas of New South Wales a number of respondents reported the need for long day care services for elderly people, thereby providing support for those families working full time and caring for their ageing parents. Respondents from rural and remote areas, particularly in Western Australia, noted that preventing social isolation was a critical concern, so the results revealed more jobs associated with visitation and social support, in addition to personal care services. Provision of personal care and home support services were consistently identified as areas of need, which would require substantial additional employment to bring service provision in line with demand.

Many respondents highlighted the need for food preparation and delivery services, or ‘meals on wheels’. Organisations that provide this vital service for the frail elderly, are typically run on limited budgets and largely staffed by volunteers. Currently many of these organisations face obstacles associated with volunteer recruitment and are facing growing service demand. In some cases, volunteers were responsible for transportation costs at a time of growing fuel prices. The NSW State government is addressing this issue via grants to organisations.

The volunteer culture of these agencies also revealed itself in various preconceptions amongst survey respondents, relating to the differences between paid work and volunteering. Many respondents suggested that these agencies would welcome additional volunteers, but were unsure of the role of paid workers in such programs. Despite this, the study found that satisfying the need for these services could lead to employment of 1.2 per cent of the unemployed population across Australia (excluding NT).

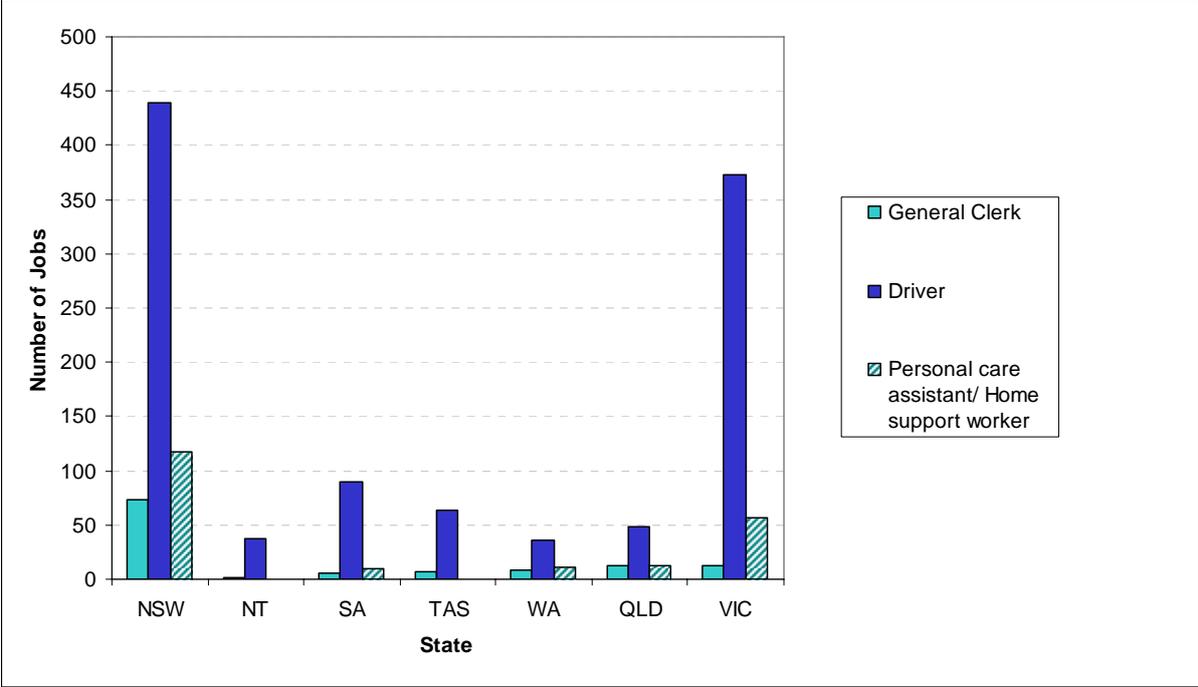
Respondents commented that there was need for expansion of flexible community transport services for the elderly including ‘dial-a-ride’ community transport services to assist with independent living needs (weekly shopping trips, participation in social cohesion programs), as well as services to take the elderly to various medical appointments. Respondents suggested that a considerable number of employment opportunities could be created for low skilled workers to drive cars and / or mini-buses, provide administrative assistance and personal care assistance to help fill some of the gaps in service provision and better meet the transport needs of the elderly. Transport services for elderly people were very important in the Northern Territory, reflecting the isolation of many communities.

The main source of employment opportunities across all states by occupation would be for drivers to provide transport for attendance at medical appointments, to attend to everyday needs such as shopping and social interaction (see Figure 9.5). The highest frequency of driving jobs was identified in NSW and Victoria, the most populous states. Personal care assistance and home support workers constituted the second highest source of employment, while there was also substantial potential for job creation in administrative support.

In total, community welfare services, excluding community transport, accounted for 13.5 per cent of all jobs identified that could be undertaken by low skilled workers. Employment creation in community transport accounted for 2.7 percent of all potential job opportunities identified by survey respondents. Jobs appropriate for low skilled workers in construction of accommodation suitable for the elderly accounted for over 3 percent of all jobs identified by the sample.

The expansion of public housing accounted for a further 26 per cent of possible jobs, but it would require the contribution of skilled workers, including architects tradesmen and engineers. However, the focus here is on potential JG employment of low / unskilled workers.

Figure 9.5 Potential for job creation for transport for the elderly, as reported by Local Government Social Planners across Australia.



The public sector currently provides some services in these areas, but often they are undertaken by teams of volunteers but are not at a scale appropriate to community need. Further access to these services often requires applications and assessments to be undertaken, which deter many in need from utilising services to which they are entitled. Increases in employment in aged care services, including visitation services, should strengthen the “social fabric” by reducing the social isolation of the elderly.

9.4 Conclusion

This Chapter has identified service provision and service levels that are inadequate to meet local demands for housing and services for the elderly. The current piecemeal approach to service provision fails to address complex societal needs, which are not always clearly articulated. The findings of the National Local Government JG Survey suggest that realignment or re-shuffling of service provision would not address the service deficiencies, but would simply redistribute deficiencies across social services and across space. Constrained funding paradigms were a key barrier to effective service and infrastructure provision in communities. Investment in housing to meet the accommodation needs of communities and services for the elderly that support independent living, including community transport, are urgently needed.

Our National Local Government JG Survey reinforces the view that there is considerable unmet need and potential for substantial job creation for low / unskilled workers. Further, national skill development strategies need to be aligned with the socio-spatial demands of our demographic composition. The Job Guarantee approach offers a coherent strategy for reengaging the most marginalised, discouraged members of society back into the labour market by offering employment that is intrinsically valuable and socially meaningful.

Part 4

Solutions for Regional Development

10

A strategic framework for regional development

10.1 Introduction

Earlier chapters of this Report have demonstrated that the abandonment of the commitment to full employment and the Keynesian welfare state in favour of the full employability framework over the last 30 years or so has had major implications for communities throughout Australia.

De-industrialisation occurred as major manufacturing industries such as passenger motor vehicles, textiles, clothing and footwear were exposed to more intense international competition following tariff cuts in a rapidly globalising economy. All tiers of government have outsourced services. The sell off of public utilities, particularly in Victoria, has impacted on regional communities. There have also been periods of prolonged drought that have affected the viability of rural industries as well as significant changes in relative goods prices. These major transformations have impacted unevenly over the Australian geography producing pockets of high and entrenched unemployment and labour underutilisation, whereas other areas have enjoyed buoyant employment growth and rising incomes.

Responsible macro-economic management has been re-defined as maintaining fiscal surpluses and setting monetary policy to ensure a low inflation environment. The unemployed have been used as an inflation control mechanism. Persistent unemployment has been re-conceptualised as an individual problem, rather than the outcome of systemic macro-economic policy failure. As explained by The Australian Futures Taskforce (2007: 3):

...it can be argued that fiscal policy restraint aimed at sustaining an increasingly inflation-first monetary policy strategy, while some would claim to have been beneficial at an aggregate level, comes at the expense of vital public infrastructure and services and of employment opportunities for some people and in some places.

Thus, at both a spatially and a socially disaggregated level of scale, the contemporary picture is one of mixed levels of performance across the nation's cities, towns and regions. It is one of marked differences in socio-economic outcomes.

Disturbingly, the new Rudd Labor Government appears to be perpetuating these macroeconomic and labour market myths (see Chapter 2). Until the message of Chapter 3 is fully understood by policy makers, Australia will still waste the potential of hundreds and thousands of its residents through persistently high rates of labour underutilisation.

Policy responses to the economic and social problems generated by these outcomes have been inadequate. From the 1980s there was a discernable shift to supply-side policies with an increased emphasis on training courses. In an era of sustained demand deficiency, demand-side policies were generally restricted to wage subsidies with the exception of the adoption of short-lived job creation programmes in the aftermath of recessions in the early 1980s and early 1990s. The emphasis on employability involved a more punitive approach in the late 1980s with individuals receiving income support being subjected to more conditionality.

The adoption of supply side policies by Australian governments were affirmed by the OECD Jobs Study recommendations (1994) which emphasised ALMP policies to enhance

'employability' rather than making extensive use of job creation programmes. By 1996 almost all labour market programmes and attempts at developing human capital, had been abandoned, and unemployed individuals were enveloped in a coercive regime that demanded participation in activities with dubious labour market benefits, including Work for the Dole.

In line with other neo-liberal policies, the Howard Government privatised employment services, creating the under-resourced Job Network that has proven incapable of providing meaningful assistance to disadvantaged groups to secure ongoing employment. Results from focus groups with Job Network staff, reported in Chapter 6, emphasise the inability of the current JN framework to adequately address the complex needs of disadvantaged job seekers. In an environment where training has been restricted in the main, to courses of a few days duration, Keating (2008: 103) highlights the discrepancy between the services delivered by the Job Network and those required by job-seekers:

These people [the unemployed] usually have very low levels of formal education and as Australia is mainly short of skilled labour, not unskilled labour, there is a real need to provide opportunities for training.

Regional policies implemented by the federal, state and local governments have generally been on a small scale and are notable for a lack of coordination. Also, attempts to shift responsibilities and costs were common. The Commonwealth government has played a minor role in regional development. State governments have provided the major impetus to regional policies, by implementing a range of programmes designed to attract business, stimulate new business formation and promote the expansion of existing businesses. There is a long history of interstate rivalry, particularly with respect to the attraction of established inter-state businesses, but these initiatives have had minimal national impact and, in many cases, only short-term gains at the state level. There is widespread recognition that, although local government is ideally placed to assess community needs, councils are financially constrained due to limited revenue raising capacity and the increasing burden of service provision due to reductions in services provided by other levels of government.

The results of the national local government JG survey reflect the social impact of the neglect of the past decades. The survey revealed that there were substantial unmet needs for infrastructure and services across urban, regional and remote areas. In total, from the LGAs surveyed, potential employment opportunities were identified that would accommodate around 40 per cent of the unemployed. Need was unevenly distributed across states and regional areas. The greatest need was identified by Social Planners from rural areas and urban fringe areas, whereas a significantly lower level of need was identified in urban developed and urban regional areas.

Jobs that would need to be provided to fulfil these needs spanned a wide range of skills and would provide an opportunity for job seekers to achieve long-term or interim employment goals. Jobs would be required in occupations including: horticultural and construction labourers, teachers' aides, child care assistants, personal carers, refuge support workers, youth workers, drivers, food preparation assistants and environmental remediation workers.

The results of this survey and other research reveal significant variations in labour underutilisation and needs across regions so that 'a "one-size-fits-all" approach in public policy to dealing with regional differentiation issues will be problematic' (The Australian Futures Taskforce, 2007: 208).

This chapter outlines a new national strategy for addressing these issues that requires a coordinated, whole of government approach. This strategy has 3 major components: (a) a targeted expansion of the public sector; (b) the development of a national skills framework;

and (c) the implementation of a Job Guarantee. This chapter provides a brief outline of these 3 strategies which are more fully developed in the following 3 chapters.

10.2 A new national strategy to address employment and service needs of Australian communities

Previous chapters have outlined the spatial disparities in employment opportunities and social services across Australia, which highlight the necessity of adopting a spatially targeted approach to employment creation and provision of services. The overriding objective of the strategic framework for regional development proposed in this report is sustainable development where economic, social and environmental objectives are achieved and available labour resources are fully utilised. The United Nations (2006: 15) declared:

The challenge is to develop policies for economic growth and poverty reduction that can absorb large numbers of workers, especially in resource-scarce areas, protect natural resources and are at the same time environmentally sound.

As noted, the privileging of policies to achieve low inflation in preference to sustainable full employment in recent decades has resulted in disparate outcomes for Australians. While some sections of the population have enjoyed the benefits of economic growth and globalisation, other groups, such as the unemployed, underemployed, and those in precarious employment, have been largely excluded from these benefits. At the same time the state's retreat from acceptance of responsibility for social provision in favour of private provision, has further disadvantaged segments of society who are unable to access the services they require to ensure their full participation in society.

The strategic framework outlined in this report will address equity by ensuring that there are sufficient opportunities for engaging in productive paid work and that provision of social services addresses areas of acute social need so that all Australians can enjoy a reasonable standard of living. A 'Spatial Keynesian' approach to economic and social policy is required to address persistent regional disparities in both unemployment and service provision which would involve (see Mitchell and Juniper, 2007):

- A targeted expansion of the public sector to provide employment and supply infrastructure and services that have atrophied due to the withdrawal of the state during the past few decades as a consequence of the implementation of neo-liberal policies;
- The development of a national skills framework capable of anticipating and identifying skill needs and the adoption of effective education and training strategies to meet future skill challenges in a dynamic environment.
- The implementation of a Job Guarantee to provide employment to all those who want to work.

The first plank of such a strategy would reduce labour underutilisation by the targeted use of expansionary macroeconomic policies to address the under-provision of infrastructure and services that has characterised the period of neo-liberal economic and social policies that have concentrated on surplus budgets and reducing public sector expenditure while abrogating responsibility for social provision.

The second plank in a national strategy to address the future economic and social development needs of Australia is the development of a comprehensive national skills framework incorporating all aspects of formal education, vocational education and training. The skills framework would enhance the productive capacity of the Australian workforce and thereby enhance international competitiveness and reduce bottlenecks in the economy.

The third plank of this strategy, involves a guarantee of employment to all those willing and able to work. The Job Guarantee (JG) would provide public sector jobs paying the federal minimum wage for the provision of socially desirable outputs that are not currently being produced, or not produced on a sufficient scale, to meet community needs. A JG would eliminate labour underutilisation which would enable the unemployed to participate in the paid workforce and enjoy higher living standards and greater social participation.

A spatial Keynesian approach would facilitate the development of regionally focused interventions to provide infrastructure and services on a differential basis according to the specific needs of each community. The number of jobs available under the JG would be determined by the excess of labour supply over demand and would fluctuate anti-cyclically.

10.3 Targeted expansion of the public sector

A feature of the post-war welfare state period was the recognition that citizens should enjoy equal access to services irrespective of residential location. This situation deteriorated in the mid-1970s when governments were intent on implementing policies of macroeconomic restraint and minimising public sector spending. The abandonment of government commitments to provide services as a right of citizenship, is most clearly illustrated in relation to remote indigenous communities. For example, in response to calls for improved service provision in remote communities, WA Indigenous Affairs Minister Michelle Roberts explained that the state government would review service delivery and prioritise spending, warning that 'It may mean that some communities will be identified as being unviable' (Smiles, 2008).

Earlier chapters of this report have brought together data from a variety of sources, including the national local government JG survey. These data have identified the significant unmet need for infrastructure and services, which varies across Australian communities. The current audit of nationally significant infrastructure that will be completed by Infrastructure Australia by the end of 2008 will identify, and prioritise infrastructure needs that can be funded by the \$20 billion Building Australia Fund.

An expansion of infrastructure will facilitate economic expansion, and enhance the competitiveness of lagging regions as well as improving the lifestyle and chances of citizens. Chapter 8 outlined the need for expansion of transport infrastructure to facilitate economic expansion and social participation. The Australian Futures Taskforce (2007) noted that industry estimates of capital investment to meet the infrastructure back-log were as high as \$150 billion for roads, rail, water and energy.

Housing represents another major area where public sector investment was significant in the post-war period but has fallen significantly over recent years, despite serious and ongoing rental and mortgage stress as outlined in Chapter 9. Those in public housing are effectively protected from large increases in rents since maximum rents are set at a proportion of income, which is usually 25 per cent. The withdrawal of the public sector from the provision of public housing has major implications for those low income earners who are forced to rent in the private market where there is no rental ceiling and very modest rent subsidies. As a consequence, many low income households are left in housing stress (see Chapter 9). Moreover, insecurity of tenancy has adverse implications in many aspects of social life and future economic opportunities.

As Holdsworthy (2008: 1) points out:

...home is more than a physical dwelling; it is also a space that provides security, privacy, control, choice and a sense of belonging. Therefore, along with the physical

structure of the dwelling, a person's association with home is linked to 'social capital' concerns such as feelings of either connection with, or alienation from, community and place.

Housing insecurity and short-term tenure are counter-productive in terms of maximising social cohesion and social capital, and maintaining social networks that can be relied upon for social interaction and assistance in times of need. Moreover, children in families that move from one area to another are required to adjust to new educational environments and form new friends, often with negative impacts on educational achievement and social development.

A plethora of social services including health, education and caring are undersupplied in Australia, as the results of the national local government JG survey demonstrated. All Australians are entitled to at least a minimal level of service provision. It is a political decision as to what that level should be.

10.4 National skills framework

As outlined in Chapter 3, the post-war period was characterised by a government commitment to full employment and direct provision of services which involved employment of large sections of the Australian workforce. In addition to the employment function, governments were also major trainers of skilled labour during this period. All the major public sector utilities, public transport, and other government departments, employed and trained large numbers of apprentices and even established state of the art training colleges. When these apprentices qualified as tradesmen, they were available to supply the needs of private industry. In other words, the reluctance of the private sector to invest in skilling the workforce resulted in this important function being shouldered by the public sector.

The retreat from the public provision of services from the 1980s was accompanied by a large reduction in the public sector share of employment and the dismantling of the training systems that had supplied a large proportion of the skilled tradespersons (see Chapter 11 for further details). Major staff reductions occurred in transport and storage, electricity, gas and water, communications services, finance and manufacturing. This loss of training capacity was further exacerbated by the decline in the employment share of large private sector manufacturing companies that were traditionally the other major source of skilled workers.

In response to mass unemployment from the late 1970s to the mid 1990s, a number of different labour market programmes were established, which could be broadly classified as job creation, employer subsidies, vocational training and job search training, which varied in importance over time. While these programmes were incapable of restoring full employment in a macro constrained environment, they played a role in improving the skill levels of the unemployed.

These programmes were largely disbanded by the Howard Government in 1996. In their place the work first strategy dictated that assistance be limited to short job search training and the punitive Work for the Dole programme (see Chapter 6 for a full discussion of employment and ALMP). Job Network agencies could also provide wage subsidies and pay for training courses or use Job Seeker Account funds to pay for training for clients. Under this regime, training was difficult to access and mainly consisted of courses lasting a few days at most.

Following intense media coverage of the "skills shortage", the Howard Government introduced a number of measures that included vouchers for skill upgrading with modest funding. The incoming Rudd Government introduced the Skilling Australia policy with funding of just \$539 million over 4 years.

The national skills framework proposed in this report provides a comprehensive strategy to address the current and future needs of Australian industry and the training aspirations of workers. A national approach to skill development begins with ongoing occupational forecasting to anticipate future needs for skilled workers and put in place training programmes to meet those needs. The public sector needs to assemble capacity to train apprentices in order to bridge the gap between the number of apprentices trained in the private sector and the need for skilled tradespeople.

In addition, opportunities must be provided for more mature workers to retrain to realise employment goals or to successfully transfer from declining occupations or unemployment to jobs in demand in the local labour market. Importantly, the strategy provides multiple training entry points and opportunities to combine formal and on the job training.

10.5 Job Guarantee

There are 2 major lessons from the high and persistent underutilisation of labour resources of the past 3 decades. The first is that a general economic expansion is not sufficient to restore full employment. Buoyant economic conditions reduce unemployment and underutilisation but these reductions are concentrated in areas of high economic growth while low growth areas record smaller reductions. The second lesson is that far from being a temporary problem, there are substantial and long-term costs associated with unemployment that increase with unemployment duration, both for affected individuals and their families, and the future economic capacity of the country. The individual costs of unemployment were outlined in Chapter 3 and include skill atrophy, loss of motivation and self esteem, ill health, the undermining of relationships and family breakdown.

The right to work is a fundamental human right. Paid employment enables individuals to share in the economic prosperity and contributes to social inclusion. Benefits derived from participation in the paid labour force are multi-faceted and cannot be overstated. Labour market participation is instrumental in determining the standard of living and opportunities available to individuals as well as their overall well-being, as explained by Juan Somavia, Director General of the ILO in June 2001:

Everyday we are reminded that, for everybody, work is a defining feature of human existence. It is the means of sustaining life and of meeting basic needs. But it is also an activity through which individuals affirm their own identity, both to themselves and to those around them. It is crucial to individual choice, to the welfare of families and to the stability of societies (Juan Somavia, quoted in O'Reilly, 2003).

The consequences of persistent unemployment that has affected some disadvantaged job seekers over a long period of time were graphically described by Job Network focus group participants (Chapter 6). They described clients suffering severe disadvantage who were considered to be unemployable in the private sector. A similar conclusion is reached by Keating (2008: 103), who cites lack of employment as a contributor to social exclusion, so that:

To lift employment participation levels and address chronic disadvantage, complex and often multiple barriers need to be overcome and thus strategic and policy responses by governments and industry are required.

The Job Guarantee provides a mechanism to deliver full employment through a government commitment to act as an employer of last resort when the private sector provides insufficient job opportunities for all those who want to work. Public sector jobs would be available for all those willing and able to work. Jobs would attract the federal minimum wage and JG

employees would perform socially useful work that was currently undersupplied in the local community (full details are provided in Chapter 13). Employment opportunities would conform to the decent work requirements of ‘productive work, in conditions of freedom, equity, security and human dignity’ (United Nations, 2006: 3).

The JG jobs would expand / contract as private sector employment contracted / expanded providing a buffer stock (Mitchell, 1998). In this way the labour force would be fully employed at all times but the proportions associated with public and private sector employment would vary. As Mitchell and Muysken (2008) explain:

The JG introduces no relative wage effects and the rising demand per se does not necessarily involve inflationary pressures because by definition it is satisfying a net savings desire.

In this way the JG would include a countercyclical fiscal stabiliser effect since government expenditure would expand when the private sector contracts, thereby increasing aggregate demand above the level it otherwise would have been. Similarly, JG employment would fall as the private sector expands.

JG jobs would combine on-the-job work experience with training opportunities to allow JG workers to develop skills in demand or fulfil training aspirations and thereby enhance future employment prospects (see previous section). Work would occur in a supervised and supportive environment which would facilitate provision of other assistance as required. Such a programme combines the elements identified in the international literature as fostering successful transitions to ongoing employment (work experience, training and support). In particular, JG participants would have an opportunity to develop generic skills that are highly valued by employers. Such skills include effective communication, self-management, problem-solving, and the ability to work cooperatively and harmoniously as part of a team (Keating, 2008).

Importantly, the operation of a JG would provide significant societal benefits in the form of social cohesion, by eliminating the costs associated with unemployment that were discussed previously. The JG would provide individuals with the dignity and community recognition that accompanies economic contribution in our society. Ongoing employment would provide an income for those displaced from private sector employment so that they could continue to participate in normal economic and social activities.

Further, the JG would replace the current punitive ‘work first’ approach and the Work for the Dole regime that forces disadvantaged job seekers who are locked out of the labour market to enter into a contractual arrangement to work in exchange for Newstart Allowance by performing work that is stigmatised and undervalued by society because it is unpaid. Moreover, Work for the Dole contravenes the principles of fair and decent work.

The national local government JG survey identified significant unmet social needs for infrastructure and social services that varied by location. Implementation of the JG would provide an opportunity for community involvement in prioritising the activities that would be included in the JG, thereby facilitating a spatially sensitive solution to employment and social needs.

In addition, the JG provides a vehicle for employment geared to environmentally sustainable activities (Mitchell and Muysken, 2008). There are two ways that JG jobs can promote environmental sustainability (Forstater, 2006). In contrast to jobs in the private sector where cost minimisation and profit generation is the overriding consideration, JG jobs can be designed to include consideration of social and environmental impact. In addition, JG positions may be designed to make a direct contribution to the environment through creation

of jobs which contributed to “community and industrial recycling, improved insulation for residential and commercial structures, carpooling, rooftop gardening and urban landscaping, solar energy applied to the public infrastructure (e.g. streetlights, schools, construction warning signs, billboards), monitoring and enforcement, environmental education, and research support” (Forstater, 2006: 64). The national local government JG survey identified areas of need in relation to remediation of environmental degradation and / or preservation of natural assets. Therefore, the JG would make a positive contribution to environmental enhancement.

10.6 Conclusion

In the past 3 decades there have been far reaching changes in Australian economic and social life. Sustained economic growth since the early 1990s recession has resulted in increased average incomes, but has had disparate impacts on industries, sections of the labour market and the population. Growth has also involved adverse environmental impacts.

Major changes in the labour market have resulted in the destruction of significant numbers of jobs, particularly full-time permanent jobs in manufacturing, many of which involved low-skilled work. Combined with higher unemployment and underutilisation rates, there has been a shift towards increased proportions of part-time, casual and precarious employment that have impacted on the ability of Australians to participate fully in economic and social activities.

Concomitant with these labour market changes there has been a diminution of state provision that was the hallmark of the post-war period until the mid 1970s. Governments at both the state and federal level have privatised provision through asset sales and contracting out services as well imposing financial ceilings on expenditure that have reduced service provision and restricted access for some sections of the Australian population.

A new nationally coordinated strategy based on spatial Keynesianism is required to address these issues and to ensure that all are able to participate in the nation’s economic and social life. The following 3 chapters elaborate on the 3 components of such a strategy. Chapter 11 discusses the operation of a policy of public sector expansion to meet the needs of regions. This will increase economic efficiency and facilitate future economic development. Chapter 12 elaborates a proposal for development of a new national skills framework that incorporates all aspects of education and training and is informed by ongoing forecasting of future training needs and evaluation of programme effectiveness. This policy will increase the efficiency of the labour market by anticipating and addressing skill shortages and thereby removing bottlenecks from the economy. However, these policies will not eliminate spatial variations in economic performance and employment opportunities. Therefore, Chapter 13 outlines a proposal to introduce an employment guarantee in Australia under the Job Guarantee, to provide employment opportunities to all those willing and able to work. The JG will ensure productive employment in periods of depressed private sector labour demand and an opportunity to maintain or enhance work skills through work experience combined with opportunities to complete further training and enhance community well-being.

11

A targeted expansion of public sector employment

11.1 Introduction

Previous chapters have demonstrated the existence of a substantial need for investment in both capital and social infrastructure across Australian communities. Reforms since the late 1970s have reduced the role of government as part of the transformation from the full employment to the ‘full employability’ welfare state (see Chapter 3). Governments have increasingly sought to deliver physical and social public infrastructure through private providers that operate through a market model. Policies such as deregulation and privatisation have amplified disadvantage and poverty experienced by vulnerable groups, and contributed to fragmentation of contemporary Australian society (Dollery and Coombs, 2003; O’Neill and McGuirk, 2002). Efficiency objectives claimed for the reform process provided a convenient mechanism for transferring distributional claims on public assets to the private sector.

This chapter argues that need for investment has been accentuated by persistent government under-investment and the abandonment of the welfare state (Cook, 2006). The following section outlines the transformation of public policy from the Keynesian welfare state policies associated with the full employment period up to the 1970s to the neo-liberal policies associated with ‘full employability’, particularly with respect to the changing role of the public sector in provision of infrastructure and public services and the employment impact of this policy transformation. The following section examines the Australian experience with privatisation, including the increasing use of public private partnerships (PPP) and the impact of competition policy. The remainder of the chapter presents the case for a targeted expansion of the public sector to provide additional employment opportunities and deliver services according to the diverse needs of communities.

11.2 The changing role of Australian governments

11.2.1 Overview

Public sector investment during the post-war period facilitated rapid industrial expansion and urban development that delivered sustained economic growth and low rates of unemployment that averaged 2 per cent over a period of 30 years (Mitchell, 2001a). In common with other OECD governments, Australia assumed greater responsibility for provision of services that constitute the social wage; education; health; community services; and the like.

Responsibilities were shared by the 3 levels of government and were influenced by the institutional arrangements that flow from the Australian federal system. The Commonwealth provided some funding for infrastructure. Traditionally State / Territory governments have provided roads, railways, water, electricity, public housing and public transport. Local governments build and maintain local roads. Service provision has been affected by a vertical fiscal imbalance, whereby State governments have responsibility for much of the direct service provision but these responsibilities outstrip state revenue raising capacities. As a result, federal or joint federal / state financing is necessary and there is a long history of dispute regarding the adequacy of funding and blame-shifting in relation to political responsibility for failures in service provision.

The neo-liberal challenge to the traditional public sector role from the early 1980s was driven by the need to open up new avenues for private corporations and to restrict deductions from surplus value that constituted the social wage. In short, the objective of neo-liberal policies was to return functions to the ambit of the market and to shift the financial burden from government to individuals (see Chapter 3).

From the 1990s there were extensive programmes of privatisation at both the federal and state level that commenced with government business enterprises, and expanded to incorporate services that continued to be financed by governments but were increasingly delivered by the private and / or non-profit sector (see Fairbrother, Paddon and Teicher, 2002). Other policies privileged expansion of the private sector. The residualisation of access to services by increased targeting meant that growing sections of the population were expected to self-fund services. Commonwealth education funding for private schools has increased significantly, rising from just over 35 per cent of total Commonwealth education funding in 1977 to 66 per cent in 2004 (Australian Education Union, 2004). Similarly, the government has promoted private health insurance and private hospitals through subsidies to private health insurance and the Medicare surcharge for higher income earners. The private hospital share of separations increased from 29 per cent in 1991-92 to 38.7 per cent in 2006-07 (AIHW, 2008).

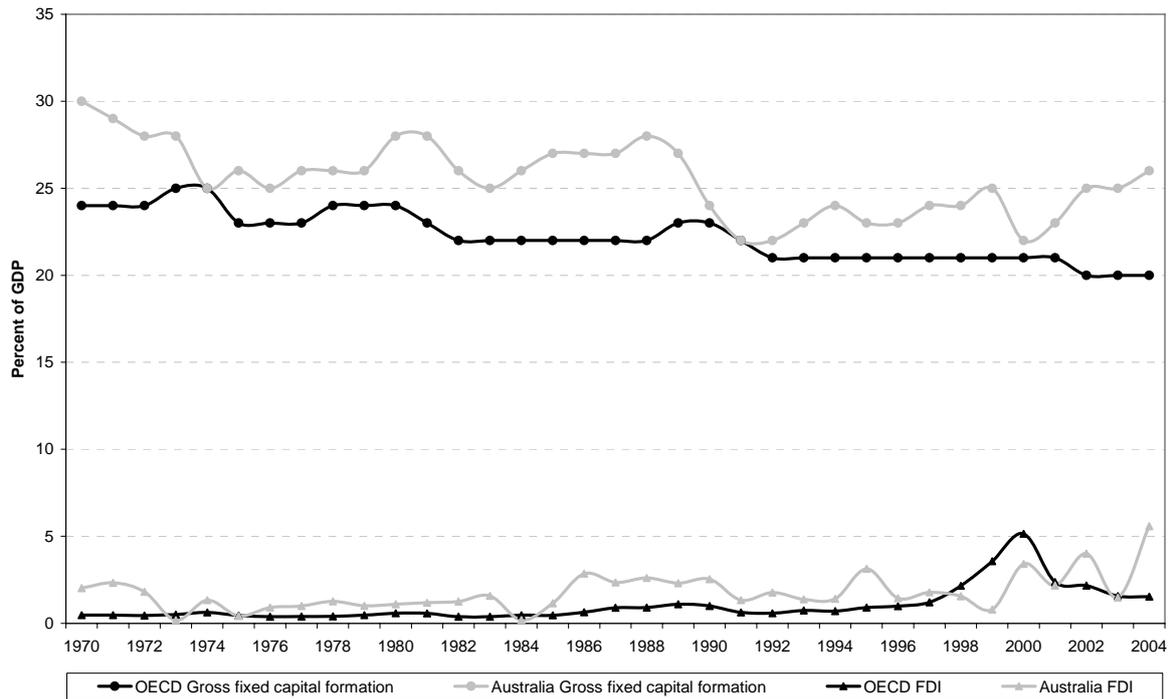
The introduction of the purchaser-provider model was instrumental to privatisation. In the first instance the policy-making and delivery arms of government departments were separated. Subsequently, delivery was frequently transferred to the private sector by contracting out to for-profit and non-profit organisations. As discussed in Chapter 6 the public sector employment service was privatised in 1998 and a plethora of community services are increasingly being delivered by non-profit organisations. The remainder of this section outlines the impact of the changed role of the public sector on the public sector share of investment and employment.

11.2.2 The shift in investment from the public to the private sector

Since 1976 there has been a gradual decline in public sector investment expenditure which has been offset to some degree by increased private sector investment. Private sector investment has increased rapidly in recent times due to reforms introduced through the National Competition Policy. Trends in Australian investment have generally been higher than the OECD average, but continue to follow the broad OECD average (see Figure 11.1). From the year 2000 onwards, gross fixed capital formation has increased, and much of this trend is attributable to the resources boom (Figure 11.1). However, much of the increased investment from the 1990s onwards was due to mergers and acquisitions rather than capital formation.

In order to gain a clearer understanding of the changes in investment it is necessary to look at the absolute and relative shares of public and private sector investment. The higher investment spending in Australia compared to the OECD average is driven by private sector investment since public sector investment in Australia has been below the OECD average since at least 1980 (see Figure 11.2). Figure 11.2 uses estimates developed by the International Monetary Fund and reveals that government net capital stocks have been declining as a percentage of GDP throughout the OECD and the rate of decline has been greater in Australia than the OECD average (Kamps, 2004). In population terms, Australia's total fixed capital stock per capita has also been declining over the past 20 years (Coombs and Roberts, 2007: 13).

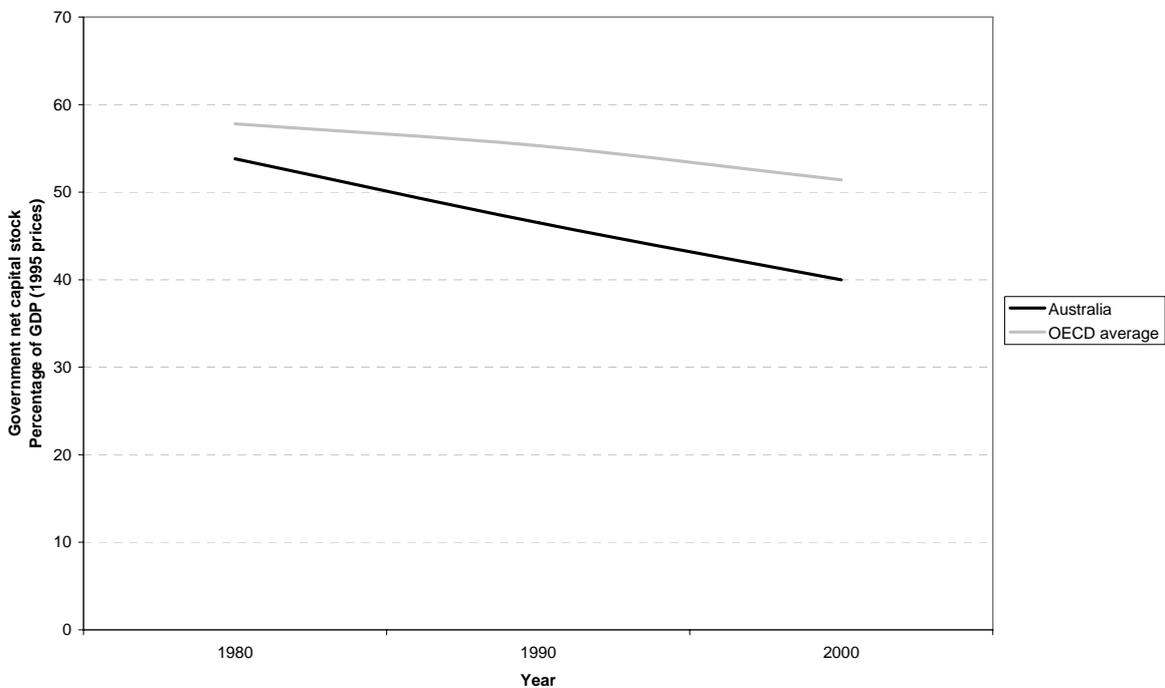
Figure 11.1 Investment in OECD countries and Australia as a percentage of GDP



Source: World Bank (2008) World Development Indicators, World Bank, Washington D.C., Online database.

Figure 11.3 shows public sector investment and total investment in infrastructure as a percentage of GDP. The graph shows that public sector investment has declined from more than half total infrastructure investment in 1901 to less than one-quarter by 2006.

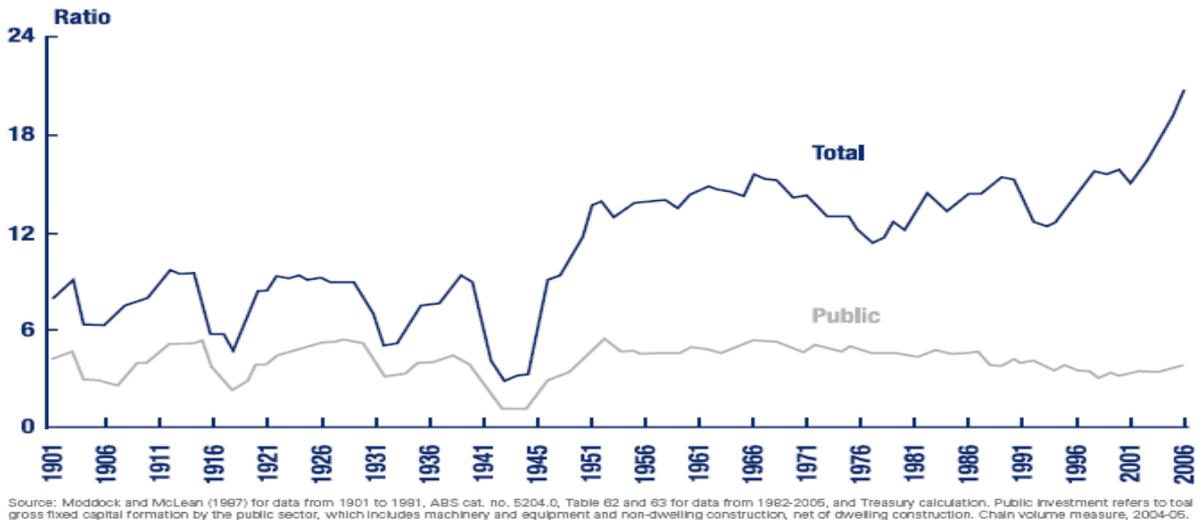
Figure 11.2 Government Net Capital Stock as a percentage of GDP for Australia and the OECD average, in 1995 prices



Source: Kamps (2004).

Public sector investments declined from the mid-1980s and are currently lower than in the post-war period from 1950 to 1985. In the first half of the twentieth century, fluctuations in public sector and total investment were more closely aligned than in the latter half of the century. The increased gap between public sector and total investment between 1945 and 1950 indicates that private sector investment gained considerable momentum in the immediate post-war period. The acceleration of total investment from 2001 indicates that private sector investment has increased rapidly during this period and the share of public sector investment has shrunk considerably.

Figure 11.3 Public sector and total infrastructure investment, 1901-2006 (percentage of GDP)



Source: Infrastructure Partnerships Australia, 2007: 20, Figure 1.

The Allen Consulting Group (2005) analysed the decline of public sector capital formation by disaggregating to the Commonwealth and State / Territory level. Capital formation by State / Territory governments is much higher than for the Commonwealth as expected, given the greater role of States / Territories. Commonwealth expenditure has fluctuated over the period 1971-2006 averaging around 0.5 per cent of GDP. However, there has been a dramatic decline in capital formation by States / Territories which fell from 3 per cent of GDP in 1983 to 2 per cent on 1989, a reduction of one-third. Following a brief period of consolidation in the early 1990s investment continued a secular decline reaching around 1.25 per cent of GDP by 2006.

Infrastructure investment trends are affected by a range of factors including the macro-economic situation; the developmental phase; and the need for renewal and technological advancement (Allen Consulting Group, 2005: 13). Trends in infrastructure investment in both Australia and internationally, reveal a shift away from nation building and redistributive focus of investment characterised by Keynesian state policies of the post-war era. Infrastructure investment in contemporary Australia has become increasingly concentrated and localised with a focus directed towards construction of industry clusters and information nodes, which have potential to intensify returns on investment and maximise investor profit (O'Neill and McGuirk, 2002: 243). The nature and benefits of growth and competition have been concentrated, especially in major urban centres such as Sydney and Melbourne. This has contributed to the development of spatial disparity across the Australian landscape (Productivity Commission, 2005).

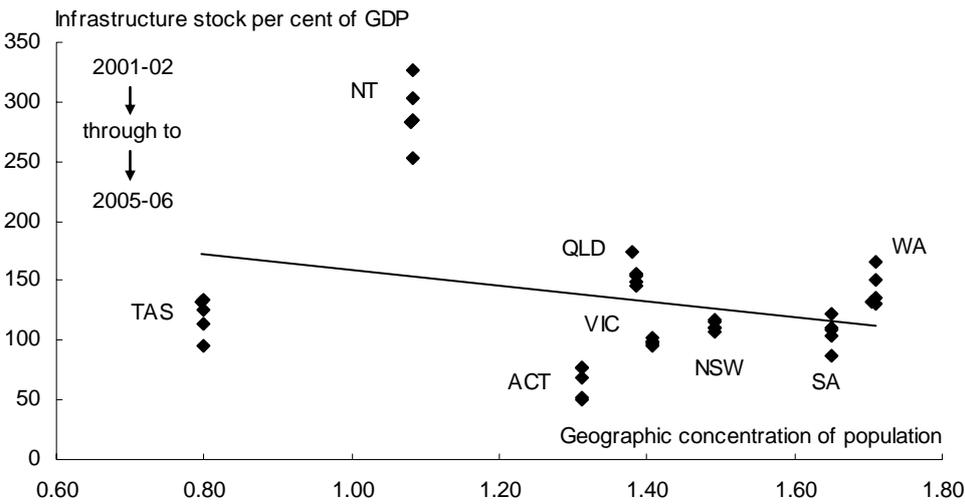
Australia's population density, composition and distribution, raises challenges for infrastructure investment. Should infrastructure investment be concentrated around

settlements that are the most economically viable? Should there be distributional equity with governments obliged to provide services irrespective of the location where people reside? Australia’s size combined with low population density means that per capita infrastructure costs are higher than in countries with a higher degree of spatial agglomeration. Clustering development or encouraging high density population clusters within a specific area is one mechanism that can be used to intensify the outcomes of investment and lower the cost of infrastructure development.

Figure 11.4 reveals that spatially concentrated populations within our sparsely populated nation allows the investment ratio of public infrastructure stock to remain relatively low. The figure also reveals a trend of decreasing levels of public infrastructure stock as a ratio of gross domestic product between 2001 and 2006. This may be attributable to gains in efficiency. However, it is more likely to be a consequence of the policy preoccupation with running budget surpluses rather than reinvesting in community assets.

Investments in infrastructure affect the efficiency of the economy both in terms of its long term competitiveness, productivity, and in its ability to withstand shocks. Many studies have considered the character of public sector investment and found that it produces a high rate of return, while also contributing to the future capacity of the economy to grow (Allen Consulting Group, 2005).

Figure 11.4 The relationship between the geographic concentration of population and public infrastructure stock by state, 2001 to 2006



Source: Coombs, G. and Roberts, C. (2007); Trends in Infrastructure, in *Economic Roundup Summer 2007*, Canberra: Commonwealth Department of Treasury.

Note: The capital stock to Gross State Product ratio of public infrastructure is highest for each state and territory in 2001-02 and falls to 2005-06, the lowest point for each state and territory in the chart. Source: ABS cat no. 5204.0, 1379.0, 8762.0 and Treasury.

11.2.3 The need for infrastructure investment in Australia

The reduction in public infrastructure expenditure may be partly explained by improvements in productivity and efficiency, increasing use of the private sector, sectoral changes in industry composition and declining cost of infrastructure. However, there is a vast body of evidence that the current stock of infrastructure is inadequate for the needs of business and communities.

The Australian Council for Infrastructure Development (2001, cited in AFTF, 2007: 153) estimated that there was need for an additional investment of \$150 billion to repair, upgrade and complete road, rail, water and energy infrastructure projects in Australia. Their estimates include need for a further \$10 billion worth of investment in road infrastructure and \$8 billion for rail. Further, a review of local government expenditure on infrastructure has estimated a shortfall in funding of \$14 billion, due to insufficient growth in the tax base of many councils (AFTF, 2007: 160).

ABN-AMRO (2006) suggest that investment of 4.5 per cent of GDP should be the minimum expenditure for total public capital formation, but proposes that recovering from prolonged periods of under-investment will require investment beyond the minimum to 'catch up'. Figures from June 2006 put public sector investment at 1.8 per cent of GDP. ABN-AMRO (2006) identified a base for infrastructure spending that required investments of \$338 billion over the next decade, \$184 billion of which would be on economic infrastructure (roads, rails, electricity, gas, water, ports etc...) and the remaining \$154 billion on social infrastructure (schools, hospitals, universities, defence, etc...). In addition, they modelled a scenario requiring \$416 billion of infrastructure investment over the next decade. Both these estimates outstrip actual public capital formation of \$280 billion over the preceding decade. The federal governments' response to this need for investment in transport was to put forward an additional \$3.6 billion for road and rail over a period of 5 years (Department of Transport and Regional Services, 2004: xi).

The impacts of investment extend beyond efficiency gains and an improved built environment. Hardwicke (2005: 2) reported that an additional outlay of \$1 billion on urban arterial and local roads would bring with it employment creation in the vicinity of 20,000 jobs and increases in GDP. The major obstacle to infrastructure improvement was associated with the governments' imposed budgetary constraint and reluctance to fund projects through running deficit budgets.

The findings of the 2007 national local government JG survey (outlined in Chapter 7) confirm that current infrastructure provision does not meet the needs of communities throughout Australia. Cost reductions, increases in efficiency and productivity, and increased involvement of the private sector have not provided communities with a level of infrastructure that is satisfactory. This is clearly documented in numerous documents including Local Government Social Plans and Engineers Australia report cards.

COAG (2007: 7) identified a framework for the future development of infrastructure in Australia that includes:

- a stock-take of the physical infrastructure including good information on its performance;
- effective management of the infrastructure and factors influencing user demand;
- a comprehensive planning framework, which identifies future demands and challenges; and
- a regulatory and pricing framework which encourages increasingly efficient use of infrastructure and timely investment in new and updated infrastructure, where this is the best option for responding to particular needs.

11.2.4 The need for expansion of services to the community

Attempts to reduce or limit government expenditure, has also impacted adversely on the level and quality of public sector services. Increased targeting has removed access altogether for some sections of the population forcing them to provide for their needs through the market.

According to the Productivity Commission (2008: E.21) 'Government involvement in health services is predicated on the desire to improve the health of all Australians and to ensure equity of access'. However, there is evidence that access to public hospitals has deteriorated despite the Howard government contention that the Private Health Insurance (PHI) rebate would relieve pressure on public hospitals and reduce waiting times. The average waiting time for elective surgery at the 50th percentile in 2001-02 was 27 days but this had increased to 32 days by 2005-06 (Productivity Commission, 2008). In addition, 4.6 per cent of elective surgery patients treated in 2005-06 had waited more than 365 days.

The measures taken by the federal government in the 1990s to limit supply of GPs by restricting Medicare provider numbers impacted on accessibility to primary medical care. There is evidence of continuing major disparities in the availability of GP services and access to bulk billing between urban and rural areas. Compared to rural areas there were more GPs per 100,000 people in urban areas in all states except Queensland and bulk billing was lower in rural and remote areas than in urban areas (Productivity Commission, 2008). In recent years there has been an increase in the proportion of GP visits that are bulk billed, rising to 78 per cent in 2006-07 (Productivity Commission, 2008). However, bulk billing rates were higher in capital cities than in rural and remote areas.

Although outside the parameters of the national local government JG survey (outlined in Chapter 7) , which was restricted to identifying employment opportunities for low skilled workers, Social Planners frequently referred to severe shortages of a range of health professionals including doctors, nurses, physiotherapists and dentists. In 2005 there were around 7 public dentists per 100,000 people in Australia but these were disproportionately located in major cities (Productivity Commission, 2008). There were no public dentists in remote and very remote areas of Victoria or Tasmania, or inner regional areas in the ACT.

In relation to child care and pre-school services, equitable access is measured by participation rates for special needs groups. The Productivity Commission (2008) found that children from non-English speaking backgrounds, Indigenous children, children with disabilities and children from remote areas had lower rates of participation than other children. Unmet need for child care from the ABS Child Care Survey 2005 (Productivity Commission, 2008) indicated that there was a slight increase in unmet need at the national level between 2002 and 2005 (Productivity Commission, 2008). In 2005 there was need for additional child care for 6 per cent of children under 12 years (Productivity Commission, 2008). Unmet need ranged from around 5.5 per cent in Western Australia and the Northern Territory to 10 per cent in the ACT.

Access to Home and Community Care (HACC) services is essential to improving and maintaining the quality of life of the elderly and people with disabilities residing in the community and ultimately to the fulfillment of individual desires to remain in the community rather than move to an institutional setting. Chapter 9 analysed the provision of aged care services and demonstrated that access to HACC services are woefully inadequate. Evidence suggests that services are inadequate, fragmented and difficult to access. For those fortunate enough to obtain services, it is at a low level; a weekly average of 36 minutes domestic assistance, 10 minutes of home maintenance and 0.7 trips for transport services. Similar issues pertain to the needs of people with disabilities (see Chapter 9).

In addition, carers need regular access to respite services. In 2005-06 only 11.5 per cent of people with disabilities who reported having a primary carer used respite services (Productivity Commission, 2008). Moreover, those from outer regional and remote or very remote areas had lower rates of utilisation of respite services than those from major cities and inner regional areas.

In the 2006 Census there were only 3.6 per cent of households in public housing and 0.7 per cent in community housing (Productivity Commission, 2008). As discussed in Chapter 9, the policy shift from direct provision of public housing to subsidising rent in the private market is an inferior strategy to achieve housing affordability, since the level of private rents cannot be controlled in the same way as the public housing rental. There is an urgent need for a large increase in the public housing stock to alleviate housing stress.

The results of the 2007 national local government JG survey (outlined in Chapter 7) indicated unmet need for the provision of a diverse range services that must cater for specific needs of individual communities throughout Australia.

11.2.5 Public sector employment outcomes

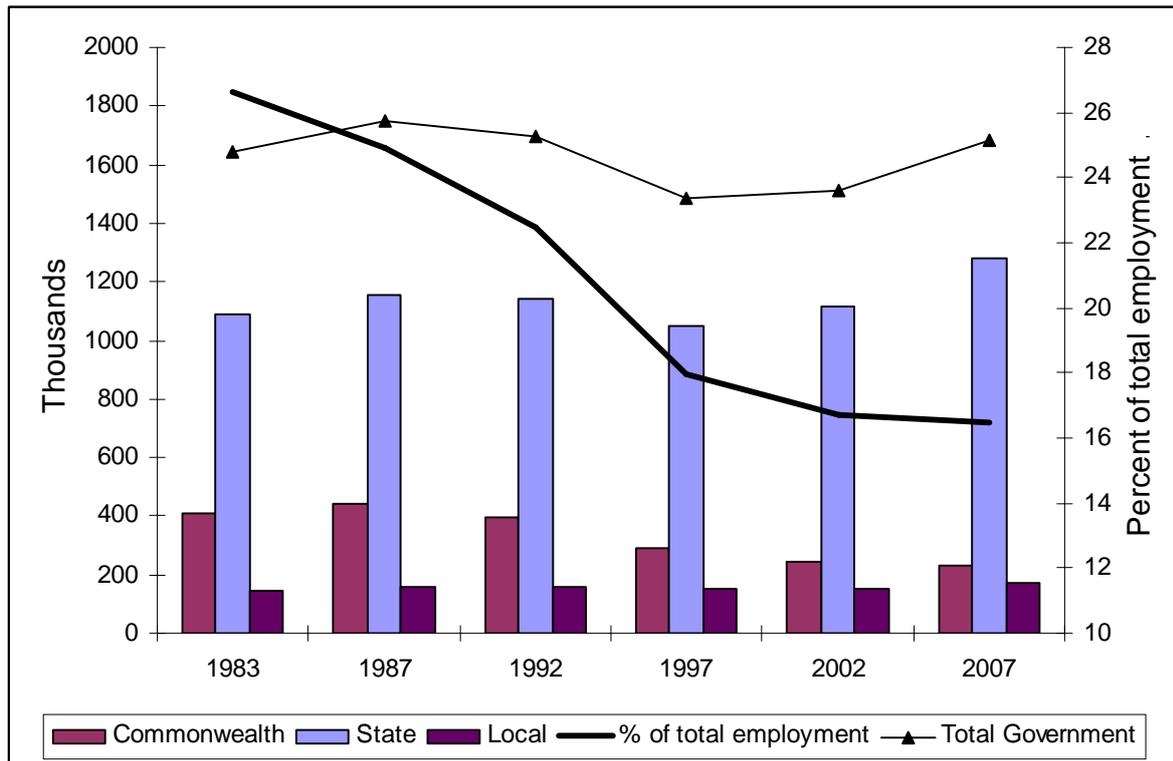
Government policies over the past two decades have impacted significantly on public sector employment. Governments have articulated the objective of transforming the public service from bureaucratic, input-focused and process-driven, to becoming a dynamic, output-focused, efficient and effective organisation. Such ambitions commenced with the Coombes Commission in 1976 and continued through the Reid Report in 1983 and the Public Service Act 1999 (Cook, 2006). An integral component of the implementation of neo-liberal policies was the objective of increasing the profit share of national income and reducing government expenditure. These objectives were pursued through attacks on the rights of workers to collectively organise, both in the public and private sector.

The Hawke government instituted managerialist reforms from the mid 1980s, coinciding with the balance of payments and exchange rate crises and the introduction of the Structural Efficiency Principle under the Accord. The government streamlined functions and agencies in 1986, and then amalgamated departments to form mega departments in 1988. The number of job classifications was reduced to produce a 'flatter structure' for administrative (1986), professional, technical and blue-collar public sector workers (1988), and projected staffing levels were reduced by an 'efficiency dividend' in the form of a 1 per cent per annum reduction in running costs, imposed in the 1987-88 budget, and increased to 1.25 per cent in 2005-06. From 1988, commercial practices were introduced in government business enterprises (Bureau of Industry Economics, 1995).

Subsequent privatisation policies further reduced public sector employment. Mitchell (2001a) demonstrates that declining public sector employment contributed significantly to persistently high unemployment in an environment where private sector employment growth failed to match labour force growth. From the mid 1980s public sector employment growth slowed, then in the recession in the early 1990s pro-cyclical job losses of 160,900 exacerbated unemployment, and a further 123,700 public sector jobs were destroyed in the late 1990s (Mitchell, 2001a: 198).

Figure 11.5 shows Commonwealth, state and local public sector employment and the share of public sector employment between 1983 and 2007. In a period when total employment grew by over 3 million, public sector employment stagnated in absolute terms and contracted relative to total employment. Total public sector employment increased from 1,642,000 in August 1983 to 1,683,000 in May 2007, but declined from 26.6 per cent of total employment to 16.5 per cent over this period. The decline was driven primarily by reductions at the Commonwealth level where employment contracted from 410,000 or 6.6 per cent of total employment to 232,000 or 2.3 per cent of total employment. State government employment increased from 1,089,000 to 1,281,000 but declined as a share of total employment from 17.7 per cent in 1983 to 12.5 per cent in 2007. Similarly, local government employment increased slightly (from 143,000 to 170,000) but declined from 2.3 to 1.7 per cent of total employment.

Figure 11.5 Public sector share of employment 1983 to 2007



Source: ABS 6248.0.55.001 Wage and Salary Earners, Public Sector Australia, original; ABS 6202.0.55.001 Labour Force Australia, original (2007a)

The industry composition of public sector employment has changed dramatically. Education, government administration and defence, and health and community services have dominated government employment, growing from 54 per cent of public sector employment in 1983 to 78 per cent in 2004. Between 1983 and 2004 public sector employment in the education sector increased from 342,700 to 484,500, while government administration and defence grew from 277,700 to 405,900, and health and community services staffing increased from 268,800 to 341,300.

Staffing reductions in transport and storage, electricity, gas and water, communication services, manufacturing, and finance and insurance, reflect government privatisation policies. For example, the combination of deregulation, privatisation, and technological innovations reduced full-time equivalent staffing in Telstra from 87,620 in 1989 to 50,761 in 2000 (Barton, 2002: 58), while the workforce in the Victorian gas industry contracted from 5215 in 1982 to 1214 in 1998 (Barton, 2001).

11.3 The failure of the privatisation mania

11.3.1 Overview

Privatisation is promoted on the basis that it increases competition and efficiency, enhances choice, reduces prices and relieves budgetary stress of governments (Bureau of Industry Economics, 1995). Privatisation may also reduce the power of vested interest groups such as trade unions and thus provide a vehicle for reducing staffing, wages and working conditions. Finally, ideological preferences for small government and private sector dominance in the marketplace have resulted in vociferous demands for withdrawal of the public sector under the catch-cry articulated by Osborne and Gaebler (1993) of “steering not rowing”.

Major reforms in the public sector have centred on the transformation from public to private service delivery ranging from outsourcing functions through to complete privatisation. Reforms have been justified on the grounds of enhancing competition and consumer choice as well as increasing efficiency and reducing prices. Outsourcing became a major policy direction for both federal and state governments in the 1980s and 1990s, particularly for transport services, cleaning, information technology, waste disposal, building and equipment maintenance. In relation to health, NSW introduced competitive tendering from 1988, followed by Victoria and Western Australia in 1994 and South Australia in 1995 (Industry Commission, 1998). State governments outsourced provision of non-core services such as cleaning and maintenance in education from the 1980s. More recently, competitive tendering has been introduced into core services. Queensland, NSW, Victoria, South Australia, Tasmania, and the ACT established competitive tendering arrangements for training programs in 1996 and 1997. Major infrastructure developments have also been subject to various contracting out or privatisation arrangements through public private partnerships (PPP).

Public employment services, delivered exclusively by the Commonwealth Employment Service (CES) since 1946, were partly contracted to private and community sector providers by the Keating government as a component of the Working Nation package and privatisation continued under the Howard government with the introduction of the Job Network in 1998. The public sector provider Employment National closed in 2003 (see Chapter 6 for further details).

Privatisation of government businesses and services began in earnest in the latter part of the 1980s and accelerated in the 1990s under both ALP and Coalition governments at the Federal and State level (for a comprehensive list of privatisations in Australia refer to Fairbrother, Paddon and Teicher, 2002), raising a total of \$85 billion, of which state electricity and gas sales comprised 40 per cent and the partial privatisation of Telstra raised \$30 billion (Moran, 2000). Commonwealth government privatisations included: AUSSAT (1991), the Commonwealth Bank (1991-1996), Australian Airlines (1992), the Moomba-Sydney Pipeline (1993), Qantas (1995), the Snowy Mountains Engineering Corporation (1995), various airports from 1998, and the partial privatisation of Telstra from 1997. Privatisations at the state level varied considerably: most have privatised financial and insurance institutions, while others such as Victoria and South Australia have conducted more extensive privatisation including electricity, gas and port facilities (RBA, 1997). In addition, the public transport system was privatised in Victoria bringing total asset sales for the state to \$30 billion. Between 1990 and 1997, the federal and state governments raised over \$61 billion in proceeds from the sale of public assets.

Generally progress toward privatisation involved major restructuring as enterprises were corporatised, broken into discrete organisations and ultimately privatised. The Victorian State Labor government sold 51 per cent of Loy Yang B power station in 1992. Subsequently, the Kennett Coalition government corporatised electricity in 1993, outsourced non-core functions such as transport and maintenance, and restructured the organisation into commercially viable businesses which were sold in 1996 and 1997 (Fairbrother and Testi, 2002). Similarly the Gas and Fuel Corporation of Victoria was corporatised by the Labor government in the early 1990s, outsourcing began in 1993 and by 1999 privatisation was complete (Barton, 2001).

There have been some spectacular failures related to privatisation. The Kennett Coalition Government privatised the rail and tram network in Melbourne in 1999 in order to introduce 'private sector disciplines and innovation into public transport' (Grieg, 2002: 237), boasting that privatisation would deliver reductions in public subsidies amounting to \$1.98 billion and provide \$1.6 billion in new infrastructure investment (Hammond, 2003). National Express

which was awarded 3 of the 5 franchises walked away in December 2002 leaving debts of \$55 million and forcing the state government to assume responsibility for operation of the rail network. Subsequent restructuring of the privatised franchises resulted in higher public subsidies, eroding the expected gains from the privatisation. Hammond (2003) claims that the expected major infrastructure investment by the private operators also failed to materialise.

Similarly, in assessing electricity privatisation in Victoria in the 1990s, Cahill and Beder (2005) note that:

- the introduction of interstate competition in 1998 resulted in a number of privatised companies selling their assets at a loss;
- further rationalisation subsequently occurred with 30 per cent of the retail market up for sale in 2002;
- extensive blackouts occurred in 1997 due to insufficient maintenance;
- privatisation failed to deliver any increased generating capacity;
- prices increased with low income households particularly affected.

11.3.2 Public Private Partnerships

Overview

Government procurement has undergone considerable reform over the last 20 years and Public Private Partnerships (PPPs) are increasingly becoming the norm for social and economic infrastructure delivery. PPP projects in Australia have been estimated to have reached a total of \$20 billion (Joint Select Committee on the Cross City Tunnel, 2006). The term PPP covers a wide variety of collaborations between the public and private sector. A familiar model that has been used frequently in Australia since the early 1980s involves provision of infrastructure such as toll roads which is argued to provide infrastructure more quickly than by public provision which is subject to government-imposed budget constraints. This arrangement ultimately transfers the cost of infrastructure to users with associated negative distributional impacts.

PPPs offer the government and society a hybrid model for public investment in infrastructure and services. PPPs seek to harness the benefits of a competitive market as well as private sector expertise and innovation. In theory, the involvement of the private sector allows the public sector to transfer the risk associated with delivery, obtain “value for money”, and allows increased provision of public infrastructure compared to traditional public sector provision. The PPP literature maintains that access to services and utilities remains equitable and that positive benefits associated with the asset continue to flow onto society. In practice however, there may be major deficiencies in accountability and private acceptance of risk.

Prominent examples of public private partnerships are found in the Joondalup Health Campus in Western Australia (see below), the Casey Hospital in Victoria and the New South Wales Government “New Schools Projects” for new schools financed, built, owned and maintained by the private sector and handed back at the expiry of the 30 year contract.

We note that due to our inefficient national constitution, state and local governments have to deliver most of the essential services but face constant revenue issues. There is a real case for realigning spending and taxing responsibilities to allow the federal sphere more influence. This follows the logic we developed in Chapter 3 where we identified that the federal government does not have a financial constraint. If the Federal Government took over the responsibility for infrastructure provision much of the PPP debate would become irrelevant

inasmuch as it is based on the revenue constraints faced by state governments in the face of their responsibilities.

However, in saying that, the debate when focused at the state level is based on false premises. There is no economic logic that state government borrowing is bad. The argument that a state government has to run a surplus to maintain an AAA rating is nonsensical in the context of an ideologically-driven unwillingness to use that rating to borrow on favourable terms which maximise social advantage. There is nothing efficient about surpluses that both accompany the run-down of social infrastructure and the higher cost provision of essential infrastructure and services.

The role of government is to maximise social welfare rather than maximising private welfare. When we discuss the efficiency of a particular activity within the context of resource allocation we should always focus on the maximisation of net social benefits rather than the maximisation of net private benefits. Generally, PPPs have failed to meet this performance benchmark and typically compromise social interests in favour of private interests. Government should use its fiscal power to: (a) ensure full employment; and (b) to maintain high quality public infrastructure. In relation to this second role, governments face two questions: (a) What is the best way to provide for the rising demand for best practice public infrastructure?; and (b) What is the best way to gather the resources necessary to guarantee this provision?

There is a strong economic case for Government to provide public infrastructure because of market failure considerations – the existence of public goods, externalities and such does not support sufficient private returns from user charges to ensure the private provider will remain profitable. The classic case is of the railway system. Further, the presence of natural monopolies will generate excessive prices and returns should a private supplier be present. Finally, public infrastructure services typically generate benefits across time and beyond the immediate users (schools, hospitals, sewage, etc...) which means that it is not an excludable good and therefore not appropriate for private provision.

Public infrastructure investment also promotes productivity and economic growth. It provides a fundamental training ground for skilled labour (for example, a national apprenticeship capacity), and, beyond its economic contribution, public infrastructure provides a social fabric and hence social benefits.

Key steps in a PPP

A PPP is a contractual partnership between the public sector and the private sector to finance, construct and / or operate projects which would normally be the responsibility of the public sector.

Key steps involved are:

- Private partner invests in public infrastructure;
- Contract extends to operation of the facility – usually with bundled services; and
- Government pays annual fees for capital and services which include risk premium, private profit margin.

There are various forms of PPPs used, the most popular being:

- Design, construct and maintain (DCM)
- Build, operate and transfer (BOOT)

The issue of how much service delivery should government retain usually results in the government being reduced to policy development, and brokerage and management of contracts with private service delivery partners. Given that these arrangements oversee the development of key public infrastructure the responsibilities vested in private financiers and developers is disproportional to their ability to gauge the public interest.

The proponents of PPP arrangements argue that they offer value for money which in the literature is an efficiency concept entailing: (a) Lower construction costs; (b) Lower operating costs; and (c) Higher quality services. The evidence from Australia and the UK is mixed but generally does not support these alleged advantages across education, health and other sectors. We consider a specific case study further on in this sub-section.

The financing myth – who ultimately carries the risk?

The standard attack on PPPs has been somewhat misleading. The argument goes that the private sector has to price its debt in the market whereas public debt prices at the long-term bond rate. Given that there is typically a 3-5 per cent difference between private and public funds, the PPP can never be cheaper unless services (employment) are cut dramatically or construction quality reduced.

However, we have to recognise that the difference in borrowing rates reflects project risk and lower public rate implies that government will rescue a failing project via drawing on consolidated revenue. Therefore the PPP is constructed by its proponents as an efficient transfer of risks from public to private and the critics are dismissed as being ignorant of this “risk transfer” argument. The gains are alleged to arise from the private sector being better able to manage risk – largely because they have a higher incentive to do so – private profit.

The real problem with the PPPs in this regard is that is a falsehood that the risk shifts from the public to the private sector. Who ultimately bears the risk? The risk premium in private financing is based on the fact that a private entity can become bankrupt with its product and service exiting the market. With an essential public service it is a fantasy to say that the PPP contract transfers risk to the private sector. If the private partner defaults, the public always has to pick up the pieces. There is no real risk transferred.

There is substantial empirical evidence, particularly from the UK that shows that PPP partners in the private sector profiteer from the “risk” transfer component built into the contract payments. The private provider aims to minimise financing costs over the life of the contract by early repayment and refinancing existing loans at lower interest rates. The risks are typically high in construction phases and drop to near zero once service operations begin. The private partner reduces costs by refinancing at lower rates once construction is completed. The private partner captures these gains at the expense of the social good. The PPP contract may be able to prevent this from happening but then it reduces the incentive of the profit-seeking private provider to enter the contract.

The problem is that the concept of making private profit on public infrastructure is in our view a flawed one. Why should the public payments include a profit margin? Is ownership or management the key to sound project outcomes? This is a rehearsal of the privatisation debate which failed to show ownership mattered.

Monitoring problems

A constant problem with PPPs, is that Government monitoring and evaluation systems are designed to ensure contract requirements are met but the details of PPPs are often suppressed as “commercial in confidence” so that public scrutiny is curtailed. The key elements of successful PPPs are transparency and effective monitoring and evaluation systems to ensure

that the deliverables are consistent with expectations of quality, timeliness, utility and public interest. Indeed the introduction of PPPs imposes an increased need for independent assessment of outcomes in regard to the relevance, effectiveness, efficiency, feasibility and sustainability of the tendering process and outcomes of the partnership. English (2007) challenges the scope of the monitoring and evaluation frameworks that auditors are using to draw their conclusions. Of concern is the distinction between audit methods, which Pollitt *et al.* (1999 cited in English, 2007: 319) refer to as systems-based or substantive.

Systems-based evaluations focus on procedures or best practice frameworks, and in the case of Australia have focused on the pre-contracting stage of a PPP by ensuring that steering mechanisms are implemented appropriately and that objectives can be achieved effectively through adherence to best practice procedures.

Alternatively, substantive evaluations consider efficiency in terms of core activities and ‘the quality of service experienced by users against externally-derived criteria’ (English, 2007: 319). Substantive investigations involve critiquing and questioning government policy, and also challenging the effectiveness of outcomes versus the processes and strategies employed to derive those outcomes. English (2007: 331) further notes that only, ‘two auditors-general have investigated the achievement of anticipated risk transfer and the “value for money” in the operating stages’ of PPPs in Australia –which are core motivations for engaging in PPPs. Both of these audits occurred prior to 2000, one of the Joondalup Health Campus in Western Australia (see below), and the other of the New Prisons Project in Victoria.

The procedures that the Auditors-General follow raise questions about the degree of scrutiny to which PPPs are exposed. In the absence of appropriate monitoring and evaluation systems, who ensures that PPPs are accountable, responsible and performing in the best interest of the public? Evaluations of PPPs have also been undertaken by bodies such as the Victorian Parliamentary Accounts and Estimates Committee and NSW Public Accounts Committee. Both the NSW Public Accounts Committee and the NSW Auditor-General evaluated the pre-contracting phase of the cross city tunnel project. The cross-city tunnel opened in 2006 and was placed in the hands of receivers in 2007 with debts in excess of \$560 million. The following section outlines developments that can be described as privatising public hospitals.

11.3.3 Case study: Privatising public hospitals

In Australia, creeping privatisation policies that shift resources from public to private hospitals have been combined with overt policies including: contracting out services such as catering, cleaning, maintenance, laundry, car parks, security, radiology and pathology (Senate Community Affairs Committee, 2000), and more recently, utilisation of PPPs to transfer responsibility for financing, building, owning and operating some public hospitals to the private sector. Pierson (1994) classifies privatisation as systemic welfare state retrenchment that weakens pro-welfare state groups.

The 1998-2003 Australian Health Care Agreements (AHCA) provision that public hospital services may be provided in “any appropriate environment” facilitated treatment of 98,527 public patients in private hospitals in 2002-03 (AIHW, 2004). Individual services have been contracted to the private sector include: maternity services in Bernie and ophthalmology in Hobart, Tasmania; urology services in Illawarra NSW; and public day surgery, step-down care and cardiac catheterisation in Flinders Medical Centre, South Australia (Forwood, 1997).

Elsewhere underinvestment in public hospital capacity and increasing reliance on the private system is evident. Victorian public patients are transferred to private hospitals for intensive and coronary care when beds are unavailable in the public system (Department of Human Services, 1998). In April 2005 the NSW government announced that 2,591 of 4,500 patients

waiting longer than one year for elective surgery would be treated as public patients in private hospitals. In recent years, State governments have engaged in various forms of PPP to operate public hospitals, and / or provide infrastructure off balance sheet. The rationale includes: claims of higher productivity and greater innovation in the private sector; necessity due to public sector funding constraints; negation of more generous public sector employment conditions including security; and the transfer of risks associated with construction (Steering Committee for the Review of Commonwealth/State Service Provision, 1988; Forwood, 1997: 87).

Several types of PPP have proceeded in Australia: a) Build, Own, Operate (BOO), where the private operator retains ownership of the hospital when the contract expires; b) Build, Own, Operate, Transfer (BOOT), involving private construction and operation, followed by ownership transfer to the public system after the contract expires; c) Build Own and Lease Back (BOLB) involving private construction and ownership with the government leasing and operating the hospital; and d) Operate (O), where operation of the hospital is contracted out.

UK private finance initiative (PFI) experience, which has been the primary vehicle for most new capital investment since 1992, provides insight into issues involved in PPPs with respect to hospitals. Gaffney et al. (1999) contend BOOT arrangements failed to provide an efficient lower cost option, claiming that costs have exceeded public finance options and 'required a diversion of hospital budgets from staffing to capital payments and have led to major downward revisions in the planned capacity of hospitals' (Gaffney et al., 1999: 51). For example, average beds available in 11 NHS trust areas are expected to fall from 8063 in 1995-96 to 5583 under PFI, a fall of 30.8 per cent (Pollock et al., 1999). Also, national capital planning based on population needs has been replaced by delivery of facilities according to local affordability (Pollock et al., 1999). On balance the evidence suggests that the promised benefits of PFI have not occurred.

In Australia, superior efficiency of private sector delivery is yet to be proven (Sperling and Parslow, 1999). A review of Joondalup hospital by the Western Australian Auditor General found contractual process failed to establish that PPP would deliver net tangible benefits over a public sector alternative (Auditor General, 2000: 7). Post implementation comparisons with benchmark hospitals, found patient satisfaction ratings for Joondalup were inferior in all areas except food and surroundings. The greatest discrepancies were for availability of staff, continuity of care and being kept informed. Contract omissions regarding non-coronial post mortems and a requirement to accept patient transfers from other hospitals necessitated renegotiation and additional payments. The Metropolitan Health Service Board (MHSB) claimed that Joondalup's reluctance to accept patient transfers due to financial arrangements resulted in bed block at inner city hospitals (Auditor General, 2000: 23). Significantly, benchmark hospitals accepted 30 times more patient transfers than Joondalup.

The NSW government contracted Health Care of Australia (HCoA) to construct, operate and own (BOO) the Port Macquarie Base Hospital (PMBH), with projected savings of \$46 million over the 20 year contract period. Collyer's (1997) analysis of the PMBH development raises many issues that have been considered in the British context. First, the project was promoted on the basis that public finance was not available due to Commonwealth constraints on global borrowing. Secondly, cost comparisons purporting to demonstrate the private option was less expensive in both construction and operation phases were challenged by a Parliamentary Accounts Committee (PAC) inquiry that suggested public sector construction costs could be substantially reduced, while estimates for the private option were understated due to the omission of insurance, debt servicing and maintenance costs (Collyer, 1997).

The PMBH privatisation failed to produce the estimated cost savings, and contract omissions necessitated significant additional payments (Collyer, 1997). Similarly, the NSW Auditor General claimed the government would pay twice for the cost of capital construction, in the annual availability fee and through fee-for-service payments, but would own neither the land nor the buildings. Collyer further claims that associated administrative, legal and oversight costs plus government liability for costs of leave for employees for the first year were omitted from cost comparisons. The sale of PMBH to Affinity Health Care in 2003 provoked a long-running dispute with the State government, culminating in the 2005 purchase of the hospital by the NSW government. Collyer (1997: 35) concludes:

The increasing support for privatisation, despite its poor fiscal outcome to the state, can best be explained with recourse to the theory of privatisation as a prevailing, pervasive discourse which favours the interests of powerful groups and institutions – particularly financial corporations and the political arm of the state ... and it hides the fact that privatisation is actually a transfer of public wealth to the private sector.

Similarly, several unsuccessful privatisation attempts in other states have resulted in hospitals reverting to public ownership and / or operation, raising questions regarding the extent of risk transfer to the private sector. The Victorian government contracted the Ramsay Health Care Group to build Berwick Community Hospital but decided to operate the hospital after the withdrawal of Ramsay, then Mercy Health and Aged Care. Similarly the La Trobe Hospital in Victoria and Robina Hospital in Queensland were handed back to the state in 2000 and 2002 respectively. In addition, management of the Mersey Hospital was outsourced in 1995 but subsequently returned to the State in 2004.

Sperling and Parslow (1999) insist that assessments of potential savings must include bargaining costs, costs of disputes, transaction and monitoring costs. Moreover, they argue that ‘Governments must retain the capacity to provide comparable services or to engage alternative providers if they are to ensure value from contracts with private operators’ (Sperling and Parslow, 1999: 82).

Outright privatisation of some Australian public hospitals has also occurred, notably Repatriation General Hospital in Western Australia, Lady Davidson in NSW, and Repatriation General Hospital in Queensland in the mid 1990s, as part of the Department of Veterans Affairs’ divestment program (Productivity Commission, 1999: 8). In addition, expenditure on private hospital treatment for veterans increased from 16.7 per cent of total DVA hospital expenditure in 1992-93 to 32.4 per cent in 1996-97 (Sperling and Parslow, 1999: 88), due to the increase in the number of private hospitals providing services to DVA patients, from 192 in 1991-92 to 275 in 1996-97 (Productivity Commission, 1999: 22).

11.3.4 Co-location: Blurring the boundaries between the public and private sectors

The distinction between public and private has become blurred by the trend toward co-location where public and private sector organisations share facilities. For instance, public and private hospitals share facilities such as pathology, radiology, laundry, catering and parking (Sperling and Parslow, 1999). Further, the federal government plans to create a subsidised “one-stop-shop” for childcare services, which will integrate community health centres, child day care and long day care, pre-school and playgroups. It is proposed that these centres will provide both private and public services to the community. For instance, the long day care services may be private, and families may be eligible to receive a government subsidy that covers a proportion of the service costs. The community health services would remain public.

11.4 National Competition Policy

11.4.1 Overview

The major policy that triggered the public utilities reform was the National Competition Policy (NCP). It was introduced in 1995 to help address the various regulatory and institutional restrictions on competition that led to perceived inefficiencies within the Australian domestic economy. The NCP was to enhance competition through cost control, innovation and responsiveness to consumer needs (Productivity Commission, 2005: xiii). It was based on recommendations from the Hilmer report, which sought to redress public sector competitive advantage through industry deregulation or self-regulation and competitive tendering of services that had traditionally been provided by the government.

At the Council of Australian Governments' Meeting (COAG) in 1995, State and Territory governments agreed to implement NCP to increase competitiveness and economic growth (COAG, 1995). The reform package involved:

...extending trade practices legislation to State and Local Government business enterprises and unincorporated businesses, providing access to essential facilities and encouraging competition in the business activities of governments and other sectors of the economy through a program of regulation review, enhanced prices oversight, application of competitive neutrality principles and procedures for structural reform of public monopolies (COAG, 1995).

The scope of the Trade Practices Act was expanded to include government business enterprises, public monopolies and other bodies not previously covered by the Act. The NCP also included establishing independent authorities to monitor prices and competition, in order to ensure that regulatory frameworks and service provision was in the public interest and that restrictions on competition were remedied to best serve civic interest.

Officially, the scope of the National Competition Policy did not encompass industrial relation reforms, nor did it mandate privatisation, compulsory tendering, contracting out of government services, or reductions in infrastructure services in rural and regional Australia. However, NCP coincided with the Commonwealth agreeing to maintain real funding levels and provide additional competition payments to State governments that were contingent on states meeting obligations such as the establishment of a competitive national electricity grid, reforms in gas, water supply and road transport. According to Quiggin (2004: 172), NCP locked State governments into major public sector reforms, in particular requiring them to corporatise or privatise.

Additional momentum was provided by the National Commission of Audit 1996 report, which put forward recommendations to limit the role of government further: to fund but not directly provide services or infrastructure (Ranald, 2002); and to separate policy formation from service delivery to increase efficiency and effectiveness (Verspaandonk and Holland, 2003). Despite the government commitment to transfer functions and / or ownership to the private sector on efficiency and productivity grounds, the potential gains have been highly contested. For example, the Industry Commission estimated that the Hilmer reforms would raise GDP by 5.5 per cent while Quiggin (1997) claims that the direct benefits of microeconomic reform are likely to be in the order of 1 per cent of GDP, and the flow on effects negative.

Over a decade since the inception of the NCP it is difficult to determine the extent to which the NCP has contributed to productivity and economic growth. It is difficult to untangle the

impact of the NCP from longer-term structural changes and parallel policies. Equally, the ongoing prosperity of the Australian economy cannot be solely attributed to the NCP.

An evaluation by the Productivity Commission in 2005 found that the NCP has made a marked contribution to growth. Closer examination of the findings, however, reveals that benefits and costs have varied across the Australian landscape and across socioeconomic groups. While there remain some government policies which seek to redress issues relating to distributional equity, such as taxation policies, income support payments and employment services, these traditional redistributive policies have also experienced reforms in recent times that have exacerbated uneven outcomes across urban and non-urban areas and also high and low income households.

11.4.2 The economic impact of National Competition Policy

The Productivity Commission's review of NCP highlights Australia's strong economic performance over the past decade, and the productivity growth that has underpinned this. The Commission estimated that productivity gains and price reductions for infrastructure that NCP contributed to resulted in a 2.5 per cent increase in GDP (or \$20 billion), compared to a no change base case. The report emphasised that this figure does not include the broader 'dynamic' efficiency gains associated with more competitive markets (Productivity Commission, 2005: 51). The modelled gains are however, far lower than the 5.5 per cent increase in GDP that the Hilmer reforms had predicted.

It is not possible to obtain robust analysis on the impact of NCP (in isolation from other dynamic influences) on pricing in the market, the business cycle, adjustment costs of the reform or other policies operating around the NCP. However, in some targeted areas, such as telecommunications, prices have fallen (Productivity Commission, 2005: 56). The telecommunications and electricity industries represent the highest estimated gains from NCP reforms. Economic modelling from the Productivity Commission estimates that the former increased GDP by just under 0.8 per cent, while the later increased GDP by over 0.6 per cent. Telecommunication prices fell by 29 per cent between 1996-97 and 2002-03 and electricity prices decreased by 19 per cent between 1990-91 and 2003-04. However, the Productivity Commission (2005: xix) noted that real prices for electricity, gas, water and urban transport had increased over the past decade, and that price rises were higher in regional areas and for low income households.

11.4.3 Spatial impact of privatisation and National Competition Policy

Throughout the 1990s privatisation of infrastructure accelerated, including: electricity, gas, telecommunications, railways, roads and ports. Benefits accrued from privatisation have been counterbalanced by costs and disadvantages for regional Australia. A feature of privatisation is the reduction of employment which impacts differentially across space. Significant adverse employment impacts have been experienced in regional areas such as Port Pirie, Port Augusta, Junee and Bendigo as a result of rail privatisation (Standing Committee on Transport and Regional Services, 2003). Similarly, employment in the electricity industry has been reduced due to privatisation causing significant job losses in the La Trobe Valley and Portland (Standing Committee on Transport and Regional Services, 2003). Other job losses have occurred at regional aviation centres due to privatisation of airports and ports.

The benefits of the NCP have been unevenly experienced across Australian communities. The Productivity Commission found that the benefits have not been exclusively urban based or that there have been uniform negative consequences for rural and regional Australia. Some small regional communities had experienced a continuing decline due to population drift and declining terms of trade. Although the NCP was not explicitly responsible for these outcomes,

it didn't function as a preventative policy instrument. The benefits gained from downward pressure on the cost of power and transport that is associated with the NCP may have helped to ease some of the adjustment burdens for these communities, but ultimately the NCP has been more beneficial to larger urban communities. The report notes that:

Benefits from NCP have flowed to both low and high income earners, and to country as well as city Australia — though some households have been adversely affected by higher prices for particular services and some smaller regional communities have experienced employment reductions, (Productivity Commission, 2005: xii).

The National Competition Policy has subtly influenced the spatial configuration of Australian settlements. However, the full spatial impact of the NCP is still unknown as the review, while required to collect regional data, focused on the national impact and did not address particular sectoral or regional issues that were raised in some submissions. These concerns included the distributional equity of the reforms and the degree to which they have served the public interest. The Country Women's Association noted that,

While the 'big end of town' and shareholders in the main have benefited, it is the worker, the 'little man' who has suffered and who, in spite of promises that things will improve, continues to suffer. Social, rural and environmental needs are not being met (Productivity Commission, 2005: 86).

Other submissions questioned the apparent trickle down benefits that were expected to be shared by the community as a whole. In some cases, the highly localised consequences of the NCP have been compounded by reforms in other industries resulting in substantial business and jobs losses. In these specific cases, regions have suffered from a low productivity state and only recovered after the government committed high levels of funding to support local social and capital development rejuvenation initiatives.

There is some continuity relating to concern for regional development under the NCP. In the Commission's 1998 inquiry it was acknowledged that the preliminary data seemed to indicate that the policy favoured metropolitan areas more than rural and regional areas (Productivity Commission, 2005: 95). The impact of NCP in regional Australia has exacerbated the effects of other reforms to tariffs, financial deregulation, industrial relations reforms and contraction of the public sector (Productivity Commission, 2005). The report revealed clear regional losers, such as Gippsland in Victoria for which the structural reforms in electricity resulted in a fall in employment in the vicinity of 7 per cent (Productivity Commission, 2005: 109). Regional employment effects for infrastructure industries have varied significantly, with benefits in some regions counterbalanced by losses, including large negative employment effects in some regions (Productivity Commission, 2005). The largest employment contractions were in Gippsland in Victoria and Wheatbelt in Western Australia where employment in infrastructure industries declined by 11.27 and 4.19 per cent respectively.

Concentrated job losses such as those sustained by Gippsland can have substantial and long-lasting negative impacts on communities. Regional studies have identified that high unemployment rates result in welfare dependency, lower household incomes and reduce business activity. While economic theory posits that the solution is out-migration to areas where labour is in demand, this is not always possible or desirable. In communities in decline depressed house prices preclude movements to major cities where housing costs are higher. Moreover, there is no guarantee that moving to areas of low unemployment will result in employment, and moving has negative personal consequences for maintaining social networks and for community cohesion.

The Productivity Commission (2005) assessed that deregulation in primary production produced gains for consumers and producers. However, the gains have not been evenly distributed and producers in areas of northern NSW, southern Queensland and parts of Western Australia have sustained reductions in income. In addition, significant employment reductions occurred in dairy farming, sugar and cotton between 1999 and 2004 (Productivity Commission, 2005).

11.4.4 Social Impact

The evaluation of the NCP revealed that the reforms had benefited businesses more than households. The report notes that there is some evidence which suggests households, especially those with low demand and often lower incomes have not fared as well from the reforms associated with the National Competition Policy. The Productivity Commission (2005: xix) note that:

At face value, businesses generally appear to have benefited more than households. Across Australia, real prices paid by households for services such as electricity, gas, water and urban transport have, on average, risen over the last decade or so, though there has been considerable variation across jurisdictions. Also, there is a limited amount of evidence suggesting that:

- in overall terms, price rises for households in regional areas may have been somewhat higher than for their counterparts in metropolitan areas; and
- increases in household prices for services such as electricity have generally been greater for households with low demand and often lower incomes.

The NCP has coincided with a prolonged period of national growth, largely triggered by the resources boom, increases in productivity and rapid growth in exports. Official unemployment statistics have been reduced to 30 year lows but there are many workers who are under-employed or do not receive adequate amounts of work to meet their preference (see Chapter 3).

The NCP resulted in net employment losses of 31,000 within infrastructure industries in the 5 years preceding 2003. This was one of the NCP targeted reform industries and the costs of job loss were largely borne equally across urban and non urban areas. It was noted that:

Between 1990 and 2003, public sector infrastructure employment fell by 147,000 (figure 5.2). But this was largely offset by the creation of 116,000 new private sector jobs, mainly in communications, electricity and road transport (Productivity Commission, 2005: 95).

Reports of positive social impacts have been surrounded with controversy. The Commission reports gains in service efficiency, price reductions and service availability. The Commission (2005: 69) notes that public transport in Victoria has improved its service timeliness across trams, buses and trains and natural gas has been made available to an additional 800,000 households.

However, the report makes scant reference to negative consequences, particularly in relation to issues of market failure in private sector operation of major infrastructure. While noting service improvements in public transport in Victoria no mention was made of the major failure and disruption caused by the withdrawal of the private operator National Express, underinvestment in infrastructure and increased public subsidies granted to the private operators during the contract period.

11.4.5 The future of The National Competition Policy

Although the review by the Productivity Commission marked the 10 year programme impact evaluation, over half of the report was dedicated to progressing the reform agenda. The limited scope of the study and difficulties in establishing casual relationships for the costs and benefits of the NCP means that further analysis revealing the true impact, costs and benefits of the policy is still required.

The report identified several target areas for reform including further reforms for the national electricity market, the national water initiative, communications, passenger transport and freight transport systems. The report also looks to the market as a mechanism for achieving long term environmentally sustainable outcomes through market led trading schemes. It also calls for overarching reform to bring coherence to human services associated with public health and vocational education and training systems.

The report recognised that the demographic composition of Australia may constrain our capacity to improve living standards in the future and called for an extension of competition policy in order to offset the economic impact of our demographic composition. The report notes that:

...carefully considered market-based approaches can sometimes be employed within a managed framework to improve the cost effectiveness (including the quality) of 'human services' and to deliver better environmental outcomes. Given the projected escalation in expenditure in areas such as health and aged care, taking advantage of all opportunities to improve the efficiency of service delivery will be especially important. (Productivity Commission, 2005: xxvii)

The continuing focus of NCP is increasing competition and progressively opening up human services to the ambit of the market. NCP outcomes to date have demonstrated:

- bias toward businesses rather than households;
- greater benefits to higher income households than lower income households; and
- pockets of spatial disparity.

The possibility of similar outcomes in human services provides cause for concerns over equity. The specific motivation for reforms in these areas should be questioned and extreme caution used in extending NCP to human services given the uneven impact that reforms relating to public assets have had on distribution.

11.5 A targeted expansion of the public sector

11.5.1 Overview

In Chapter 10 we argued that an expansion of public sector service provision is an essential component of a national strategy to address the employment and service needs of Australian communities. Public sector employment expansion would take two forms. First, there is a need for expansion of jobs that are necessary on an ongoing basis in order to ensure the needs of communities are met. Secondly, the JG would provide a mechanism to ensure that all people who want to work could contribute to society on a paid basis. This section reviews the evidence of service gaps in various regional areas and outlines how the needs identified by the national local government JG survey (outlined in Chapter 7) and other sources could be addressed through a targeted expansion of the public sector. Such a policy would also reduce the residual pool of workers that would need to be employed through the JG.

The results of the national local government JG survey (outlined in Chapter 7), along with other evidence presented in this report, points to the need to expand provision of infrastructure and services to Australian communities in order to improve economic and social outcomes. In particular, this chapter has highlighted the impact of the withdrawal of the public sector from direct provision and funding as a consequence of the abandonment of Keynesian welfare state policies and the adoption of neo-liberal policies. This policy shift has been responsible for a prolonged period of labour underutilisation since private sector labour demand has been insufficient to employ all those who want to work.

Areas that could be expanded include: high priority infrastructure development, services to the community; for example, assistance to aged and disabled persons to remain at home; and increased provision of health services.

11.5.2 A targeted versus a general expansion

Mitchell and Muysken (2008) analyse the impacts on the economy of a generalised Keynesian expansion, which remains a popular strategy among progressive policy activists who desire to reduce labour underutilisation and improve the public amenity space. By comparing the key differences between the JG policy approach and a generalised demand expansion, Mitchell and Muysken (2008) show that the former is better instrument to pursue establish a full employment economy.

Does the JG operate akin to a generalised demand expansion?

It is important to note that while deficient aggregate demand manifests as unemployment in a market economy, an introduction of the JG may or may not increase overall aggregate demand. Mitchell and Wray (2005: 235) argue that it is a common misconception among commentators that the JG is a similar strategy to any Keynesian approach that ‘increases employment by raising aggregate demand’. This misconception has been at the heart of a debate among progressive economics about the JG approach, characterised by the exchange between Sawyer (2003, 2005) and Mitchell and Wray (2005). Sawyer (2003) perpetuated the view that the JG is similar to any traditional Keynesian generalised demand expansion. The point is important because if Sawyer’s representation is valid then the debate quickly moves to comparing different options that could be pursued by expansionary fiscal policy – that is, by increasing government spending and / or lowering taxes.

Mitchell and Wray (2005: 236) showed that the JG approach cannot be characterised as Keynesian “pump-priming” because it is a buffer stock program, which “hires off the bottom” (paying a fixed minimum wage). The size of the buffer stock of jobs is determined by private activity levels (principally fluctuations in private investment) and non-JG government spending. The stock will fluctuate with movements in aggregate demand. The private sector can make the JG pool as large or as small as it desires by choosing particular levels of investment spending. But, significantly, the maintenance of full employment under a JG is independent of the state of aggregate demand (see Mitchell and Wray, 2005: 237).

While aggregate demand may initially increase by more than the JG wage bill (for example, to pay for working capital used by the JG workers), the government can easily tighten fiscal policy to ensure that aggregate spending does not increase overall. So, the introduction of the JG could be accompanied by either deflationary or expansionary fiscal policy. Mitchell and Wray (2005: 236) concluded that the JG approach ‘represents the minimum stimulus required to achieve full employment and does not rely on market spending and multipliers—and “works” regardless of the level of demand.’

So in contradistinction to Keynesian pump priming, which competes for labour at market prices, the JG buys labour which attracts a zero bid (that is, no employer is currently prepared to offer these workers employment at the going wage) in the market economy.

Why not just pursue full employment through generalised Keynesian expansion?

As we have seen in earlier chapters of this Report, the orthodox approach to inflation control is costly and unacceptable. The neo-liberal solution to the resulting unemployment is to pursue supply-side policies (labour market deregulation, welfare state retrenchment, privatisation, and public-private partnerships) to give the economy room to expand without cost pressures emerging. Progressive economists, in general, reject this strategy because the sacrifice ratios are high and the distributional implications (creation of an under-class and working poor and loss of essential services) are unsavoury.

However most progressive economists still advocate Keynesian remedies as an alternative. Specifically, they advocate generalised fiscal and monetary expansion mediated by incomes policy and controlled investment as a solution to unemployment (Davidson, 1994; Ramsay, 2002-3; Seccareccia, 1999; Kadmos and O'Hara, 2000; Sawyer, 2003, 2005). Davidson (1994: 79) is representative of this group and argued that 'Government fiscal policy is conceived as the balancing wheel, exogenously increasing aggregate demand whenever private sector spending falls short of a full employment level of effective demand and reducing demand if aggregate demand exceeds the full employment level.'

Under the generalised expansion approach the government ensures spending is sufficient to purchase all available output by the government itself purchasing goods and services at market prices or by the government providing incentives to profit-seekers to expand activity. Both policy measures will be conducive to private employment expansion. Typically, public and private capital formation is targeted.

Four major criticisms of the generalised expansionary approach can be made. First, indiscriminate demand expansion in isolation is unlikely to lead to employment opportunities for the most disadvantaged members of society. Second, generalised expansion fails to address spatial (regional) labour market disparities which are now common across OECD economies. Third, generalised expansion does not incorporate an explicit counter-inflation mechanism. Fourth, how does generalised expansion address environmental concerns given that market allocations are the basis for the employment expansion?

The regional disparity issue is addressed by Mitchell and Juniper (2007) in what they call a Spatial Keynesian framework. They show that a generalised expansion will not have the capacity as a stand-alone policy to target regions in need of employment creation which may be reliant on a declining industry. Further, aggregate policy is not able to account for feedback or spill-over effects between regions such that social networks and neighbourhood effects transmit shocks from one region to another. This behaviour underpins the observations common in OECD economies that clusters of high unemployment regions or hot spots form as a result of spatial interdependency (Mitchell and Bill, 2006b). Arestis and Sawyer (2004a: 11, 18) argued correctly that:

the industrial structure of a region and ... variations in productive capacity as well as in aggregate demand of the region ... [drive these disparities and conclude] ... in terms of policy implications, appropriate demand policies are required to stimulate investment and underpin full employment.

But how can we be sure that the investment will provide jobs in failing regions? Upon what basis are the most disadvantaged workers with skills that are unlikely to match those required by new technologies going to be included in the generalised expansion?

Accordingly, public investment is unlikely to benefit the most disadvantaged workers in the economy. The JG is designed to explicitly provide opportunities for them. By way of example, during the golden age in Australia (1945-1975) when public capital formation and social wage expenditure was strong, full employment was only achieved because the public sector (implicitly) provided a JG for low skilled workers (Mitchell, 1998). This experience is shared across all advanced economies.

Where is the inflation anchor in the standard Keynesian approach? Most progressive economists who still advocate this approach construct the solution to unemployment in terms of solving the deficient effective demand (closing the aggregate spending gap) by stimulating net spending via purchasing goods and services and / or labour at market prices. An economy struggling with high unemployment will typically react to increases in nominal demand by quantity adjustments (rising output). This applies to the introduction of a JG as well as a generalised expansion. However, the generalised expansion approach will inject considerably more nominal demand into the spending system, directly and via the multiplier processes, than would be the case under the JG. Accordingly, the generalised expansion approach relies on demand stimulus to approach full employment and provides no nominal anchor to the economy. If the quantity adjustment gives way to price adjustment then full employment may never be reached. The advocates of generalised expansion argue that the expansion could be accompanied by the introduction of an incomes policy. While an incomes policy may help constrain costs pressures there are few examples of successful incomes policy being implemented and sustained in an economy. Ultimately, they do not provide a long-term inflation anchor.

By way of sharp contrast, the JG does not rely on the government spending at market prices and then exploiting multipliers to achieve full employment. The latter approach characterises Keynesian pump-priming and as a consequence fails to provide an integrated full employment-price anchor policy framework. Under a JG policy, the net spending to finance the JG pool is the minimum required to restore full employment, as defined above.

The generalised Keynesian expansion relies on the market to provide the increased employment. Therefore the allocations that follow largely reflect private costs and benefits, hence environmental constraints are likely to emerge. As noted above, JG proponents emphasise the regional dispersion of unemployment. Higher output levels are required to increase employment, but the composition of output remains a pivotal policy issue. JG jobs would be designed to support local community development and advance environmental sustainability. Indeed, an environmental criterion could be used to determine which jobs are acceptable for the JG, introducing an environmental planning aspect to the policy framework. JG workers could participate in many community-based, socially beneficial activities that have intergenerational payoffs, including urban renewal projects, community and personal care, and environmental schemes such as reforestation, sand dune stabilisation, and river valley and erosion control. Most of this labour intensive work requires very little capital equipment and training (Mitchell, 1998).

It is this spatially targeted employment policy that Mitchell and Juniper (2007) called Spatial Keynesianism, in contrast to the bluntness of orthodox Keynesian tools which fail to address the spatial distribution of social disadvantage.

We do not want it thought that the JG is the only solution available to government. While advocates of the generalised expansion approach usually ignore any role for a buffer employment stock policy, which allows the government to guarantee full employment using automatic stabilisers by purchasing at fixed prices, the fact is that both approaches can co-exist. First, there is a strong role for public infrastructure spending to ensure that communities

are well supported with schools, roads, hospitals, etc... Second, the JG does not replace social security payments to persons unable to work because of illness, disability, or parenting and caring responsibilities.

Clearly, and emphatically, a mixture of both approaches is likely to be optimal – however, a generalised expansion alone is not preferred.

11.5.3 Additional provision of community services

Reforms undertaken by successive governments have resulted in the residualisation of many services. Rather than universal provision as a right of citizenship, access to some services is restricted to those assessed as in the greatest need. For those who retain eligibility for services there are issues around timeliness of access and adequacy of the service in terms of quality and quantity. The remainder of the population is expected to purchase necessary services from the private sector. Evidence presented in government reports indicates that the consequences of these policies have been borne unequally across space and across the income distribution. Analysis from the national local government JG survey (outlined in Chapter 7) indicates the current level of service provision does not provide adequately for the needs of communities.

Evidence presented throughout this report indicates that there is a need for a targeted expansion of services associated with social care that people require on an ongoing basis. Many services of high intrinsic value are chronically undersupplied in Australia. This situation has significant negative impacts on the quality of life for individuals and communities. A plethora of social services including health, education and caring are undersupplied in Australia as the results of the national local government JG survey (outlined in Chapter 7) have demonstrated. Services that enhance the quality of life of elderly, disabled or socially isolated persons make a valuable contribution to society in addition to the individual benefits obtained.

For instance, jobs identified in the area of aged care need to be expanded to achieve the goals of individuals and government policy that individuals have an opportunity to exercise their preference to age in place. There is overwhelming evidence that these services currently meet only a small fraction of the physical and social needs of the elderly. There is a high degree of reliance on insufficient numbers of paid and volunteer workers to meet the diverse needs of this group and the availability of volunteers is expected to fall in the future due to higher labour market participation of women and population ageing (see Chapter 9).

Increasing the paid workforce engaged in delivering such services would undoubtedly increase the quantity and reliability of those services. The question as to which of the two delivery mechanisms should be used to address needs relates to the whether the service is amenable to the buffer stock model or should be provided on an ongoing basis. The requirement that these services be provided on an ongoing basis suggests that there may be limited scope for Job Guarantee jobs in these industries.

Therefore, the suitability of these jobs in a buffer stock model, which expands and contracts with the business cycle, may be limited. There may still be scope for Job Guarantee employees to perform auxiliary tasks or offer assistance in these industries; however this should not be used as a substitute for an aggregate increase in employment in these industries.

Physical infrastructure provision may be delivered by a combination of increases in public sector infrastructure programmes to cater for prioritised projects of significant economic or social importance, and JG jobs for lower priority projects that may be planned in advance and implemented to accommodate fluctuations in the labour market.

11.6 Conclusion

As part of the mixed economy of welfare, the public sector in Australia traditionally provided health, education, employment, and other services. In addition the public sector operated government business enterprises in areas of “natural monopolies”, including essential services such as telecommunications, electricity, gas and water. In the past few decades governments have withdrawn from the role of funding and providing physical and social infrastructure due to the ascendancy of neo-liberalism that demands governments produce balanced or surplus budgets and the primacy of the private sector in the production of goods and services.

What have been the consequences of these policies? When we draw on multiple sources of data together we learn that communities have significant needs for investment that are going unmet and many people are effectively locked out of the labour market or are underemployed. This situation has adverse impacts on economic and social outcomes including reductions in social cohesion.

In the post-war period, expansionary monetary and fiscal policy was used to maintain full employment. As discussed in earlier chapters, unemployment has been used to counter inflationary pressures over the past two decades. It is therefore necessary to devise a strategy to restore employment opportunities and deliver community services in such a way as to minimise inflationary risks. A general expansion of public sector activity could potentially absorb excess labour resources but would not address the spatially specific issues associated with unemployment and community need. Moreover, a general expansion may have deleterious inflationary outcomes. The needs of regions for employment opportunities and economic and social infrastructure could be effectively addressed through a targeted expansion of the public sector and implementation of a JG scheme.

Employment guarantee programs can effectively contribute to social development and provide a strong engine for growth within the local economy. Further, a Job Guarantee approach to employment policy could subsequently create additional ‘spin-off’ employment opportunities in other sectors of the economy. Findings of this research reveal that some areas of community need would be amenable to the Job Guarantee model, while other areas may have potential for people employed in a buffer stock model in auxiliary roles only. Expansion of the role of governments in providing services such as health, education and aged care that constitute the social wage could be complemented by the JG to deliver a range of additional social and environmental services tailored to the needs of individual regions. To the extent that the provision of ongoing social care positions were created, there would be a reduction in the number of buffer stock jobs required under the JG.

12

Skills shortages in Australia: concepts and reality

12.1 Introduction

Skills shortages are now well recognised by Australian industry as compromising their ability to innovate and compete in global markets (KPMG, 2008; AIG 2008)¹. Sixty eight point one (68.1) per cent of CEO respondents to an Australian Industry Group survey published in April 2008 said skills shortages had impacted on their business in the preceding year, and estimated that it would require 180,000 to 240,000 extra skilled full time employees to meet their needs (AIG, 2008: 22-23). Sixty point two (60.2) per cent of the firms reportedly affected by skills shortages said it was restricting their capacity to innovate (AIG, 2008: 28).

It is actually difficult to verify these claims using official data. The Skilled Vacancy Survey published by DEWR does not appear to support it. But the ICT survey also published by DEWR provides some support for the notion that in certain sectors skills are in short supply.

What is incontrovertible is that over the last 30 years around 9-10 per cent of Australia's willing labour force has been consistently underutilised, with considerably higher peaks during periods of recession.

Despite relatively strong economic growth for some 16 years since the last major recession in 1991, there are still 487,000 people officially unemployed (ABS Labour Force Survey, October 2008) and some 688,500 underemployed (ABS Australian Labour Market Statistics, May 2008). Total labour underutilisation (counting hours of work lost due to insufficient demand for labour) is now more than 10 per cent (ABS Australian Labour Market Statistics, July 2008).

The only way a skills shortage could emerge from this wastage is through a wholesale failure of our national training and employment policies. Why haven't we trained this persistent pool of underutilised labour to meet these shortages? Despite the denials of successive federal governments, any degree of skill shortage and the persistent unemployment and underemployment of the past 30 years represent two-sides of the same coin. They both reflect a lack of governance at the federal level.

At the top of the growth cycle, this lack of governance manifests as skill shortages with persistently high labour underutilisation, whereas at other times it takes the form of very high labour underutilisation and rising long-term unemployment. Both manifestations are the result of erroneous federal government macroeconomic policy.

The problem Australia has is one of insufficient skills formation. Skill formation is a challenge that Australia, along with other countries in the Anglo-American and neo-liberal mould are clearly failing to meet. When we look to societies with a high skills formation capacity, we see their success underpinned by institutional arrangements that place national, collective interest at the forefront. The provision of a high standard of skills formation and diffusion in Germany, for example, can be partly attributed to the existence of an institutional framework where the state requires employers and unions to share decision-making over vocational training content (since 1969), ensuring skills portability for workers, and thus wide skills diffusion throughout the labour force. Peak employer bodies also assert authority within

their industries to reduce inter-firm poaching of skilled workers (free-riding), while the availability of “patient capital” through local banks creates longer time-frames for return on training investments (Gough, 2005). Other high-skill countries such as Japan and Singapore have other institutional arrangements, but each includes a significant role for the state in creating the social underpinnings of high skill formation, including:

- Social cohesion and cooperation among societal players;
- Value-adding rather than competing on the basis of cost reduction;
- Continuous investment in new skills and particularly skills of communication and problem solving that support collaboration and innovation;
- Coordination to produce system coherence;
- High skills diffusion throughout the labour force rather than a polarisation of high and low skilled workers;
- Social inclusion in the benefits of a high skilled society (Brown *et al.*, 2001).

Australia performs poorly in most of these areas. Indeed, successive Australian governments and employer bodies have undermined high skill formation over 30 years by their efforts to minimise the size and role of the state. Peak employer groups and their political advocates publicly and privately advocated for the abandonment of full employment in the early 1970s, to restore (socially exclusive) labour underutilisation as a productivity driver (Quirk, 2003), and achieved their objective by significant cuts to public sector employment (Mitchell, 2001b). Efforts to promote corporatist arrangements in Australia, such as the ACTU-backed Australia Reconstructed report of the 1980s, which examined Scandinavian and other high skilled examples, and proposed tri-partite institutions to steer industry development, were largely rebuffed and the low-cost road to global engagement was taken instead.

The neo-liberal era is defined, in part, by the increased precariousness of work. This was institutionalised in the Australian labour market in the late 1980s through the abandonment of legal constraints on permanent casual employment and by making the systematic harassment of unemployed people the object of labour market policy, beginning with the OECD-inspired ‘active employment strategy’ (see Mitchell and Muysken, 2008 for a full account). Despite the power they have wielded over public policy to the detriment of working people, and in contrast to their German counterparts, Australia’s peak employer bodies have lacked the authority to persuade their members to overcome their free-riding reliance on poaching skilled workers from other firms, and indeed advocate skilled immigration (poaching from other countries) as the solution. In short, we lack institutions that are conducive to high skills formation.

The lack of institutions has been the result of a demolition of the national skills development framework that served the country well during the true full employment period after World War II. Up until the mid-1970s there was a capacity within the Federal and State employment departments to conduct occupational forecasting and integrate that with a comprehensive apprenticeship and training structure. The neo-liberal cutbacks in government spending and employment since the mid-1970s were accomplished, in part, by abandoning these crucial capacities.

Mass unemployment of the type we have endured in Australia since the mid-1970s has also been the result of a lack of aggregate spending. The prime responsibility for ensuring there is enough spending rests with the federal government. When private spending is insufficient to provide work for all, as it always is, the spending gap has to be filled by the federal government via budget deficits.

However, discretionary monetary and fiscal policy decisions over the last 15 years by the federal government - characterised as an obsession with budget surpluses - have systematically prevented the Australian economy from creating enough jobs in recent decades to match the preferences of the labour force, and enough hours of work to match the preferences of those who are employed.

The maintenance of mass unemployment may be thought to facilitate the supply of affordable skilled labour, by undermining the bargaining position of skilled workers and enabling selective avoidance of the less skilled. However, the absence of full employment, and the demise of public sector employment (the principle cause of prolonged unemployment in this country), have both contributed to an erosion of skills formation, atrophy of underutilised skill, and deterioration in the private sector's willingness and ability to integrate less skilled people into their workplaces.

This chapter initially introduces the concept of skill and the factors influencing employer estimation of 'employability'. Section 12.3 examines how skills shortages are explained by the government and industry, and considers alternative explanations. Section 12.4 considers the role of the state in providing a framework for national skills development. Section 12.5 develops an innovative approach to national skills development. We propose a National Skills Development Framework within the context of a national Job Guarantee. We show how such a framework would operate and create an effective solution to Australia's on-going skill development needs.

12.2. Introducing the concept of skill

12.2.1 What is skill?

The term "skill" refers to a specific ability, and is generally used where the ability is assumed to have been in some sense developed through experience or training. "Skill" is one of several terms used to express the concept of "ability", the mental or physical power to do something, that variously distinguishes how the ability was acquired, and to what standard. For example, "aptitude" implies an inherent capacity for acquiring ability, whereas "talent" often infers ability is inborn. "Competence" generally suggests an ability to do something satisfactorily but not outstandingly. "Proficiency" suggests significant competence. "Skills" are also often classified according to the method of their development, as "formal" (derived through a process of structured training and documented assessment), "non-formal" (training was structured but no certification issued) or "informal" (obtained through practice, experience, self-education, etc...).

Not everything that people learn to do can be considered a "skill" (for example, bad habits). The presumption is that skill enables the performance of a useful undertaking, raising questions such as "useful to whom and how?" "Skills shortage" is raised almost exclusively in relation to "marketable" skills, which are those that employers require in employees in order to profit from employing them.

12.2.2 Marketable skills

It is usually assumed that when employers speak of a "skills shortage" they are referring to an absence of technical proficiency, but more broadly, they mean a range of worker capabilities and behaviours that contribute to their profitability. This is reflected in the definition of Skills Shortages adopted by the Department of Education, Science and Technology (DEST), as being when

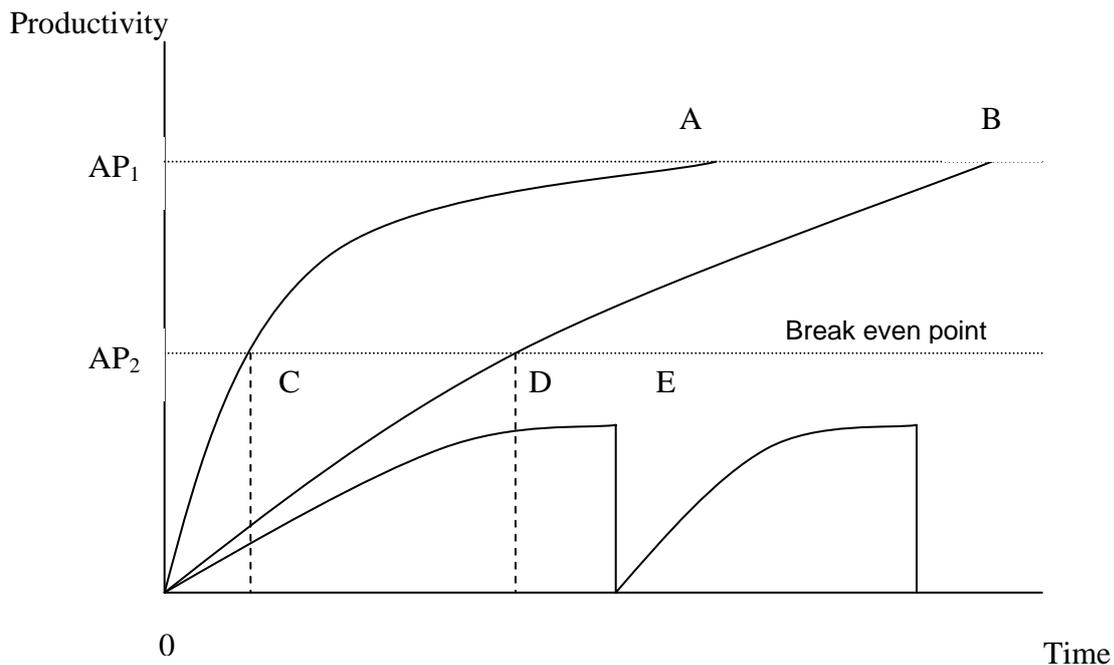
employers are unable to fill or have considerable difficulty in filling vacancies for an occupation, or specialised skill needs within that occupation, *at current levels of remuneration and conditions of employment*, and reasonably accessible location (DEST, 2002: 3).

In other words, “skills” are defined relative to the perceived needs of the employers. This means that a broader range of qualities is typically included in the vector of characteristics than might be manifest in technical training courses. To show this, Figure 12.1 is based on training material provided to staff in the former Commonwealth Employment Service (DEIR, 1985).

It provides a schematic representation of the way in which hiring decisions and skills interact. Employers have basic productivity concerns when they hire workers in terms of the speed at which the new entrant will attain acceptable performance standards and the length of time they will remain at the firm.

AP_1 represents average productivity of the firm’s workforce; whereas AP_2 is the productivity below which the worker’s contribution to the firm’s revenue equals the cost of employing them (economists may think in terms of a marginal product-cost relation although we do not invoke diminishing marginal returns in this conception). We assume for the plant as a whole there are constant returns.

Figure 12.1 Training and productivity concerns of employers



Initially, all new workers are 0 productive (even negatively productive if someone else has to stop their work to orient them to the workplace). Curve OA represents a new worker who possesses or quickly acquires the skills required to perform the work, rapidly surpassing the break-even point and achieving average productivity and presumably keeping an on-going attachment with the firm. Curve OB represents a new worker with fewer skills or who more slowly acquires the skills needed to achieve average productivity. Firms will try to screen between worker OA and worker OB in their hiring decision because the latter takes longer to reach AP_1 . These differences in economic contribution to the firm by OA and OB may be compensated with a wage subsidy. Line OE represents the situation where one new worker after another fails to achieve even break-even level of productivity, either because they are

fired or quit before doing so. The presumption is that these workers lack the skills or application to become proficient in a reasonable time-frame, or to manage the social relationships encountered in the workplace. Clearly, employers seek workers such as OA, but in their absence, may be persuaded to employ worker OB, particularly if offered the compensating inducement of a wage subsidy. While employers hope to minimise the initial period of negative income entailed in hiring a new worker, they understand this as an investment for which they will hopefully receive a steady return thereafter. Critically, the selection process is aimed at identifying and excluding worker OE, because a series of short-lived placements is a dead loss to the firm.

Thus, the determination of how quickly a worker will achieve a profitable level of productivity, and how long they are likely to remain with their firm, are of crucial significance to employers. Mitchell and Watts (1986) developed a critique of the narrowly constructed view of productivity based on the neo-classical efficiency concept. They distinguished between quantitative efficiency (the ahistorical and technical neo-classical input-output concept) and qualitative efficiency (which specifically recognises the power relations operating in the capitalist mode of production). Accordingly, an “efficient” or “productive” worker will have qualities that ensure the owner of the firm can extract as much surplus from the production (labour) process as is possible. While this may entail determining whether or not applicants possess certain technical skills and other personal characteristics, it necessarily must also reflect the employer’s estimation of their firm’s ability to integrate a worker with those skills and characteristics into their workplace. Skill concepts have to be broadened to reflect these significant social dimensions in addition to the narrowly defined technical requirements.

12.2.3 Skills shortage and structural unemployment

The concept of a skills shortage is clearly a relative concept, implying some distance from an optimal state, which begs the question: according to whom (Green *et al.*, 1998: 165-166). Unsurprisingly, analyses of skills shortages by industry and governments invariably consider the issue from the perspective of business and profitability, which places the emphasis on containment of labour costs both in terms of wages and conditions, and hence, whenever possible, externalising the costs associated with developing the skills firms require in their workers.

Within this context, the notion of structural unemployment arising from “skills mismatch” can be understood as implying an unwillingness of firms to offer jobs (with attached training opportunities) to unemployed workers that they deem to have undesirable characteristics. When the labour market is tight, the willingness of firms to indulge in their prejudices is more costly. However, when labour underutilisation is high, firms can easily increase their hiring standards (broaden the desired characteristics they demand from workers) and the training dynamism driven by labour shortages is lost. Then we observe, in a static sense, “skill mismatches” which are really symptoms of a “low pressure” economy.

12.3 Causes of skill shortages

12.3.1 Official explanations

The policy position of successive federal governments on this duality – skill shortages and persistent unemployment - is confused and unacceptable. They have all (since the Hawke regime) articulated a vision of high skills and high participation but fail to provide the necessary macroeconomic policy conditions that will ensure both. While there has clearly been a shortage of jobs, due to their own macroeconomic policy stance (budget surplus

obsession), governments have persistently vilified the economically disadvantaged with increasingly harsh welfare compliance policies to ensure the ‘victims’ (the unemployed) are blamed.

The skill development capacity inherent in a strong public sector maintaining full employment was abandoned as unemployment rose. Industry and government now both seem reluctant to acknowledge the responsibility of employers to invest in the planning and development of the skills they require in their workers.

The Howard Government introduced the National Skills Shortage Strategy (NSSS) which developed a World-Wide-Web presence it terms “Getatrade”. It claimed that the skills shortage occurred as a consequence of: (a) the strong economy with low rates of unemployment; (b) the growth of new industries with few ready-skilled tradespeople available; (c) the relocation of new industries into different regions with a different skills base; (d) the lack of interest in particular industries among potential job seekers; (e) the location of industry, or project-based work, in rural or regional areas with a small skills base; (f) technology changes within an industry, especially production, resulting in new methods and therefore skills needs; and (g) changes in underpinning skills needs to successfully undertake trade training for example, Year 12 maths for technology trades (DEST, 2005).

Under-investment in the training of workers by industry is not mentioned. Notwithstanding this glaring omission, there are also oversights in the reasons advanced. The NSSS WWW site has disappeared and the programme subsumed into the innovation strategy of the new federal government. However, its grossly inadequate representation of the problem has to some extent survived with the failure of the current government to abandon the supply-side emphasis of its predecessors.

12.3.2 Misleading labour market statistics

The low unemployment claim misrepresents labour market data, in that persons-based measures of labour market status classify people as “employed” if they work for one hour per week and thus obscure the underemployment endemic in our highly casualised labour market (CLMI, 2008).

We noted in the introduction, that, despite relatively strong economic growth for some 16 years since the last major recession in 1991, there are still 487,000 people officially unemployed (ABS Labour Force Survey, October 2008e) and some 688,500 underemployed (ABS Australian Labour Market Statistics, May 2008). Total labour underutilisation (counting hours of work lost due to insufficient demand for labour) is now more than 10 per cent (ABS Australian Labour Market Statistics, July 2008).

The question that arises is: why have these people not been trained to meet these “skills shortages”?

12.3.3 Institutional failure

The question is highly relevant given that the overwhelming policy emphasis has been to shunt people into a series of active labour market programmes within the privatised Job Network structure. The philosophical underpinnings of labour market policy that followed in the wake of DEET’s formation in 1988, and gained expression throughout the 1990s as the Active Employment Strategy, Newstart, and the marketisation of employment services, coupled with funding cuts to higher education, vocational and technical training, has left Australia poorly equipped institutionally to meet our current challenges.

The stated aim has been to improve the “employability” of young and long-term unemployed people (for example, Kemp, 1996; Mitchell and Muysken, 2008). There is substantial evidence now available to show that this strategy has been largely ineffective. The poor employment outcomes for participants in programmes like Work for the Dole and Intensive Assistance point to the futility of preparing the unemployed for jobs that are not there (Mitchell and Cowling, 2003; ACOSS, 1999; Carson *et. al.*, 2003; Borland and Tseng, 2004; Productivity Commission, 2002).

In Chapter 3, we reported that the current Minister for Employment Participation recently expressed concern at the inadequacies of the Job Network saying that while

job seekers, employers and providers have had to endure a complex and rigid employment service structure ... Over the last 10 years skill shortages have worsened, dramatically hampering productivity and growth ... [and] ... Over the last 10 years many thousands of job seekers have become increasingly detached from the labour force (O’Connor, 2008a).

If some areas are experiencing skills shortages then what have the billions of dollars that have been pumped into the Job Network been used for? The acknowledgement of skill shortages amounts to a substantial failure on the part of the Job Network. All the evidence suggests that the supply-side strategy lauded by the OECD has not been effective in increasing the employability of disadvantaged workers (Mitchell and Muysken, 2008). The poor results are to be expected in the absence of policy measures designed to increase the quantum of jobs.

In isolation, supply-side measures merely re-shuffle the jobless queue. The clear danger of this kind of zero-sum redistribution is that policies achieve tentative or short-term reattachments to the labour force at the expense of deepening employment insecurity. Labour market instability, poverty, and welfare dependency are not solved by such measures; they are simply redistributed amongst the same at risk groups.

The Job Network’s predictable failures are attributable to structural design flaws. It was designed as a breaching machine, first and foremost, and this function, as was plainly stated in the Norgard Review of the CES (Norgard, 1977), is counter-productive when effective labour market brokerage is the objective. Welfare policing creates power relations that inhibit client-broker communication, depriving Job Network staff of insight into their jobseeker client’s circumstances. Norgard also observed that a legally defensible punishment system consumes crucial staffing and training resources in what Job Network staff described during focus groups undertaken for this study as ‘administrivia’ (see Chapter 6).

In terms of monitoring labour market developments, the former CES played a significant role in detecting, analysing and coordinating responses to skills shortages. But the fragmented and competitive nature of the Job Network prevents formation of a coherent overview, or the gathering of clear labour market intelligence with which to inform policy.

The Job Network also suffers from the same endemic market failure that generally pervades the private sector: it has failed to adequately train and develop its staff in fundamental areas, such as employment brokerage skills of interviewing, counselling, industrial and occupational knowledge, and in understanding labour market disadvantages and strategies for redressing them. By contrast, following specific recommendations by Norgard, the CES maintained high quality training in these areas for a decade, until the massive administrative workload created by activity testing, which begun under Newstart, pushed this operational skills formation aside. Without the skill to manage the complexities of their role, Job Network staff experience high levels of stress (reported by Goddard, Patton and Creed in 2001) and an annual staff turnover approaching 25 per cent that further undermines the prospect of up-skilling. Reforms

envisaged for the July 2009 contract round address some of these issues, particularly through the moderating of compliance activity, but still do not adequately acknowledge the skills required of people operating at the intersection of labour, capital and the welfare system. It is not a function amenable to profit maximisation if it is to be done with appropriate sophistication.

12.3.4 Attitudes

It is often argued that young people are lured away from the trades by the emphasis on higher education. DEST (2002: 1) said

... most industries felt that the skilled trades had an image problem in terms of their appeal to young people thinking about potential careers. All industries felt a bias on the part of school parents and the media towards university education and the professions.

The implication is that such attitudes are not founded on a realistic assessment of the attractiveness of trades occupations. However, trades training commencement and completion data from the National Centre for Vocational Education Research (NCVER), reveal that around 50 per cent of those commencing trades training do not complete, which casts doubt on the assertion that the young and those advising them are misguided, since half of those who do undertake trade training are either sacked or decide to leave (NCVER, 2005). In any event, it is likely that employers are receiving applications for apprenticeships but not from applicants that they deem of sufficient quality.

12.3.5 Cost shifting

Both industry and government seem reluctant to acknowledge that a significant cause of industrial skill shortages is the unwillingness of industry to invest in sufficient skill formation. We argue that the private sector has a long history of cost shifting its training responsibilities onto the public sector, reflected in the acknowledgement of the gap that emerged with the demise of the public sector as an employer.

The private sector's habitual externalisation of its training costs was less of a problem when the public sector took leadership in training (and thus implicitly 'accepted' the cost shifting). Public sector enterprises were the largest trainers of apprentices in Australia (Gospel, 1993: 13-14). At any time, there were tens of thousands of apprentices trained in the large public utilities and within government departments (AIG, 2005: 3). Throughout the period of Australia's economic and industrial development, driven by public infrastructure developments and industry protection and assistance, much of the private sector relied on poaching skilled workers from other employers as a first strategy. Clearly the pressures of full employment also forced the private sector to develop their own skill building capacities, but the public sector was a significant net contributor to the national skills pool.

With the privatisation of public utilities, the downsizing of public sector workforces, and the widespread adoption of private sector practices in the public sector, the skill building role was abolished with little consideration as to the impact this would have on the maintenance of adequate levels of skill development. Belatedly, and coyly, both government and industry recognise that the demise of the public sector as an employer and trainer has left a large gap in the nation's training infrastructure. For example, the National Skills Initiative Engineering Working Group reported:

On the supply side, privatisation of public utilities has reduced the traditional training ground and supply of skilled labour for engineering trades, and large companies are typically more focussed on training for their own skill requirements. DEST (2002: 8).

Similarly, the Senate Employment, Workplace Relations and Education References Committee report 'Bridging the Skills Gap' (EWRERC, 2003: 17) notes:

The major factors are the decline in trades training associated with the privatisation of public utilities and 'mean and lean' strategies of large private enterprises, which previously provided a steady pool of skilled labour for small and medium enterprises.

Why has the market failed? There are two major reasons. First, the persistent excess supply in the Australian labour market over the last 30 years has provided industry access to a broad supply of 'ready-made' skills and taken the pressure off firms to tailor their jobs (and training) to suit the available workforce. We contend that this has reduced the incentive and competence of employers to adequately orient, supervise and train people with significant training needs, such as young people who may have performed poorly at school, or others suffering skills deficits due to long term unemployment.

Second, there is an endemic free rider problem. Training is costly and can only be justified by subsequent profitability. An employer who makes such an investment understandably hopes it will enhance the productivity of their workforce. However, a worker who acquires more marketable skills through training may discover they are worth more in the labour market, putting pressure on their employer to pay more to retain their services. The degree to which the skill development is firm-specific thus influences the extent to which firms will engage in training. Where skills are more general, employers will under-invest in training and the economy as a whole suffers skill shortages. *Prima facie*, this free rider problem provides an economic rationale for public intervention, and its solution has exercised the minds of policy makers around the world (Smith and Billett, 2003).

12.4 The role of the state

12.4.1 Encouraging employers to train their staff

Governments have been aware of private sector under-investment in skill formation for decades, responding by wielding various sticks and carrots to persuade industry to lift their performance in this area, with marginal results at best. Early wage subsidies (such as the Special Youth Employment Training Program of the Fraser and early Hawke Governments), required employers to detail what skills were being inculcated in young people for whom they received a wage subsidy, obliging local CES labour market programme administrators to periodically visit workplaces to monitor employer compliance. A mid-1980's overhaul of labour market programmes (Kirby Report, 1985) acknowledged the tokenism of this approach and removed training obligations as a condition of wage subsidies.

The Hawke and Keating Governments' Training Guarantee Levy (along the lines of a French scheme introduced in 1971) gave employers the choice of spending the equivalent of 1 per cent of their payroll on training and development, or paying it as tax. There was considerable employer resentment toward this scheme reflected in the cynical emergence of numerous executive junkets (training courses based on golf courses, etc...) which circumvented the objective of the programme, and was promptly abolished by the new Howard administration. Britain introduced a system of Industry Training Boards (ITBs) in 1964 to administer an industry levy on firms in each sector, providing financial rewards to those that contributed to skills formation, effectively forcing free-riders to contribute to training in their sector. The Thatcher government largely abandoned the scheme in 1982 (Finegold, 1996: 236). Industry skills boards formed the centrepiece of the Howard government's response to skill shortages in 2001, which aimed to promote participation, streamline the administration, and improve the quantity and quality of vocational training. Employers have been particularly urged to employ novices on discounted "training wages" in entry-level training positions known as "New

Apprenticeships” (collective term for traditional 4-year apprenticeships and on-the-job training / certificate courses of lesser duration formerly known as Traineeships), but this offer of cheap labour does not necessarily result in a commitment to skills formation (Wood, 2004). In any event, had these numerous efforts to raise employer participation and commitment to skills formation proven effective, skills shortages would not be exercising the minds of government and industry to the extent they presently do.

12.4.2 The role of immigration in alleviating skills shortages

The present government has embraced skilled migration as a significant part of the skills shortage solution. It might appear attractive to industry since it allows Australian industry to “poach” workers that have been trained abroad. There is clearly a debate that is beyond the remit of this report about the ethics of advanced countries poaching the skilled people from countries which made an investment in their education and training. However, the question of relevance here is whether it is economically sensible to increase the labour force with skilled immigrants when there are such high rates of labour underutilisation already present in the Australian labour market.

Skilled immigration provides business with a low cost and relatively rapid solution to impending specific labour shortages. However, this is myopic thinking. Consider the plight of the thousands of unemployed foreign trained engineers, who having been encouraged to migrate to Australia in the 1990s were unable to find work because local employers were unimpressed with their skills, suspicious of the quality of their training, and unaccommodating of their cultural and language differences (Hawthorne, 1997).

In seeking skilled workers off-shore, policy makers overlook the tacit and cultural skills and knowledge that people born, raised and educated in Australia already possess, skills that take the average school leaver 17 years to accrue. Many employers know this, with relatively few expressing an interest in off-shore recruitment (AIG, 2004).

We contend that the state does have a role to play in getting employers to act in their collective interest (and that of the nation), and that the way to encourage them involves improving the governance of the labour market as a whole, beginning with the establishment of full employment.

12.4.3 The imperative of full employment

Full employment should be a major macroeconomic goal of the Australian Government. A “high pressure” economy not only maximises output but also enhances labour force participation and provides strong incentives for employers to tailor training and paid-work opportunities to attract scarce labour. When labour is in excess supply (high unemployment) employers lose this incentive and the dynamic skill-building process falters.

From 1945 to the mid 1970s, Australia, like most advanced western nations, maintained very low levels of unemployment (rarely above 2 per cent). This era was marked by the willingness of governments to maintain levels of aggregate demand that would create enough jobs to meet the preferences of the labour force, given labour productivity growth. Governments used a range of fiscal and monetary measures to stabilise the economy in the face of fluctuations in private sector spending.

Were there shortages of workers in this period? Between September 1966 and December 1974 the average number of unemployed for each registered vacancy was 0.96. That is, there were more vacancies over this period than there were unemployed ready to fill them. The unemployed-vacancy ratio in December 2004 was 3.9 (3 unemployed for every vacancy).

Since June 1979 it has averaged 10.2. As of June 2008 there were still 2.5 unemployed persons for every vacancy (RBA Bulletin Statistics).

The sustained full employment from 1945 to 1975 forced employers to compete for workers as they sought to expand market share. The upshot was that for every job that was offered, a corresponding training opportunity was also created (Thurow, 1976).

Moreover, it was a central feature of the infrastructure established by the 1945 White Paper on full employment that the Federal and State governments invested heavily in apprenticeships and maintained 'manpower planning' capacities to forecast likely new skill requirements so that policies could be forward-looking (Coombs, 1994)

Since 1975, successive Federal regimes have progressively jettisoned their responsibility to maintaining full employment. This failure is also directly responsible for the under-investment in Australia's skills which now reveals itself as a "skill shortage" as the business cycle improves (see Mitchell, 2001b). The paring back of the public sector, driven by ideological zeal rather than any economic logic, has not only reduced the number of public sector jobs available on demand to the most disadvantaged workers, it also led to the decimation of the apprenticeship "institution" which was one of the most effective ways to introduce young people into the paid workforce (BLMR, 1983).

12.4.4 Labour market intermediation

The propensity of business to externalise its costs is one factor undermining investment in skills development. From the other side of the labour market is the difficulty of unemployed and working people to anticipate what skills they could profitably acquire, as this entails anticipating developments in commerce and industry of which they generally have insufficient knowledge. Apart from interviewing, counselling, and the general occupational and industrial knowledge this requires, those providing this information need to understand the condition of the local labour market through research and open sharing of information. There is also the challenge of determining how skills are to be acquired, both in terms of locating sources of specialised training and support and the means of paying for it. While this was core business for the CES, the "marketised" Job Network, by contrast, is designed to avoid anything that uses its resources without generating an income. This largely precludes investing in the skills and knowledge of its own staff (Goddard, et al, 2001) and even the sharing of information, on competitive (Eardley, Abello and MacDonald, 2001) and "commercial in confidence" grounds (Crossland, 1999; Quirk, 2002). The Howard Government actually discouraged unemployed people from undertaking training by making its provision conditional on their first participating in its compliance programme, known as "Work-for-the-Dole".

Efforts to emulate the role of the CES with business dominated Area Consultative Committees and management-only industry working groups fail because these don't offer solutions that balance the needs of both workers and business. They do not have the independence that occasionally emboldened CES managers to suggest to employers they could find better staff and fill their vacancies faster if they provided better pay and conditions. Such an obvious suggestion would never be made by a Job Network agency, or an industry dominated board. The independence of the CES, and its capacity to monitor and authoritatively respond to trends at the local level, enabled it to temper the self-interest of the private sector. The Job Network, by being disjointed, poorly skilled, over-dependent on employer patronage and narrowly focused is incapable of imposing a coordinated approach to resolving skills gaps and shortages.

The failure of the last Federal Government to maintain viable labour market services, including the capacity to anticipate emerging skills shortages at the local level and organise local solutions is symptomatic of the way its ideological obsessions have undermined Australia's economy. This failure is reflected in its economic policy framework which erroneously extols the virtues of running budget surpluses. The persistence of high levels of labour underutilisation and the identification of skill shortages in certain occupational groups are manifestations of this lack of macroeconomic policy leadership. They are two-sides of the same coin – a failure of governance.

12.5 The creation of a national skills development framework

12.5.1 Overview

In this Section, we build on the understandings from the previous sections to sketch the elements of a National Skills Development (NSD) framework which we consider will address the skills problem Australia faces. Most of the underutilised workers in Australia have relatively low education and skill levels (Mitchell and Muysken, 2008).

Several points need to be considered when developing a NSD framework. First, maintaining a buffer stock of public sector jobs provides work for all irrespective of their skill levels and also allows paid-work opportunities to be structured into training and career development paths. In this way, while the person may initially have low skill levels, over time, under some circumstances, they can advance. But at any rate, they always have work and are freed from welfare dependence.

Therefore an essential component of restoring full employment is to introduce a Job Guarantee along the lines advocated by the Centre of Full Employment and Equity. This requires the Federal Government to maintain an unconditional offer of work to anyone who cannot find employment elsewhere at the minimum wage. This underpins the fully employed economy and maintains the dynamic pressures discussed earlier. It also allows two chronic problems to be solved. On the one hand, Australia is wasting our experienced (skilled) aged workers who have been driven out of the labour market by the lack of employment possibilities. Some workers who lost their jobs in the last major recession have been idle since, some outside of the labour market on disability support pensions. On the other hand, we have high youth unemployment. This group desperately need paid work-training pathways and supervision. The two cohorts could be embraced by public job creation programmes to mutual benefit.

Second, the Federal and State Governments must renew their commitment to adequately fund our public schools and universities. The recent press covering the parlous plight of our public universities and the uncertain future of “export” education, highlights the need for a solid public spending response. A renewed commitment to trades education is also required. The public cutbacks in this area are indefensible and we have seriously underprovided in this area over the last 30 years.

Public policy must also set in place safety-net structures for the youth who leave school early as a matter of top priority. Every person under 20 years of age should be in education, training or a paid job. A strong public commitment to providing employment and integrated apprenticeship opportunities with a revitalised TAFE sector is necessary. We do not consider that the so-called “New Apprenticeship” scheme introduced as part of the previous Federal Government's National Skills Shortage Strategy developed any real trade skills at all. Ultimately, investments in human skills and capacity are the only durable strategy and if spending on education and job creation is not done now, the lack of investment will reduce our opportunities (and wealth) in the future.

Third, occupational planning capacities must be reintroduced to ensure that the apprenticeship and training programmes are targeted in areas of regional and industrial need.

Fourth, by maintaining full employment, the private employers are forced by competition to take a major responsibility for training and skill development of our workforce.

12.5.2 Education and Training

A public employment service that cannot detect and address skill shortages is only part of the problem, as there has also been insufficient provision of education and formal training opportunities. A Commonwealth Government report now acknowledges that universities, TAFE and other institutions need more adequate funding to fulfil their missions. The Review of the National Innovation System, released by the Australian government in September 2008 argues ‘... it is imperative that our educational institutions do receive adequate funding and it is likely this will require a substantial increase in funding as a share of GDP’ (Cutler, 2008: xi).

Currently research in universities is not fully funded under competitive grants programs such as the Australian Research Council (ARC) and performance based block grants, and so it is typically subsidised from universities’ other revenue streams, most particularly from the teaching of full fee paying overseas students. This cross subsidisation of research from teaching profoundly undermines both activities, the former by short-changing it, with the upshot of leaving it subject to the uncertainties of international markets, and the latter by undermining its international competitiveness (Cutler, 2008: x).

The cost-cutting application of commercial incentives and corporate management techniques to higher education has been profoundly destructive of academic freedom and integrity, it has lowered academic standards, undermined commitment to pedagogy (crucial for inter-generational knowledge transmission), suppressed intellectual diversity, and devalued academic culture. Universities are now little more than income-generating credential factories, with the relationship between scholars and students hollowed out by an explosion in student to tutor and lecturer ratios. To raise the capacity of universities to develop (through research) and teach more complex material, lower ratios of students to staff will be required.

12.5.3 The big problem: giving novices skilled work on which to practice.

The inability of the public employment service to monitor and manage the labour market, and the impoverishment of our higher and technical education systems are not our worst institutional deficiencies, for even with the development of a skilled public employment service, and substantial improvements to all levels of our education system, chronic skills shortages will persist because education and skill, albeit related, are not the same thing. Verbal and written instructions from a teacher, lecturer, trainer or supervisor, or text conveyed with books or computers, may impart knowledge that can usefully underpin the formation of skill in the novice, but this constitutes merely a framework upon which skills may form. Skill is formed when novices attempt, practice and eventually master skilled work. Tacit knowledge accumulates with experience, neural pathways are laid in response to their necessity, so that the expert can automatically and fluently perform what the novice can only consciously, and tentatively attempt. This is the point where Australia’s skill formation capacity is most deficient, for as in most Anglo-American market economies with lean public sectors, too few opportunities exist for novices to perform skilled work under attentive and skilled supervision.

Because practical skill-intensive work experience is necessary for imparting skill, agencies such as schools, TAFE, universities and rehabilitation services, etc..., naturally turn to employers to provide it. However, Australian employers do not even sufficiently train their own staff, nor is it common practice for employers to invest quality time and money into training people they have little expectation or intention of employing. Large firms (500+ employees) generally undertake significant staff training and development, but the training commitment of firms of lesser size is disproportionately smaller (Kapuscinski, 2000).

Consider the practicalities: incompetent performance of a skilled task constitutes a significant risk in many situations – people can be killed or injured, expensive materials wasted, machinery damaged, business reputations harmed or important customers alienated. For the novice to safely undertake skilled work, it is therefore necessary that they be closely supervised by a skilled practitioner who is drawn away from work of more immediate value to their enterprise. This would be less problematic if the firm was certain of recouping their investment in training and development through the enhanced productivity of the novice, but often they are uncertain of the novice's job tenure. If training only inculcated skills that were training-firm specific, the training firm could expect a dividend of higher productivity. However, if skills are imparted that are also of value to at least one other firm, the possibility of poaching arises, and the probability rises the more skills are of general value to the labour market (Stevens, 1996; Cutler, 2008). Knowing that other firms covet the skilled workers they develop, training firms are forced to match prevailing market rates of pay to prevent their being poached, transferring the gain in productivity to the worker, making training an unprofitable investment. Most firms therefore choose to buy in skilled labour as required rather than invest in significant training, exacerbating aggregate skill shortages in the process². It follows that firms will similarly avoid assuming significant responsibility for supervising non-employees in work-experience in very large numbers. When employers do provide work experience they generally minimise the cost of supervision by providing work with minimal skill content, in which incompetent performance constitutes minimal risk.

It is a sobering thought that while we reportedly have too few skilled workers at the outset of the present unfolding global economic crisis, as fears of recession grow, firms will discontinue their least immediately profitable activities, shedding their least productive workers and driving up unemployment in the process. Training and trainees are often jettisoned early in a recession, removing critical sites of skills formation, thus reducing capacity for skills formation and re-tooling the labour force in preparation for new commercial opportunities as they appear on the horizon of economic recovery. At the same time, by depriving the unemployed of social contact, activity, stimulation, daily structure, and sufficient money to maintain a dignified existence (Jahoda 1982), unemployment corrodes social and self-management skills that may take years to form. Consequently, as we have seen after previous recessions, economic recovery is prematurely choked off because skill shortages cause inflationary labour supply bottlenecks, producing a long and painful crawl out of each recession known as “hysteresis” (Mitchell and Muysken, 2008).

Given the growing challenges of the 21st century, including rising international competitiveness, environmental change, resource depletion, shifting global power balances, rapid technological change, and so on, national survival will depend crucially on our capacity for rapid and effective strategic adaptation. This means not only having the capacity to inculcate skills in current demand, which we are inadequately doing at present, but to be able to anticipate demand and develop regional labour forces that will attract capital investment. But if skills are formed by performing work that requires such skills, how can skills be formed prior to new firms commencing operations? The answer lies in reviving a role for the state as employer of last resort and net producer of skilled workers.

12.5.4 Restoring the employing and training role of the public sector.

While there are few examples of effective skill formation systems that rely on private sector engagement, the Australian public sector of the 30 year post-war era (1945-1975) largely kept skill shortages at bay despite prolonged high labour utilisation, despite the demand for technical and trades skills in the growing manufacturing and housing construction sectors, and the implementation of major infrastructure projects such as the Snowy Mountains Hydro-electric scheme, because the public sector deliberately trained more people than it required to counter the under-training propensity of the private sector. State government instrumentalities employed large numbers of apprentices and otherwise offered large numbers of entry level jobs in government departments and public enterprises such as the railways, gas and electricity utilities, local government etc... as part of its role as “employer of last resort”. Preserving permanent, full-time, full employment and an unemployment rate of around 2 per cent, forced the private sector to employ whoever it could get, which also obliged them to train unskilled recruits. Many categories of people who were consistently employed in both the private and public sectors during the period of post-war full employment were precluded from similar levels of employment participation following the abandonment of full employment in the mid-1970s.

As with other types of market failure, the state is uniquely capable, and therefore responsible, for addressing the problem of Australia’s insufficient skill formation capacity. To do so requires that it play a more significant role as an employer, which constitutes a significant departure from the public policy orthodoxy of the past 30 years that has pointedly denied the state a significant role. Can we not now question the wisdom of this position in the light of its chronic debilitating effect on the Australian labour market? We need to restore a 21st century role for the state in direct skill formation, designed in a way that supports the global competitiveness of Australian industry. The clear necessity is for the state to provide experiential opportunities that develop vocational skills designed to abstractly resemble the skilled tasks performed in local labour markets. How this could be done is the subject of the rest of this chapter.

12.5.5 The concept of industrial simulation.

We can learn to do something by doing it or by doing something that closely resembles it. Specific skills can be isolated and developed through exercises designed to accelerate the process of achieving competence, that abstractly capture the essence of the skilled task. For example, the famous cricketer Sir Donald Bradman developed his much lauded hand-eye coordination in his youth by batting a golf ball against a round corrugated iron water tank (which created a random return trajectory) with a cricket wicket. Musicians practice their scales, while visual artists learn how light falls across a human face, for example, by drawing standardised forms such as cubes, cylinders, pyramids and cones. In the same way, a rigorous analysis of the skilled tasks performed within a local labour market could inform the design of Job Guarantee activities entailed in the provision of services to the community or rehabilitation of the environment, so that provision of community and environmental services also raises national skill levels during all phases of the business cycle.

An effective skills formation system requires specially designed and managed training assets.

Universities and TAFE operate laboratories, workshops, studios, theatres, mock courtrooms, and other simulated environments, in order to conduct exercises for the inculcation of particular skills. Large industrial organisations, like power utilities, also build specialist training areas in which a broad range of vocational experiences can be simulated – such as a linesperson training ground with 100 differently configured power poles, or the mock

streetscape at a fire-fighters training ground, or the obstacle courses of military training. The SkillShare programme of 1988-98 required community groups to build training assets such as computer rooms, metal and woodworking factories, commercial kitchens, mock retail outlets, and so forth, usually with very meagre resources, though often with effective results.

National skills formation capacity will be enhanced by establishing a Commonwealth agency with the resources to rigorously survey industry practices and produce state-of-the-art experiential training facilities in conjunction with other institutions (universities, TAFE, Job Guarantee, integration and rehabilitation providers, etc...), and to deploy this inventory of venues and equipment according to the strategic planning of each region.

Workplaces are also simulated in training and job creation schemes by adopting processes and procedures that are to be found throughout industry. For example, many SkillShare groups quite self-consciously sought to provide socio-cultural elements of employment such as activity, stimulation and social contact (Jahoda, 1982) by modelling a work-like environment, requiring work-like hours of attendance, strict OH&S, team work, recording of productivity, etc... Had the design of these environments been undertaken with greater rigor, based on authentic research into current and anticipated local industry requirements, furnished with industry-standard equipment, and participants relieved of the pressure of living in abject and precarious poverty by being paid a decent wage, such a system could produce customised skill formation on demand to support the skills needs of Australian industry.

12.5.6 The components of the National Skills Development framework

Regional analysis and coordination unit

Building Australia's skill formation capacity will require the introduction of labour market institutions capable, firstly, of identifying and anticipating skills of strategic value within each regional economy, secondly, of coordinating and aligning regional employment, education and training institutions to address the skill development and allocation needs of their regions, and thirdly, of materially supporting skill formation activities.

It is proposed that the Commonwealth establish regional labour market coordination units to support the delivery of a range of labour market support services, whereby several Commonwealth agencies co-locate in order to:

- Conduct multidisciplinary regional socio-economic research and analysis.
- Facilitate industry and community input into regional strategic planning.
- Promote employment, education and training institution alignment with regional economic development strategic plans.
- Provide regional coordination of the Industrial Simulation Service and Job Guarantee Service, including coordinating development of Job Guarantee service specifications.

Industrial Simulation Service (ISS)

Rapidly adaptable regional skill formation requires the establishment of a technical and material capacity within each region to rigorously identify the skilled tasks performed by industry, to design activities that inculcate the skills to perform such tasks in novices, and to furnish the training authorities (school, TAFE, University, Job Guarantee Service, rehabilitation provider, etc...) with the venues, technical support, and equipment they require to provide experiential activities to form those skills.

We propose that a Commonwealth government agency be established in every region to support other public agencies in designing and delivering experiential training programmes

reflecting regional skills formation needs, and to build and manage a national stock of capital equipment and venues. Other agencies (Job Guarantee Service, primary and secondary schools, TAFE, universities, rehabilitation services, corrections services, migrant orientation services, etc...) would bring their knowledge of their clientele to the job design process while the ISS role will be to design skill-forming simulations of current regional industrial practices, identified through regular skills audits of local industry.

Other institutions, such as the CSIRO, will have special relationships with the ISS, to design technical training opportunities in special areas, and to channel the labour engaged in the ISS for industrial research undertakings of national strategic benefit.

Job Guarantee Service

This is a proposed new public institution to rival the magnitude of the Snowy Mountains scheme in terms of national strategic benefit and scale, capable of transforming the social landscape by providing the otherwise unemployed with work not welfare, and using their labour to provide services that raise the quality of life of the most excluded people in our society. The Job Guarantee will be a system of public sector employment paid at the minimum federal award, with particular emphasis on developing skills in local demand while meeting unmet community and environmental needs. It will be engineered to produce an internationally competent world class labour force, generating a high standard of living with improving environmental and social standards. The Job Guarantee will achieve these goals by giving unemployed people skill-enhancing jobs to do. By gradually perfecting their skills whilst working on the federal minimum award wage on the Job Guarantee, jobseekers raise their value to employers while delivering valuable services to their communities. The Job Guarantee is also integrated with the Public Employment Service, facilitating direct contact by employers with people who are demonstrably proficient in the simulated skill sets most closely approximating those the employer is seeking in prospective staff.

Its governance structure will need to be highly sensitive to local sentiment and the needs of the vulnerable, in order to identify and respond effectively to unmet and highly localised need. It must also respond sensitively to concerns that it might displace or impair existing private and public sector activity. It therefore features a requirement that activities proposed for a given local government area be submitted (in a detailed job specification plan) for local council approval, thereby providing for local democratic adjudication as a protection against Commonwealth insensitivity to local concerns. An additional requirement is the regular holding of a community consultation forum, chaired by a local government counsellor, at which managers of the local Job Guarantee services answer questions and receive suggestions pertaining to all aspects of the service from interested members of the community. The minutes of the consultation would also be required to be tabled at the next local council meeting. By these means, affected parties could alert local government representatives to disadvantages they see in the implementation of a proposed Job Guarantee service, which could prompt the council to require a modification before granting approval. Suggestions for new job guarantee services would be received from any quarter.

The Job Guarantee system would thus harness Commonwealth spending and taxing powers to support delivery of flexible services to communities by people who would otherwise be unemployed or underutilised, impoverished and socially excluded.

The basic Job Guarantee elements are:

- All Australian residents, not in full time education, to be guaranteed the opportunity of however many hours of employment they want, up to a combined total of Job Guarantee and other work of 35 hours per week, paid at the minimum award wage.

- Work performed which is of benefit to the community, not otherwise undertaken by the private or public sector to an extent that meets community need, and so designed as to entail the formation of skills valued by local industry.
- Core operational and development staff (technicians, trainers, counsellors, coordinators) would operate Job Guarantee Enterprises located across each region, providing a range of services in their communities aimed at maximising social inclusion, equality of opportunity, and improving free public amenity. Anyone seeking work could apply at the JGE of their choice, where counsellors would discuss vocational interests and experiences, and offer a broad selection of mixable and matchable employment opportunities. Trainers would then conduct orientation processes to establish people in their selected roles, gradually reducing contact as the worker settles in. These roles would be designed to incorporate skill forming functions designed with the technical and material support of the ISS, to increase the workers value to the local and general labour market.
- Contractions of the labour market would automatically give rise to the expansion of skeletal Job Guarantee enterprises, which would organise people into Job Guarantee teams. Members of teams may work individually or in any practical combination, while groups of teams would collaborate on larger projects.

The Job Guarantee would be supported in the design and equipping of its numerous workplaces and activities by the Industrial Simulation Service, according to the skills formation strategy of the region.

Other institutional partners of the ISS

We foresee the following public institutions operating in partnership with the ISS:

- TAFE and Universities - These institutions would be actively supported by the ISS, through the provision of industry relevant experiential training opportunities, utilising industry-standard equipment and procedures structured to progressively raise student skills to industry-standard levels of performance. Staff of both these institutions would collaborate in the design and delivery of the experiential programme that would complement the academic course of study.
- Technical and professional roles would be included in the Job Guarantee offering students up to 20 hours per week of paid (minimum wage) employment offering experience relevant to their area of study. These roles will support the auto-construction implementation strategy (see below).
- Schools - Special ISS school enclaves will provide high quality experiential opportunities to primary and secondary students to extend their soft skills and capacity to learn, and inspire interest in the world of work.
- Rehabilitation Services - The rehabilitation of people following episodes of ill-health, or a criminal conviction, or other sources of social exclusion, could proceed with greater precision, by giving rehabilitation workers the ability to tailor ISS and Job Guarantee services to suit the precise workforce-entry needs of their clientele, effectively giving rehabilitation providers the ability to define any set of rehabilitative activities as a paying “job”. The requirements of this “job” may then be progressively altered to more closely approximate an ISS-determined industry standard.
- CSIRO - The ISS would support field work, prototype development, proof of concept, and short run production as opportunities for students and others to practice technical and innovation skills.

Self-construction implementation strategy

In real terms, the cost of building Australia's skill formation capacity is the extent to which resources of value to the rest of the community are consumed in the process, and the more rapid and massive its deployment, the greater the impact we would expect to have. However, the speed of the ISS and Job Guarantee roll-out can be paced to minimise the impact on the broader economy of its resource requirements.

The method of its construction is also significant. One area of work of community benefit, not currently performed by the private or public sector, will be the building of the ISS and Job Guarantee infrastructure itself. The ISS System can be built in stages, using many available resources, utilising the technical and professional skill in TAFE colleges, universities, and other institutions, coupled with a mobilisation of labour power that is currently under-utilised throughout the community.

With the exception of an initial investment in key capital equipment and accommodation, the extent to which the ISS would consume resources already in use elsewhere in the economy would be minimised through extensive self-construction. The initial focus of the Industrial Simulation Service will be to analyse skills required by industry on a regional basis and, in co-operation with other institutions, incorporate tasks requiring those skills in jobs designed to be undertaken throughout the community.

Using the labour of JG participants and students, the ISS will build an inventory of capital equipment, accommodation and other assets in an initial capital formation stage, which will in turn, be used to build further infrastructure. As the system steadily develops, more unutilised labour will be brought into socially useful production using the assets produced in the preceding phase.

The initial establishment of the ISS would include a significant investment in procuring capital equipment (by purchase, lease, donation or self-manufacture) capable of producing the means (tools, technical plans, workshops) of constructing the infrastructure to support the next phase of implementation, which would construct the infrastructure for the next phase, and so on. With rigorous inventory management, significant output could be bracketed within the confines of the Job Guarantee. Following the infrastructure building phase, output would be increasingly directed to delivery of community and environmental services, raising public amenity with each phase of development, enabling a wider group of Australian citizens to participate in the ongoing building of quality communities.

12.6 Conclusion

The current Federal Government obsession with budget surpluses must be rejected, and it must be recognised that persistent labour underutilisation not only generates massive losses to the society and to specific individuals, but it also undermines our future capacity. The Federal Government has to take responsibility and ensure that its net spending meets the demands of the workforce for jobs now and the requirements in the future for an on-going supply of high skilled and productive workers. This proposal argues that in order to generate a socially inclusive and skilled workforce, the non-employed should be given the opportunity to perform supervised skilled work, because this is how skills are formed.

¹ KPMG's Private Companies Survey (17/9/2008) found: 'The skills shortage remains the primary concern for private companies (92 percent), and in response over two-thirds have implemented attraction and retention programs and nearly 40 percent of companies are bringing workers in from overseas, or considering this as an alternative' (KPMG, 2008:).

² The AIG (2008) report states, for example, that while 51.5 % of surveyed CEOs considered cost an impediment to upskilling their staff, 40.7 % cited staff departures from the firm following training as the next biggest impediment.

13 The Job Guarantee

13.1 Introduction

Following the abandonment of full employment as a primary objective of government policy in the mid-1970s, the role of the public sector as a significant source of employment was sacrificed in pursuit of private sector efficiency in the use of public resources. A failure to acknowledge that an efficient public sector delivers social benefits that profit-seeking firms do not, led policy makers to fallaciously equate reductions in public sector employment with efficiency (Mitchell, 2001a: 4). The absence of the public sector as an employer of last resort, entrenched unemployment, undermined economic security and life aspirations of a generation of Australians, and severely damaged our economic capacity through the concurrent scrapping of the public sector as a net producer of skilled workers (Mitchell and Quirk, 2005).

Central banks now focus on maintaining a buffer stock of unemployed to maintain price stability. There is overwhelming evidence that the cumulative costs of this strategy have been substantial in terms of lost output and other major economic and social costs. However, the effectiveness of an unemployed buffer stock deteriorates over time, so ever larger numbers of *fresh* unemployed workers are required to function as a price anchor that stabilises wages. Such a policy is thus severely restrictive and provides no basis for achieving both full employment and price stability.

Mitchell and Muysken (2008) draw on a body of work including Mitchell (1998), Wray (1998) and Mitchell and Mosler (2002a) to argue that in the imperfectly competitive macroeconomic framework in which modern governments operate, a better alternative is to utilise an *employed* buffer stock approach.

Most progressive economists are also opposed to the neo-liberal pursuit of supply-side policies because the sacrifice ratios (the percentage increase in the unemployment rate required to bring inflation down by one percentage point) are high and the distributional implications are unsavoury. However, the typical progressive solution involves a generalised fiscal and monetary expansion mediated by incomes policy (Davidson, 1994; Ramsay, 2002-3; Seccareccia, 1999; Kadmos and O'Hara, 2000; Sawyer, 2003, 2005). Under this approach the government ensures overall spending is sufficient to purchase all available output with the government itself purchasing goods and services at *market prices*, or by the government providing incentives to profit-seekers to expand activity. Demand expansion in isolation is unlikely to lead to employment opportunities for the most disadvantaged, fails to address spatial labour market disparities which are now common across OECD economies, including Australia, and does not incorporate an explicit counter-inflation mechanism.

A policy proposal to restore the role of the public sector as a significant employer, and to do so in a way that also controls inflation, known alternatively as the 'Job Guarantee' (JG) or the 'Employer of Last Resort' (ELR), has been advocated for over a decade by economic policy research centres in Australia (Centre of Full Employment and Equity – CoffEE, University of Newcastle), North America (Centre of Full Employment and Price Stability – CFEPS, University of Missouri, Kansas City, and The Levy Institute, New York) and Europe (CoffEE Europe, University of Maastricht).

The macroeconomic principles underpinning this proposal constitute an alternative economic paradigm to that which has dominated economic policy-making in Australia for 30 years, and which has entrenched under-employment, fuelled private debt and destroyed the nation's skills formation capacity (Mitchell, 2001b). Mitchell and Muysken (2008) provide a comprehensive explanation of this alternative approach which they call the modern monetary macroeconomics (see also Mitchell, 1998 and Wray, 1998).

The assertion that Australia currently has full employment, relies on the dominant use by politicians, media and others of the official unemployment rate as an indicator of the tightness of the labour market. In fact, the official unemployment is a narrow measure of labour underutilisation because it is a persons-based measure as opposed to an hours-based measure and anyone employed for more than one hour per week is recorded as being employed rather than unemployed. The fact that under-employment is now a larger problem than official unemployment is indicative of the trend that nearly a half of all new jobs created in the Australian economy are part-time, and increasingly these jobs are failing to offer enough working hours to satisfy the preferences of the workforce. So there is still significant slack in the labour market despite the rhetoric to the contrary. As explained in Chapter 3 current hours based estimates of labour underutilisation are in excess of 8 per cent of the willing labour force (CLMI, 2008). A further smokescreen used to propel the full employment myth is the spurious attribution of skill shortages to tightness in the labour market, as opposed to insufficient investment in skill formation.

The debate between these rival economic paradigms is often very technical in nature, which has tended to discourage media coverage or the engagement of a wider audience, despite the profound socio-political implications. As a consequence, most Australians, including many academics and public policy makers who would find the alternate paradigm extremely interesting and useful, are unaware that it even exists.

While the technical nature of the debate may have discouraged lay involvement, the failure of the mainstream economics profession to engage in debate regarding the principles of the modern monetary macroeconomics is indicative of the sclerosis that pervades orthodox economics. Mainstream macroeconomics continues to employ monetary theory that was applicable to the fixed exchange rate/commodity money worlds of the past, but is inapplicable to the modern flexible exchange rate world we live in today. A glaring example of this sclerosis is the constant statement that Government deficit spending needs to be financed and the issuing of government debt (to finance the net spending) pushes up interest rates and/or is inflationary. Both statements are erroneous and lead to faulty policy prescriptions, of the type that have led to entrenched labour underutilisation and regional disparities (see Mitchell and Muysken, 2008 for an extensive discussion of this).

While much theoretical work has been published outlining the principles of modern monetary macroeconomics, there has been less work published which details in practical terms the way in which a JG could operate in Australia. This Chapter seeks to expand on the practical aspects of designing and implementing a JG by providing for public discussion a draft demonstration model, which links the theory to practice and clarifies necessary and optional features of the scheme.

This illustration of an operational JG is offered for an Australian context, and presumes no change to its federal structure. Other possible modes of delivery are also discussed. Other societies, with different federal structures, different levels of development, and different political and socio-economic circumstances would need to adopt different administrative arrangements to implement the Job Guarantee. The proposed design takes into account questions and concerns raised privately and publicly by numerous individuals, including

critiques offered by Sawyer (2003, 2005), Andrews (2004) and others. We thank all these contributors, and welcome all suggestions for further refining our proposed JG administrative architecture.

13.2 The Job Guarantee

The JG proposal was conceived independently by Mitchell (1998) and Mosler (1997-98). It has since been developed further by authors, including Wray (1998); Forstater (2003) and Fullwiler (2005) and a comprehensive treatment of it appears in Mitchell and Muysken (2008). This Section is based on the latter.

The JG is based on a buffer stock principle whereby the public sector offers a fixed wage job, which we consider to be *spending on a price rule*, to anyone willing and able to work, thereby establishing and maintaining a buffer stock of employed workers. This buffer stock expands (declines) when private sector activity declines (expands), much like today's unemployed buffer stocks.

The JG thus fulfils an absorption function to minimise the real costs associated with the flux of the private sector. When private sector employment declines, public sector employment will automatically react and increase its payrolls. The nation always remains fully employed, with a changing mix between private and public sector employment. Since the JG wage is open to everyone, it will functionally become the national minimum wage. To avoid disturbing the private sector wage structure, and to ensure the JG is consistent with price stability, the JG wage rate should probably be set at the current legal minimum wage.

Under the JG, people of working age who are not in full time education and have less than 35 hours per week of paid employment, would be entitled to the balance of 35 hours paid employment, undertaking work of public benefit at the minimum wage. The aim is to replace unemployment and under-employment with paid employment (up to the hours desired by workers), so that those who are at any point in time surplus to the requirements of the private sector (and mainstream public sector) can earn a reasonable living rather than suffer the indignity and insecurity of underemployment, poverty and social exclusion.

A range of income support arrangements, including a generic work-tested benefit payment, would also be available to unemployed people, depending on their circumstances, as an initial subsistence income while arrangements are made to employ them. This would rarely be necessary once the system was well established, because in most circumstances JG jobs would be immediately available and offered instead of income support. Under the work-test, any offer of a suitable job paying at or above the legal minimum wage, including a JG job, would terminate the income support payment.

JG workers will have considerable flexibility as to when they work within a range of core hours, to maximise their availability for part-time or casual mainstream employment, for job-seeking, for caring responsibilities that have limited their employability in the private sector, self-employment, study, or other pursuits. JG workers will be only paid for the hours in which they work.

The public employment service (PES) (such as the Commonwealth Employment Service or the Job Network) would treat Job Guarantee workers as employed but seeking an 'improved position', directly notifying them of suitable mainstream employment opportunities as they arise and arranging referral of interested JG workers to job interviews.

In the past, the Commonwealth Employment Service (CES) had three types of registration status: Unemployed (UE), seeking other than full time employment (OE), and employed but seeking an improved position (IP). Direct observation of JG workers at work would enable

their supervisors to provide PES staff with reliable appraisals of their current skills and abilities to inform their matching and referral processes, and with appropriate protocols and permissions, to inform the hiring decisions of prospective employers.

The JG provides a platform for developing the national skills base, by comparing the *observed* skills and competencies of the JG workforce with the emerging skills requirements of each regional labour market. This would inform the provision of accredited training (both in-house and via external providers such as TAFE), the indenturing of apprentices, and the design of JG activities so that they include experiential development of skills expected to be in local demand. In this way the JG would restore the role of the public sector as a net trainer of skilled workers, minimising the likelihood of inflationary bottle-necks in labour supply.

The flexibility of the JG would extend to designing jobs to accommodate individuals with special physical, intellectual and behavioural needs through collaborative processes involving the worker, their families, advocates, health professionals, etc... (Bill *et al.*, 2004). It could also be adapted to address the needs of rural and remote communities, and to reflect cultural norms within indigenous and other non-Anglo Australian communities.

The JG is intended as a platform for doing several things:

1. It would provide economic security and social integration for those whose labour is currently being under-utilised;
2. It would contribute to the quality of life of all by its contributions to a better environment, public amenity and improved services to our most disadvantaged and neglected citizens;
3. It would reduce social dislocation arising from unemployment and poverty.

As a minimum wage employer that accommodates the poaching of its skilled workers by other employers, and even facilitates this practice when extra workers are needed in the private sector, the JG is a superior price stabiliser than the present method that entails keeping over a million people precariously unemployed and under-employed, and in a condition of skill-atrophying idleness, social exclusion and poverty.

The introduction of a JG would mark an explicit return to the buffer stock employment policies adopted after the Second World War to ensure full employment such that the least advantaged workers had opportunities to earn a wage and to live free of welfare support at all times. While it is easy to characterise the JG as purely a public sector job creation strategy, it is important to appreciate that it is actually a macroeconomic policy framework designed to deliver full employment and price stability based on the principle of buffer stocks where job creation and destruction is but one component.

13.3 Inflation control under a Job Guarantee

The fixed JG wage provides an in-built inflation control mechanism. Mitchell (1998) called the ratio of JG employment to total employment the Buffer Employment Ratio (BER). The BER conditions the overall rate of wage demands. When the BER is high, real wage demands will be correspondingly lower. If inflation exceeds the government's announced target, tighter fiscal and monetary policy would be triggered to increase the BER, which entails workers transferring from the inflating sector to the fixed price JG sector. Ultimately this attenuates the inflation spiral. So instead of a buffer stock of unemployed being used to discipline the distributional struggle, the JG policy achieves this via compositional shifts in employment. The BER that results in stable inflation is called the Non-Accelerating-Inflation-Buffer Employment Ratio (NAIBER) (Mitchell, 1998). It is a full employment steady state JG level, which is dependent on a range of factors including the path of the economy. There is an issue

about the validity of an unchanging nominal anchor in an inflationary environment. The JG wage would be adjusted in line with productivity growth to avoid changing real relativities. Its viability as a nominal anchor relies on the fiscal authorities reigning in any private wage-price pressures.

The JG introduces no relative wage effects and the rising demand *per se* does not necessarily invoke inflationary pressures because by definition it is satisfying the net savings desire of the private sector (see Mitchell and Muysken, 2008 for more details). Additionally, in today's demand constrained economies, firms are likely to be able to increase capacity utilisation to meet the higher sales volumes. Given that the demand impulse is less than required in the NAIRU economy, it is clear that if there were any demand-pull inflation it would be lower under the JG. There are no new problems faced by employers who wish to hire labour to meet the higher sales levels. Any initial rise in demand will stimulate private sector employment growth while reducing JG employment and spending.

However, these demand pressures are unlikely to lead to accelerating inflation while the JG pool contains workers employable by the private sector. While the JG policy frees wage bargaining from the general threat of unemployment, several factors offset this:

1. In professional occupational markets, while any wait unemployment will discipline wage demands, demand pressures may eventually exhaust this stock and wage-price pressures may develop. With a strong and responsive tertiary education sector, skill bottlenecks can be avoided more readily than with an unemployed buffer stock;
2. Private firms would still be required to train new workers in job-specific skills in the same way they would in a non-JG economy. However, JG workers are far more likely to have retained higher levels of skill than those who are forced to succumb to lengthy spells of unemployment. This changes the bargaining environment rather significantly because firms now have reduced hiring costs. Previously, the same firms would have lowered their hiring standards and provided on-the-job training and vestibule training in tight labour markets. The JG policy thus reduces the "hysteretic inertia" embodied in the long-term unemployed and allows for a smoother private sector expansion;
3. With high long-term unemployment, the excess supply of labour poses a very weak threat to wage bargaining, compared to a JG environment (Mitchell, 1987, 1998).

A crucial point is that the JG does not rely on the government spending at market prices and then exploiting multipliers to achieve full employment which characterises traditional Keynesian pump-priming.

13.4 The Job Guarantee and regional development

Mitchell and Juniper (2007) outline a Spatial Keynesian framework to address regional disparities in economic outcomes. They show that a generalised expansion will not be sufficient as a stand-alone policy to target regions in need of employment creation and where the industry employment base is declining. Further, aggregate policy cannot address feedback or spill-over effects between regions where social networks and neighbourhood effects transmit shocks from one region to another. This behaviour is illustrated by clusters of high unemployment regions or *hot spots* that form in OECD economies as a result of spatial interdependency (Mitchell and Bill, 2006). Arestis and (2005: 11, 18) argue correctly that

the industrial structure of a region and ... variations in productive capacity as well as in aggregate demand of the region ... [drive these disparities and conclude] ... appropriate demand policies are required to stimulate investment and underpin full employment.

But how can we be sure that the investment will provide jobs in failing regions? How are the most disadvantaged workers with skills that have been superseded going to be advantaged in a generalised expansion? The JG is explicitly designed to provide opportunities for the most disadvantaged workers in the economy. A mixture of both generalised expansion and the implementation of a buffer employment stock policy approach is likely to be optimal but a generalised expansion alone is not preferred.

13.5 Implementation issues

Before proceeding to a detailed description of how a JG could be implemented in Australia, and leaving aside the potential benefits of this scheme in terms of alleviating poverty, social exclusion; skills shortages; regional disadvantage and improving the quality of life for millions of Australians; we need to acknowledge the practical challenges entailed in operating a scheme of this type. For this discussion we will endeavour, as much as possible, to set aside matters of macroeconomic theory discussed above and extensively addressed elsewhere (Mitchell, 1998; Wray, 1998; Mitchell and Watts, 2003; Mitchell and Wray, 2004, 2005; Mitchell and Mosler, 2002a, 2002b, 2006b; and Mitchell and Muysken, 2008). Here we confine ourselves to practical institutional and operational considerations that a successful JG system would need to address.

Some of these issues have been raised by critics of the scheme and others have come from the minds of its advocates during the course of its theoretical development. The design and implementation choices of any public policy can significantly determine its impact, the devil being in the detail, so we will next endeavour to enunciate the concerns this proposed implementation model for Australia is intended to address, and to make our reasons for adopting one design element over another as clear as possible.

13.5.1 Real jobs?

Some of the theoretically necessary design features of the JG system are considered by some to undermine the likelihood that ‘quality work’ will be performed under the scheme. The justification for creating a JG job is to provide work which is accessible to the most disadvantaged unemployed workers. But it is also intended that the work performed delivers a ‘net social benefit’ or enables ‘greater utilisation of an individual’s capacity’. If these criteria were used to determine the existence of supposedly ‘real jobs’ in the private and public sector, many would be abandoned. But the existence of socially harmful and degrading jobs in these sectors does not preclude the possibility of them also occurring under a JG, so the question of how the value of these jobs will be determined is legitimate.

Whereas market-driven services are supplied according to how much people are prepared to pay for them, and public services generally respond to usage levels, JG work is not intended to increase or decrease in response to changing demand for the JG work itself, but to accommodate falling and rising private sector demand for labour. This appears to disengage the work performed under the JG from standard ways of estimating its value.

If it transpired that performing this work made little difference to the overall well-being of the community, not only would it seem a waste of public resources that could have been more beneficially expended elsewhere, but those engaged in performing the work could become demoralised because their skills and energy were not being better utilised.

Equally, while the value of the work to the community does not determine whether JG jobs are created or destroyed, this does not preclude the possibility that the work could be of great public benefit, although five additional theoretical parameters for the scheme could potentially reduce the scope of the JG to deliver valued services.

1. To serve its countercyclical function efficiently, the JG system must not displace employment in the private or public sectors, which precludes it from delivering services which either the market or the state currently deem worthy of delivery. This means that JG services will address needs that are currently not profitable for the private sector to meet (because they are public goods or because potential recipients of the services cannot afford them) and which the state currently considers of such low priority as to not warrant addressing. This does not preclude JG services from meeting considerable unmet need in relation to the natural and social environment and among the least powerful sections of society, particularly if the system is well-engaged at the local grass-roots level, where the market and the state generally are not. The Local Employment Initiative (LEI) job creation concept received considerable developmental support from the Commonwealth in the mid 1980's until its only pilot proposals were rejected at the Expenditure Review Committee in 1988 (Gass, 1988:12-14). These differed to the JG model in that they expected public sector seed funding of small scale market based activity that could generate significant levels of employment. Both concepts recognise sensitivity to local need and local control is crucial to identifying worthwhile and under-performed work (NAGLEI, 1987);
2. The JG's countercyclical function also requires that it does not retain workers when the private sector requires them and can induce them with an appropriate job offer to accept employment. The operation of the JG requires that the Government offers a fixed wage job at the effective minimum wage and never seeks to compete with market wages for workers. The JG is a buffer stock at all times. If the relative attraction of the JG work was its greater security, a sufficiently streamlined entry /exit design (that enabled immediate re-entry to the JG) will lower resistance to accepting offers of private sector employment by eliminating risk attached to the job not working out. The successful transition from the JG into private sector employment would be enhanced because the workers would maintain work-related physical and mental stamina, social skills, means of transportation, and the like, capacities which are often lost during long spells of unemployment. This would further reduce the perceived risk of the scheme.

If the relative attraction of the JG work was that it required less effort, this would be mitigated by the degree to which JG work achieved the standards of effort and professionalism of the private and public sectors. These standards are not solely achieved within these sectors by either punishing sub-standard performance (for example, demoting or sacking bad workers), or rewarding above-standard performance (for example, promoting good workers). Although the JG's fixed-wage and the objective of eliminating unemployment limits recourse to these strategies, it does not totally preclude them, nor does it preclude recourse to other sources of motivation used in other spheres of collective human endeavour such as sport, education, families, and voluntary associations. If the relative attraction of JG work is that it is better managed, safer, more dignified or more satisfying than private sector employment, the solution may be that private sector employers raise their standards in these areas;

3. The provision of new services that meet significant needs may raise an expectation of continuance. If the withdrawal of a highly valued JG service threatened a public backlash, governments would be under pressure to continue the service, perhaps as a mainstream public service, which would permanently reduce private sector access to those workers. From the Post-Keynesian theoretical perspective, some JG jobs will always need to be undertaken to eliminate unemployment because the private sector cannot do it alone. Those JG services that have the greatest demand for continuity, such as new forms of support for the aged and disabled, would need to be prioritised for retention over services (such as public works) that can be discontinued without significant loss of amenity;
4. Since the scheme is intended to offer all persons of working age a job to eliminate their unemployment or underemployment, there is a presumption that JG jobs would need to be kept simple to accommodate the 'lowest common denominator' of skill level. Were this so, many workers would find JG work unchallenging and many of their skills would remain underemployed. This issue has been successfully addressed in the past by labour market program providers by assigning different roles and responsibilities to people within a given work group, according to need and ability. This simply requires that jobs are designed with a range of options and that supervisors possess the skills to allocate work according to worker needs and capabilities. JG jobs have an advantage in this regard in that they are not dependent on achieving a given level of productivity, thus allowing them to be tailored to accommodate special needs, such as those of people recovering from mental illness. This would best be undertaken through collaborative job design with the individual, their health professionals and family. New forms of workplace support work are also potential JG jobs. In many respects, the flexible potential for the JG to offer diverse employment experiences has fewer limitations than existing sources of employment;
5. Some socially useful services which address important social and economic objectives may already be partially met through permanent public sector employment. Expansion of these services through the JG creates a tension between those employed under public sector conditions and those employed under JG conditions. Downgrading the wages and conditions of the public sector workers would be inequitable. This issue can be addressed by quarantining this existing public sector employment and associated conditions while the incumbent workers continue their employment in these jobs. Once these workers retire or take up other positions, these jobs will revert to JG pay and conditions. The general principle is that no person would be individually disadvantaged by the introduction of the JG. This is not the same as saying a class of jobs might be restructured into JG jobs over time.

13.5.2 Protecting the public interest

Drawing a large population of hitherto socially excluded persons into active labour market participation creates a significant challenge in ensuring that they and the general public are not exposed to risks from incompetent, inappropriate, malicious or criminal behaviour. This is a basic duty of care expected of all private and public sector employers, but is likely to be a greater issue under the JG given that its charter is to employ anyone applying to it for work. This requires protocols for checking criminal histories, independent monitoring of client well-being, genuine complaints processing, skilful assessment of worker capability and thorough orientation training and supervision systems. Most of these requirements are familiar to employers in the human services industry and to managers of past labour market programs such as SkillShare, JobSkills, New Work Opportunities and LEAP.

Given that a guarantee of work for all can be expected to draw many people into the workforce who have hitherto been excluded from participation, JG staff will need considerable skill in assessing, training and supervising people with complex physical and behavioural issues. The design of the JG needs to promote regular contact and information-sharing among staff involved in similar aspects of its program, to build a comprehensive body of knowledge of problems and solutions emerging from its implementation as fast as possible. It will be critical to extensively train JG administrative staff in Occupational Health and Safety, assessment of worker capability, in thorough workplace orientation methods, in how to manage a constantly changing population of workers, as well as ensuring they have the technical skills necessary to train and supervise others in the performance of a given task. In short, it will need to embrace a training and development culture.

There is also a significant potential for corruption under the JG, given the power of JG administrators to define what JG workers need to do to earn their pay, and the possibility that workers could be directed to perform services to the personal advantage of those in positions of authority, such as improving the value of their properties, or acting as their personal servants. The system will need to be particularly secure from rorting (for example, people claiming pay for work not performed, people claiming under multiple names or people working a combined total of more than 35 hours per week). Public accountability and transparency, coupled with extensive monitoring and auditing systems will be essential features of this system. It would be crucial that from the outset, attention was paid to creating a culture that supported the economics and goals of the JG, embraced accountability, and reflected its socially constructive orientation because decision making is influenced by organisational culture (Moynihan and Pandey, 2006).

13.5.3 Top heaviness and displacement effects

As we discovered in earlier chapters there are dangers involved in coordinating activities between various levels of government when perverse financial incentives come into play. For this reason it is imperative that the additional provisions of the JG are effective and preclude the ability of any level of government to substitute JG workers for the regular workforce either in the short- or longer-term.

The employment and price stabilisation effectiveness of the JG will depend on its ability to quickly accommodate rises and falls in private sector demand for labour. This will require the operational infrastructure of the JG system itself to be sufficiently flexible to rapidly expand and contract as required. A core of administrative and expert staff will need to be retained during buoyant economic times to facilitate the rapid recruitment and training of JG staff during periods of economic downturn. In buoyant times, the training and supervisory staff who did not take job opportunities in the private sector could be productively engaged in research and development of new training modes and “best-practice” pedagogy so that the capacity of the JG to combine guaranteed employment with efficient skills development could be maintained and improved. Other activities which could be performed during these periods include project appraisal – assessment of proposed future projects which could absorb and productively employ large numbers of workers when the next major downturn occurred. These functions are akin to the maintenance functions performed in the private sector by skilled staff who are retained by firms when demand is low.

Though mentioned above as a potential limitation on the scope of JG work, avoidance of displacement of existing private or public sector workers is critical to the viability of the program as a means of responsively generating net employment growth when required. The process of determining what services are to be conducted, and by what means, will need to be sensitive to local private sector concerns, which can be democratically mediated by placing

approval authority with local government, and providing effective ongoing mechanisms for public consultation. At the same time, the risk of local government indulging in cost-shifting can be minimised by the Commonwealth retaining control over the proposal development and implementation process.

13.6 An illustrative model of an Australian Job Guarantee

Figure 13.1 provides a schematic of an operational plan that seeks to address the issues outlined above. The function of each component and the interrelationships between the components in the JG system sketched in Figure 13.1 is discussed in detail in this Section. We will avoid prescription where several options are possible. This is not necessarily the best way to implement such a program; rather it is an example of a model that is consistent with the JG philosophy.

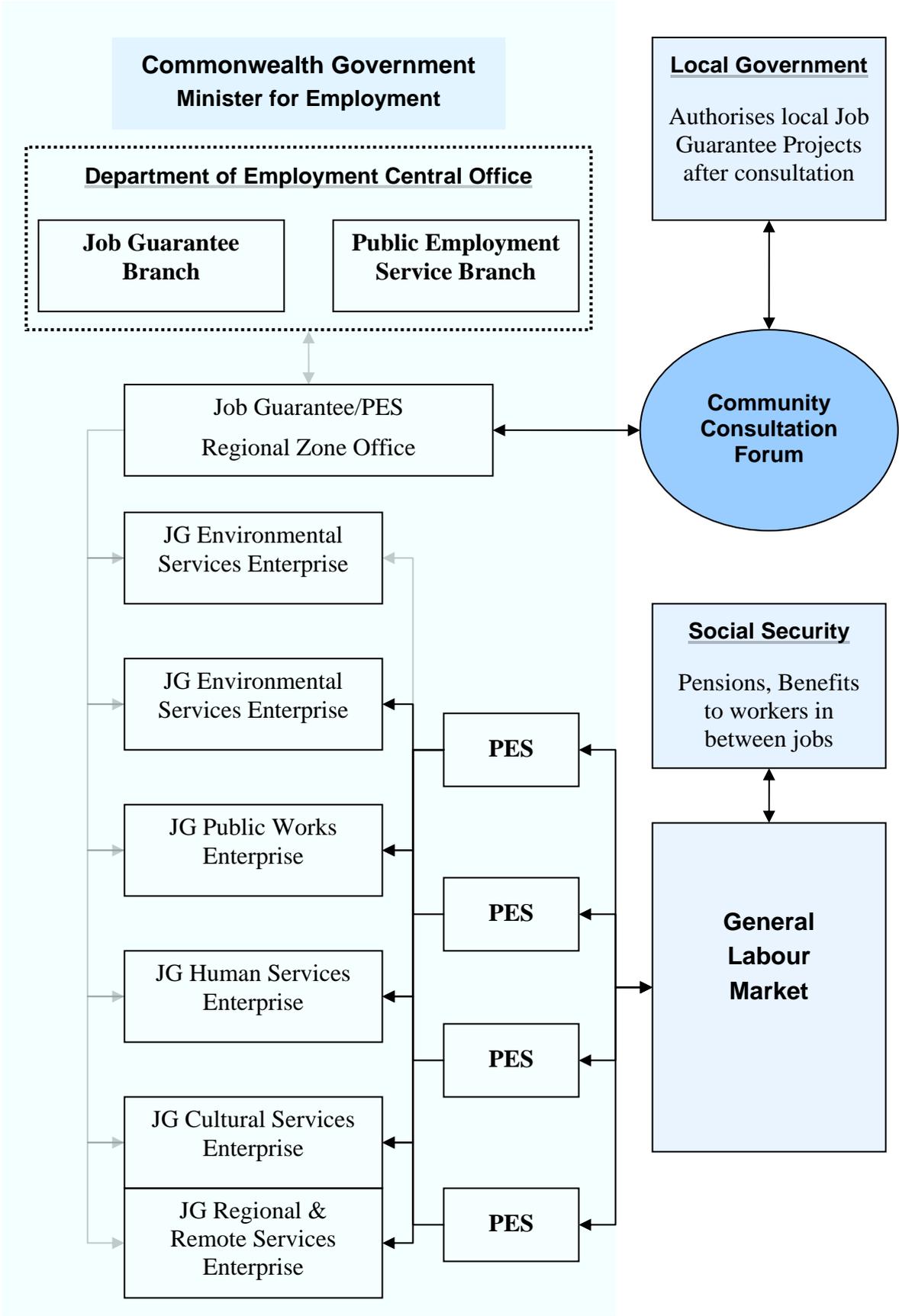
In this model, functionally differentiated local JG Enterprises (JGEs) create, train, and assign work to supervised teams of JG workers. These teams deliver services that are designed through a consultation process, managed by regionally-based Commonwealth Government staff in partnership with and authorised by local government. The Public Employment Service works closely with the JG system to broker connections between employers and JG workers. JG Enterprises create, expand, amalgamate, and disband teams of workers as private sector demand for labour rises and falls, preserving full employment while maintaining a skilled labour supply which is available for private sector employment.

13.6.1 Commonwealth government

Mitchell and Mosler (2006b) and Mitchell and Muysken (2008) have argued that the dual objectives of the Reserve Bank of Australia (RBA) - price stability and full employment - would be more efficiently managed through the use of a buffer of JG employees rather than a buffer of unemployed people. Being a price stabilisation mechanism, these authors suggest that the operation of the JG could be more appropriately housed under the authority of the RBA, rather than as a component of a separate employment ministry. A variation of this proposal may ascribe to the RBA the right to specify key operational parameters for the scheme. The above cited authors recognise that the RBA is not publicly accountable for the consequences of its decisions. They argue that this is a major flaw in the recent neo-liberal trend toward reliance on monetary policy at the expense of fiscal policy. The introduction of a JG would see a reduced reliance on monetary policy as the principle counter-stabilisation policy vehicle.

Given that public accountability by aggregate economic policy makers should be paramount in a system of open and transparent government, the proposal outlined here ascribes overall responsibility for the JG to the Commonwealth minister responsible for employment. The JG would occupy a branch of the employment ministry, either within or adjacent to that of the public employment service (PES). Only the Commonwealth Government has the spending and taxing powers to fund a scheme of this scale, and the benefit of close coordination between the JG system and the PES justifies their direction by the same minister. The public employment service may be a public sector organisation or a marketised system such as the Job Network. We contend, however, that the principle motivation for creating an employment services market was to overcome CES staff resistance to withdrawal of income support ('breaching') as a disciplinary device (Jose and Quirk, 2002), a practice that will be largely redundant under the Job Guarantee. A well-administered public sector-based employment services system would enable superior monitoring of shifts in labour supply and demand, and the identification of looming skills shortages, thus enabling the JG to be deployed with greater strategic effect.

Figure 13.1 An illustrative model of the Job Guarantee system



Central Office

The JG Branch would include a central office located in a capital city or a major regional centre such as Newcastle. Indeed, the location of the central office could be part of a regional development strategy designed to provide professional employment opportunities in declining regions. The Central Office would not have to be located in Canberra. The Central Office of the Department of Employment and Industrial Relations (DEIR) was located in Melbourne between 1979 and 1988, to place senior staff close to the Australian Industrial Relations and Arbitration Commission courts. This had the unintended consequence of exposing senior management to the issues confronting CES staff on the ground, since there were greater opportunities for two-way interaction with a large metropolitan CES network. CES staff visited the Central Office for training, and Central Office staff frequently visited CES offices, many having previously worked in the CES. Following the formation of DEET in 1987, the Central Office was moved to Canberra, which placed new people in the ranks of the senior management who were without experience in employment services delivery. Their cloistering in the relatively homogenous and affluent Canberra area reduced their exposure to the operational realities of the service they were conducting, and possibly contributed to the managerialist culture that subsequently proved so detrimental to the quality of employment service delivery (Jose and Quirk, 2002). Small regional offices would provide a range of local coordination and specialised support services. The model for the operation of these offices is the DEIR zone offices of the post-Norgard CES (1979 – 1989).

The Central Office would undertake:

- Policy development;
- Systems development and management;
- Budget management, including determining labour/capital ratios;
- Auditing of system compliance;
- Performance monitoring ;
- Research and development, including the conduct of qualitative public surveys of the operation of the JG, to be used as discussion points at community consultation forums;
- Marketing;
- Reporting;
- Coordination and support of several functionally defined enterprise networks to which local JG enterprises would belong. Support services would include negotiation of bulk purchasing agreements with suppliers, research and dissemination of best practice, provision of legal and other technical assistance.

Central Office would determine national targets and accounting methodology for the ratio of expenditure on capital and labour for JG services according to JG enterprise type, enabling the different capital requirements of, for example, public works services and human services to be recognised. Capital expenditure was not permitted to exceed 50 per cent under the Community Employment Program (CEP) that operated between 1983 and 1987. The proposed JG model enables the Central Office to specify different ratios for different activities over time. The establishment of a set ratio under CEP was appropriate to show an even handedness with community agencies which were required to submit costed proposals. As the budget and design process of the proposed JG model remains with the Commonwealth, varying labour/capital ratios should not carry the same political risks as under CEP. For example, different ratios could be established for different types of jobs (see Table 13.1).

These expenditure ratios would apply to regions (zones) as a whole, to allow deviation between different services within them, so long as the region in total conformed to the ratio. These ratios would probably alter over time as stocks of capital equipment accrued. Ratios of core staff to JG workers and other parameters could also be subject to prescribed ratios.

Table 13.1 Examples of labour/capital ratios under the JG

Enterprise type	Labour	Capital
Public works	50	50
Environmental rehabilitation	55	45
Human services	65	35
Cultural services	70	30

The regional hubs/zone offices

A zone/regional manager heads a team of specialists who develop, oversee and support the performance of a cluster of JG enterprises. Each of these teams in turn services a group of local government areas, liaising closely with local government and other individuals, groups and authorities with a stake in the design and delivery of proposed services. Local PES coordination and support would preferably be co-located at these offices to streamline coordination of JG and PES systems. Each zone would consist of a team of auditors, researchers, trainers, counsellors, job developers, IT and ancillary staff that would support the establishment and operation of JG enterprises in each locality.

Zone offices would undertake:

- Regional data collection and labour market analysis;
- Determination of projected skill formation requirements in their region;
- JG enterprise establishment and staff recruitment;
- JG and PES information systems and other technical support;
- JG enterprise and PES staff training and development;
- Community consultation in the development of JG service specifications for local government approval;
- Allocation of approved service specifications to JG enterprises;
- JG enterprise budget development and approval;
- Auditing and monitoring of JG Services;
- Specialist JG job design;
- Provision of visiting specialist counselling and social work support;
- Local marketing;
- Reporting;

The establishment of a zone office would be the first stage in implementing the JG in a locality. This group would organise the initial establishment of the JG enterprises that employ Job Guarantee workers, and allocate services for them to perform. Budgets for services will be negotiated with enterprises based on estimates of the numbers of jobs to be created and in conformity with labour/capital ratios established by the Central Office

Specialist job development, training and counselling staff would develop expertise in the staff of the JG and PES to identify and assist jobseekers/JG workers with special needs. Counsellors would perform case-work at JG enterprises and PES offices and be available to deal with complex situations on JG worksites, including recommending transfers of workers and modifications to job design. By networking with specialist staff performing comparable roles in other zones, and disseminating their knowledge within the JG and PES systems, the various zone specialists will provide the critical mass of expertise that preserves corporate memory as the system expands and contracts.

The service specification process in detail

Ideas or requests for services to be delivered by one or several JG enterprises may be directed to the JG zone office by anyone in the community, including from within local government or the JG system itself. These would be investigated by job development officers at the zone office who would:

- Determine the strategic potential for the service as a vehicle for experiential development of skills likely to be required in the region;
- Discuss draft proposals at the Community Consultation Forum;
- Liaise with members of the community who may be affected by the proposal to clarify their concerns and mitigate them in the design process;
- Consult with those JG enterprises expected to conduct the service to gauge their views as to implementation issues;
- Consult with local government staff, other relevant authorities and community groups.

This process would culminate in the preparation of a service specification document setting out what service was to be performed, how it would be performed, what resources were needed, what authorisations were required from various authorities as it was performed, monitoring and reporting standards, implementation time frames, priority, etc...

The service specification document would be tabled at a local government council meeting and the zone officer responsible for its development would provide additional information and undertakings as requested. Councillors would receive submissions from the community and an appraisal of the proposal by their own staff. Council would then either support or reject the proposal, with the possibility of recommending modifications and re-submission.

Once approved, the zone office would coordinate the allocation of the approved service request to one or several JG enterprises, which would negotiate a budget and implementation plan with the zone office and commence implementation. Operations managers within local JG enterprises would liaise to coordinate joint projects, and would organise the formation and provisioning of appropriate teams of supervised workers to perform the service. Reports on the achievement of service objectives would be forwarded to the zone office as required by the service specification documentation.

Job Guarantee Enterprise

Figure 13.2 sketches the administrative relationships within a JG Enterprise. These enterprises would perform the role of employer within the JG system, delivering a range of functionally related services specified in authorising documents prepared at the zone office level and approved by local government. We presume here that these enterprises are public sector institutions, but they may also be non-profit agencies contracted under a system of grants, as were the SkillShare providers. Recent experiments in contracted employment service provision have consistently failed to ensure reliable standards of quality service provision,

since the purchaser/provider model limits information flow, and observation and control on a day to day basis (see also Marston and McDonald, 2006).

The size and distribution of JG Enterprises would depend on determining an optimal degree of population and geographical coverage. The functional specialisation of enterprises (for example, into human services, environmental, public works, etc...) would not limit the range or scope of services provided by the JG as teams from different enterprises could be engaged simultaneously on the one project. At the same time functional specialisation would encourage:

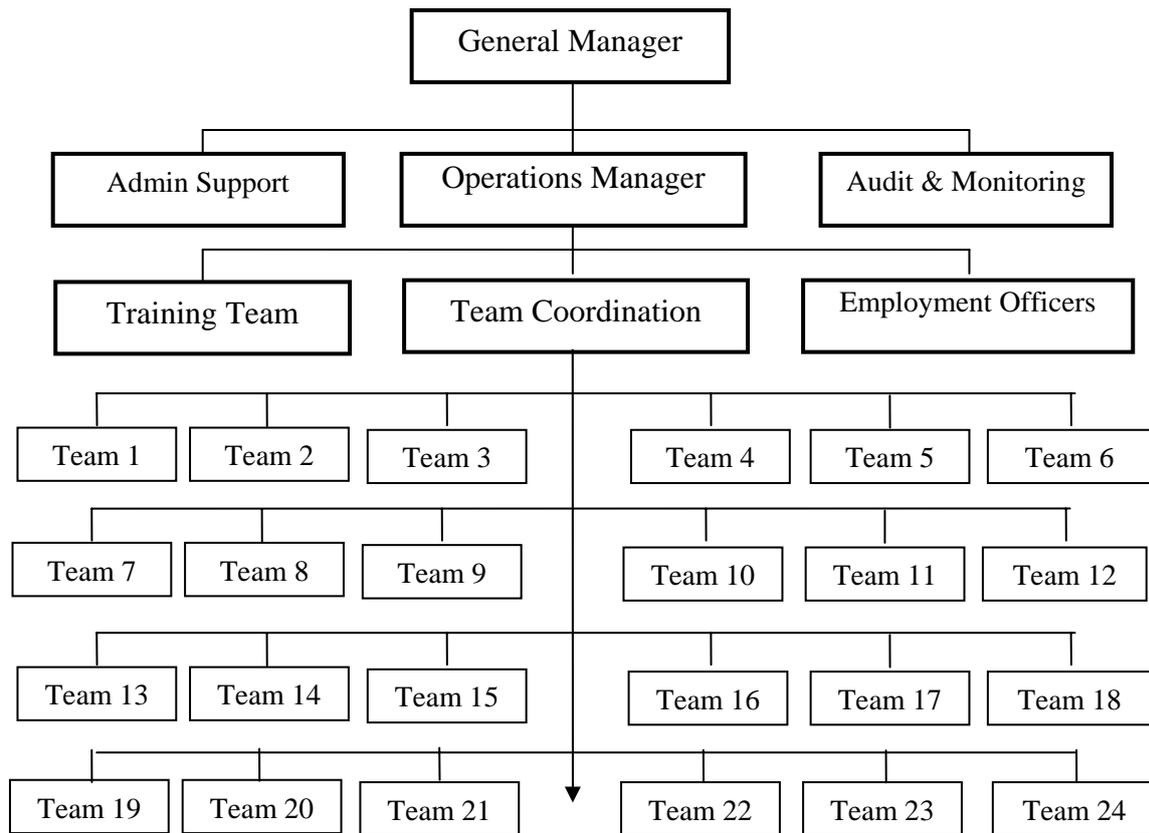
- Formation of expertise throughout the enterprise, pertinent to the delivery of specific occupational/industrial undertakings, which could include training expertise, supervision experience, technical skills, established community liaison links, etc...;
- Development of appropriate capital equipment, inventories and maintenance expertise.

Each JG Enterprise would:

- Assist zone office staff to design and formulate budgets for new and ongoing services;
- Recruit and train supervisors of JG workers;
- Organise premises, equipment and materials necessary to implement approved services;
- Assess suitability of prospective JG workers, provide orientation and allocate them to appropriate teams;
- Conduct formal and experiential vocational training;
- Supervise and inspect work undertaken;
- Provide all standard HR functions including processing of timesheets, staff counselling and performance appraisal;
- Conduct an ongoing skills audit of JG workers to provide data for regional labour market analysis, and to inform supervision arrangements, job design and vocational training requirements;
- Liaise with the local PES to convey information of mainstream job vacancies to JG workers, advise PES staff and clients of JG work opportunities, facilitate brokerage (provision of interview facilities, performance reports, etc...) between employers and JG workers;
- Contribute to the development of best practice among JG services within a national network, for example, JG human services enterprise network; JG environmental enterprise network; JG public works enterprise network; JG cultural services enterprise network; JG remote and regional services enterprise network.

The growth and contraction required of the JG in response to changes in private sector demand for labour will be facilitated by a system of discrete modularisation. JG enterprises will organise workers into teams that can be flexibly expanded, contracted, amalgamated, disbanded and reconfigured in response to fluctuations in the numbers of people seeking JG work, their particular skills, and the services the enterprise is engaged in delivering. As teams are discontinued, their supervisors may themselves become JG workers in other teams until they obtain other employment.

Figure 13.2 A stylised Job Guarantee Enterprise



At its core, a (large) model JG Enterprise would consist of:

- A general manager, with overall responsibility for the enterprise;
- Administrative staff, primarily for record keeping and processing timesheets;
- Audit and monitoring staff to ensure the enterprise operates appropriately;
- An operations manager who oversees:
 - A Team Coordination and Support unit that liaises with team supervisors on a daily basis to negotiate commencement arrangements for new workers, schedule access to equipment, procure materials, respond to emergencies, provide backup supervisors, coordinate the allocation of teams to different services and restructure teams;
 - Employment officers responsible for assessing suitability of applicants for work within the enterprise, recommending their allocation to appropriate teams, recommending modifications in job design to accommodate different skill formation objectives or special needs, liaison with PES;
- Training staff responsible for:
 - coordinating the on-going skills audit process;
 - design and delivery of orientation and vocational training for JG workers;
 - training of JG supervisors;
 - coordinating access to external training services for JG workers, that is, TAFE.

At the next level are multiple JG Enterprise Teams comprising:

- JG Supervisors (JGS);
- JG Workers (JGW).

Each JG worker would work in a team under the direction of a JG Supervisor. Teams would vary in size according to the nature of the work and the supervision needs of the workers. Members of teams may work separately or collectively, in the same workplace or different workplaces to one another, the basis of their categorisation as a team being only that they share the same supervisor.

These teams would be flexibly increased and decreased in number, expanded and shrunk in size, and combined or disintegrated under the direction of the Operations Manager according to the number of people employed by the enterprise, their skills and supervision needs, and the nature of the services the enterprise is undertaking to deliver.

Some services may be provided by multiple teams, even from different JG Enterprises. Scope would also exist for teams to be established as enclaves within public institutions such as schools, hospitals, local government other community agencies, while remaining employees of the JG enterprise. These arrangements would need to satisfy concerns over any potential displacement effects.

The JG Enterprise Team Supervisor will:

- Operate under the direction of the JG Team Coordination Unit;
- Direct workers under their authority to deliver services according to its local government approved specifications;
- Coordinate with other team supervisors on joint projects;
- Organise equipment and materials via the Team Coordination Unit;
- Orientate new workers;
- Record and report attendance of JG workers;
- Allocate work appropriate to each JG worker's abilities;
- Provide on-the-job training and personal development;
- Facilitate a safe, secure, equitable, positive working environment ;
- Facilitate PES vacancy circulation and facilitate brokerage activity by providing assessment of workers abilities to PES and prospective employers;
- Facilitate skills audits under the direction of the Training unit.

13.6.2 Employment conditions

All JG workers would receive the minimum federal award wage and all conditions of employment pertaining to permanent employees. This will include all accrued holiday entitlements, superannuation, workers compensation coverage, and other allowances relevant to the maintenance of work clothing and such as allowed under the award.

Commonwealth guidelines on occupational health and safety best practice would be mandatory in all JG enterprises. Industry standard site facilities would be provided in all work areas. Membership of a relevant union would be optional and access to union representatives and literature fully supported. The appeals process that pertains to all Commonwealth employees would address concerns of discriminatory or unfair treatment.

13.6.3 Conflict resolution

Team supervisors would be trained and professionally supported on the job to resolve conflicts between workers and between themselves and workers. Should conflicts remain unresolved to the satisfaction of either worker or supervisor, a range of graduated options would be available to both. These will include:

- Conciliation/counselling by another enterprise supervisor;
- Conciliation/counselling by a zone office counsellor;
- Negotiated job redesign;
- Tandem supervision (in situations where the supervisor may require mentoring);
- Unilateral or mutually agreed re-assignment to alternate teams.

Where the conduct of a JG worker is deemed inappropriate on the basis of safety or other valid reasons, and job redesign or transfer to an alternate team does not resolve the situation, (despite JG Enterprises potentially having 100 teams to choose between), the operational manager may approve a more extensive assessment of the JG worker's optimal vocational setting, and for participation in this process to be considered employment within the JG Enterprise. The assessment may result in a position being tailor-made to accommodate any special need that is identified, including those pertaining to cultural norms or ethical beliefs.

Should the JG worker refuse to cooperate in this assessment process, and in the judgement of the operational manager cannot be accommodated within the JG Enterprise, they will be discharged and notification forwarded to the PES and Regional Office.

They will be entitled to apply to the PES office for a conditional discretionary interim relief payment (at a pension or benefit rate) subject to a work test: that is, when this person is offered suitable employment the benefit is discontinued. The PES may also propose that the (now unemployed) person undertake a more extensive vocational assessment to determine their optimal vocational setting, or their suitability for alternative income support. This may result in referral to a different JG enterprise, and/or the creation of a tailored position.

Should the person refuse to participate in this assessment process, the PES will have the discretion to exercise any or all of these options:

- Declare the person unfit for referral to the JG or other employment pending further assessment (notifying the JG of the exclusion);
- Decide whether to continue or discontinue their interim income support;
- Refer the person to employment either within the JG or elsewhere, refusal of which will terminate their income support;
- Refer the person to social security (for example, Centrelink) for an alternate benefit;
- Request that the Regional Office investigate the conduct of the JG enterprise in relation to the client.

In general we adopt the position that most unemployed workers are keen to work and are unemployed because there is a deficiency in jobs available to them. We do not consider a large proportion of workers would adopt strategic behaviour to avoid working in the JG while they searched for higher paying job opportunities.

When there are reasonable grounds to question the conduct of a team supervisor, the operational manager of the JG enterprise will order a review to be conducted by the Team Coordination Unit or Audit Unit, depending on the nature of the concern. They may choose to

relieve the supervisor of their duties or assign a mentor to work with them while the review is underway. On the basis of this review the operational manager may choose to:

- Reinstatement the supervisor;
- Re-assign them to another team;
- Suspend them from supervision for a period;
- Dismiss them from supervision permanently;
- Refer the case to the police.

Care would need to be taken in relation to the re-integration of the supervisor within the JG system, either as a supervisor or a JG worker. Any appeals processes that pertain to any Commonwealth employee would apply to JG workers and supervisory staff.

13.6.4 Managing flexible entry and exit

An initial consultation between the aspiring JG worker and officials at the regional zone office would serve to assign the worker to a suitable JG enterprise based on past work history, worker preferences, transport options and other considerations. The first time a person is employed with a given JG Enterprise they would undertake an orientation and assessment process, to ensure they know:

- How the system operates;
- Occupational Health and Safety;
- Personal conduct requirements and other rules of the JG enterprise;
- Who they can go to for advice and support;
- What work and training opportunities are available within the enterprise;

Having completed this process once, should they leave and return to the enterprise within a prescribed period (for example, 12 months) their re-registration and re-commencement of duties should take a matter of minutes.

The possibility of frequent, contingent absences is a significant design issue for the JG. Being a buffer stock of available workers to the mainstream labour market, even the steadiest and most reliable workers will frequently be absent to attend job interviews, or leave at short notice to take up mainstream employment. Additionally, some people may choose to work a 35 hour week, some may wish to work on a permanent part time basis (for example, on specific days of the week), and some may wish to come and go depending on the availability of other work or other contingent responsibilities.

The team structure of the JG Enterprise is intended to accommodate this need for flexibility, by:

- Establishing different attendance obligations for teams relevant to the nature of the services being delivered. Casual teams would provide a basic job to anyone at anytime (between core hours, for example, 6am to 6pm) and involve work that can be started and stopped without notice. Permanent teams would require greater specificity as to when people intend to attend, and sufficient notice of non-attendance to facilitate rostering, which if transgressed excessively may require transfer to a more casual team. The more permanent teams would be able to offer workers greater responsibility, autonomy and control over the work they do;

- Designing useful jobs within each team that can be put aside and picked up later without difficulty, so that relief staff are available to meet contingencies, or using more than one person to deliver a service that would benefit from continuity (eg., two people take an infirm person shopping).

13.6.5 Public Employment Service (PES)

A public sector labour market broker that was closely integrated with the JG could constitute the best employment service Australian industry has ever known.

The JG provides a unique opportunity to develop a detailed appreciation of worker's skills and abilities through observable performance. SkillShare was favoured by many employers as suppliers of staff because they were able to report on observed skills and behaviours of their participants, as opposed to relying on claims in references and resumes that may or may not be accurate. With appropriate privacy protocols, interaction between JG and the PES would provide up to date information on the skills and abilities of job seekers to enhance matching effectiveness. We consider this interaction would be most efficient if the PES and JG are fully located within branches of the same Commonwealth department.

With a fully operational JG system the role of the PES changes markedly from that of managing a demoralised long term unemployed and under-employed population with a punitive activity testing regime, to providing a securely employed population with information and access to improved private and public sector employment opportunities. This change of role dispenses with the need to link the incomes of PES agencies and staff to their propensity to punish their clientele, which was a significant reason for the marketisation of Australian employment services in 1998 (Jose and Quirk, 2002). The removal of the welfare policing role also eliminates the need to desensitise staff to the circumstances and needs of clients, currently engendered through the judgmentalism of the "mutual obligation" ideological framework and the scarcity of adequate training in counselling and assessment methods. PES staff would be highly trained in job seeker and vacancy analysis and remedial intervention.

The relative simplicity of a work-test in which unemployment benefits cease on the commencement date of a JG job or the rejection of other valid offers of employment, compared to that of the present activity test, would also free employment service resources presently engaged in welfare administration. The PES would thus become more focused on managing labour supply, collating local labour market intelligence, receiving and circulating vacancies, facilitating communication between employers, JG workers and other job seekers, while developing greater capability in recognising barriers to employment affecting workers and workplaces and formulating remedial interventions. The Norgard formula of a highly skilled staff with sufficient autonomy to deal with employers and jobseekers creatively and flexibly offers the greatest potential for quality service delivery. Norgard called for the abandonment of welfare policing, increased staff training and infrastructure upgrading. These proposals served as a successful blueprint for the CES in the decade from the late 1970s (Norgard, 1977). A national network of local labour market authorities, such as the CES, would seem the most practical structure.

13.7 Local government and community consultation forums

13.7.1 The role of local government

The viability of the JG will rest on its ability to retain strong public support, which will rapidly evaporate if it is perceived to be corrupt or mismanaged, or fails to achieve its macroeconomic aims. Its survival will depend on its capacity to locate unmet need and

recognise opportunities to improve the quality of local community life, which will require acute sensitivity to the views of the most disengaged and powerless groups in society. A highly transparent and responsive administration will be less inclined to countenance any unethical or corrupt practices.

Local government has a significant role to play in the administration of the JG due to its local democratic authority and its proximity to the community and environmental issues that the JG would seek to address. While the burden of preparing the specifications of a new service would rest with Commonwealth staff located at a nearby zone office, local government staff would need to be intimately involved in the process because the legal authorisation for the conduct of a specific JG service, (for example, a weed eradication program, a shopping support service for the infirm; a carer respite service, etc...) will rest with local government. Council meetings would be able to withhold approval pending supply of further information or modifications being made to the plan. By this arrangement, local government will have the strategic power to impose standards of service performance and responsiveness to local need, while service scale, including its withdrawal, will depend on the Commonwealth's assessment of how best to achieve its full employment and price stability objectives. Both tiers of government will have an interest in preserving a harmonious relationship.

Once a specified service has been approved, the responsible zone officer would allocate the various components of the service to the appropriate JG enterprises, acknowledging that some services will involve more than one enterprise. For example, a park restoration project may entail historical research for the provision of tourist information, public works to be undertaken in the form of installation of picnic tables or safety rails and environmental work in terms of recognizing and removing non native fauna and flora. JG enterprises would be subject to audit by both Commonwealth and Local Government to ensure their compliance with approved service specifications and other regulations.

13.7.2 Community Consultation Forum

Public empowerment in relation to the JG's decision makers will maximise their accountability and sensitivity to community need. As a further public accountability measure, a representative of local government (a councillor or council nominee) would be the *ex-officio* chair of a regular Community Consultation Forum in which staff from the JG zone office and responsible officers of each JG enterprise, and the PES, would be mandated to attend and respond to questions, criticisms and suggestions from the public. There would be mandatory and non-mandatory agenda items. The minutes to these forums, and reports on action in response to undertakings previously given would be tabled at local government council meetings and made available on line. These forums could be one of many avenues whereby the general public would submit ideas for JG services, and receive explanations as to how and why their ideas were or were not being implemented.

13.8 Transformation from the Job Network/Newstart system to a Job Guarantee system

A large amount of the present employment services/welfare policing structure of the Job Network and Centrelink would become redundant under this proposed JG model. The JG eliminates the need for an army of employment service staff to enforce activity test compliance, since the question of welfare entitlement would be determined by a simple work test. This also eliminates the need to tie the economic security of employment service staff to their propensity to impose punitive compliance measures on unemployed people, which we contend was a significant motivation for adopting a purchaser/provider model. As discussed

in Chapter 6 there is little evidence that purchaser/provider arrangements have delivered a quality employment service.

The existing DEWR regional office network would easily accommodate the proposed JG zone staff, particularly with the re-assignment of contract managers and other staff engaged directly and indirectly in activity test administration. Contract management becomes largely unnecessary with the abandonment of purchaser/provider arrangements between the department and its public outlets. Compliance programs such as 'Work for the Dole' and Job Search training (in various forms) would clearly be redundant under the JG.

In terms of how the implementation process could proceed, a logical process would entail:

- Passage of enabling legislation;
- Memoranda of agreement between Commonwealth and Local Governments;
- Central Office branches established;
- JG and PES Zone staff established;
- Community Consultation Forums established;
- Progressive establishment of JG enterprises;
- PES agencies established and operate concurrently with the Job Network for a transition period;
- Progressive replacement of Newstart activity test requirements with a work test;
- Through a process of JG enterprises steadily creating new teams, full employment would be achieved gradually, perhaps over several years.

13.9 Conceptual variations

The model thus far outlined is not the only way that a JG could be implemented. We offer it to illustrate one possible application implied by JG macroeconomic principles, and to provide examples of institutional arrangements that could diminish the risk of foreseeable problems under such a scheme. Considering the variation in past job creation approaches (both nationally and internationally), modern developments in technology, and public administration, and considering the scale envisaged for the JG, the optimal design for such a scheme will emerge from further research and development and public consultation. To illustrate this point, this section canvasses some other possible arrangements and modes of delivery that may be considered appropriate depending on the political and economic environment in which the scheme is established.

13.9.1 Social Equity Commission

A JG scheme has been developed by the Indian Government, which was largely driven by a body empowered to conduct research and submit legislation to parliament with the objective of securing greater social equity. For example, the commission paved the way for Right to Information legislation, minimum health care provision and the National Rural Employment Guarantee Act 2005 (NCMP, 2004). Given that Australia has a Productivity Commission with powers to audit the economic efficiency of public policy, perhaps a commission of similar standing could exist to audit the social equity of public policy. It may then be appropriate for this body to maintain a permanent independent ombudsman/auditor/advisory role, to the JG system.

13.9.2 Integration within a regional economic development system

The version of a JG we have illustrated has potential as an instrument for facilitating regional and sectoral restructuring, by providing an employment vehicle to preserve communities and undertake necessary preliminary work during transitions between a declining or unsustainable industry and a more (economically and environmentally) sustainable replacement. These transition processes require research, consultation, planning, and coordination through various levels of government and democratic engagement with the broader community, justifying the creation of a specific agency to manage the process. Consequently, the JG could be an arm of such an agency and thus might sensibly be operated under its auspices.

13.9.3 Direct provision of the JG through local government

The illustration model of the JG retains the financial and day-to-day operational responsibility for the scheme entirely with the Commonwealth, and utilises the democratic authority of local government as an adjudicator of local interests and concerns over how JG services are planned and delivered through several mechanisms:

1. There is a requirement that local government has a veto over the specifications of any service proposed to be conducted under the JG in its LGA. This would oblige those responsible for developing these proposals to thoroughly consult with local government staff during their development;
2. Local government representatives are the *ex-officio* chairs of the Community Consultation Forum in which the Commonwealth-employed local managers of the scheme are accountable to the public;
3. The Community Consultation Forum minutes and reports will be tabled in council for the information of councillors and residents.

An alternative is to locate the scheme more fully within local government, through the allocation of Commonwealth funds tied to a set of specified performance criteria. The provision of the JG would thus be made a permanent service of local government, alongside the provision of libraries, garbage collection and so forth. JG Enterprises could be local government agencies. Effective mechanisms for preventing substitution and displacement effects would need to be devised in order to preserve the effectiveness of the JG as an instrument of price stability and full employment. These effects were reported by Balkenhol (1981: 433) as becoming more pronounced in direct job creation programs of longer duration, which is relevant here because the JG is not time-limited.

13.9.4 Purchaser/provider models

Australia has significant experience in the outsourcing of government business, including the contracting of private and community based enterprises to deliver employment services to employers and jobseekers. A JG System may be possible under such arrangements, although the track record of purchaser/provider arrangements, including Public Private Partnerships, do not recommend them for the implementation phase.

The implementation of a program with the scope and scale of the JG would need to proceed along lines where day-to-day, micro-managed adjustments were possible, informed by a systematic and open pooling of information on problems and solutions encountered all across the country. Any impediments to communication, any reluctance to share concerns or ideas for commercial or legal reasons (for example) could do monumental harm to people and to public support for the program. Comparing different ownership forms within the Job Network, Considine (1999: 201) reports:

Networking across organisations is minimal and agencies are deeply suspicious of one another's motives. Government officials attend most meetings overall, but community agencies put greatest effort into external, non-government contacts. Firms mostly network internally, relying upon in-house collaborations inside a multidimensional employment service. Government case managers have the best overall performance, are the most reliable, and are the most likely to try to implement more difficult policy objectives such as sanctioning and care for special populations.

The superior performance of the public sector in terms of investing in staff skill formation is also extremely significant to the establishment of so substantial a labour market initiative as that which is proposed. Contractual and competitive boundaries to information-sharing need to be minimised if the unchartered territory of a JG full employment society is to be effectively navigated.

In the case of employment services, proponents of market-based methods of service delivery claim services are delivered at lower cost, while opponents claim that cost savings arise through either jettisoning services or compromising quality. There is no consensus.

However, the option would remain that in time, outsourcing of all or some elements of the program could be viable. This should only be considered once the institution was sufficiently established, and its operational parameters were clearly understood, with democratic accountability mechanisms having proved to be sufficiently effective. We do not recommend this option though.

13.9.5 Minimalist implementation

Another way of approaching the issue of implementing the JG is to allocate aspects of its delivery to existing institutional structures. Table 14.2 illustrates one way in which this may be done. Implementing the JG by converting old parts of the bureaucracy into new organisations with new missions (as opposed to creating everything from scratch) would need to address difficulties of changing existing organisational cultures (Arellano-Gault 2000). Developing a new culture in the administrative and executive machinery of the JG would be a priority to avoid transferring extant organisational culture and practices which might corrupt and overwhelm the new JG mission.

Table 13.2 A minimalist implementation approach

DEEWR	JG Broker	JG Employer	Training Provider	Job Network Members
<p>Evaluate proposals and determine the number and occupational composition of JG jobs for each area taking into account the level of unemployment, local labour market and community needs.</p> <p>Assess potential JG brokers:</p> <ul style="list-style-type: none"> ▪ Ability to organise and oversee placements in employment and formal training; ▪ Ability to liaise with JG employers, Job Network members, training organisations; ▪ Ability to manage funds, report to DEWR and monitor performance of JG employees in both the on the job and formal training; <p>Oversight contracts with Brokers:</p> <ul style="list-style-type: none"> ▪ Provide funding to cover Broker’s fees, wages, superannuation, leave entitlements, administration, supervision, workers compensation, materials and equipment, formal training fees and essential books and equipment; ▪ Evaluate performance. 	<p>Accept referrals from JN and place jobseekers in JG positions.</p> <p>Select suitable JG employers ensuring that JG jobs are additional to the normal workforce and employers are capable of supervising and providing training and complying with OH&S regulations.</p> <p>Organise appropriate off-the-job training.</p> <p>Enter employment relationship with JG employees:</p> <ul style="list-style-type: none"> – Develop plan describing the training to be provided, both on and off the job, and the duties to be performed in the position; – Supervise placement ensuring appropriate OH&S standards, supervision and OTJ training by employer; – Maintain employee records and pay wages. <p>Provide funding for supervision, equipment and materials to JG employers.</p> <p>Provide commencement, termination and financial reports to DEWR.</p> <p>Provide information on JG opportunities to Job Network.</p>	<p>Provide employment in jobs that benefit the community and JG workers providing appropriate supervision, training and OH&S standards.</p> <p>Release employees for formal training.</p> <p>Sign timesheets and forward to JG Brokers to initiate payment of employee wages.</p> <p>Liaise with JG Brokers.</p>	<p>Establish and conduct accredited training courses for JG employees to JG Broker’s specifications.</p> <p>Provide additional tutorial assistance or counselling to trainees on a needs basis.</p> <p>Maintain attendance records and report to JG Brokers.</p> <p>Evaluate training outcomes.</p>	<p>Refer jobseekers to JG Brokers for placement in JG jobs.</p> <p>Continue to match to available jobs.</p>

13.10 Reactions of Job Network staff to the Job Guarantee proposal

The second function of the focus groups conducted with Job Network staff was to seek reactions to, comments and suggestions on, the JG proposal from staff currently engaged in employment services and who would be likely to be involved in implementation of the JG (see Chapter 6 for more detail on the focus groups).

The concept and operation of the JG was outlined at the focus groups and then the following questions were displayed for general discussion:

- Would the availability of a program such as the JG support the aims of the Job Network?
- How could the JG program interact with the Job Network?
- What considerations would need to be taken into account in implementing such a strategy?

There was wide-ranging discussion in all focus groups and numerous questions to clarify how the JG would operate and how it would interface with the income support system and Job Network. Several issues were identified as being crucial to successful implementation of such a scheme. The issue of additionality was raised by two groups, with participants in one group strongly voicing reservations about how the scheme could ensure that there was no substitution of existing employees. The following are indicative comments:

To put it in a nutshell, my only concern is the other workforce, the workforce that is out there at the moment. ... There is potential for substitution.

[T]hat's where you've got the difficulty of taking jobs from people who are already doing the job now.

The issue of ensuring additionality in the design of the JG was explained (see Section 13.5.3). In the second group one participant commented that they felt the fact that the model dealt with additionality was 'really important' and there was no further discussion of the issue. Additionality was not raised by the third group.

Another group spent a considerable amount of time discussing whether the JG was suitable for all clients and the majority expressed the view that for job seekers with severe employment barriers such as drug and alcohol dependency it would be necessary to address these issues prior to placing the person with a JG employer and suggested that the Personal Support Programme would be a suitable alternative until the person was job ready.

The fact that JG jobs were paid employment with the status of a real job was enthusiastically welcomed by many participants who envisaged that the JG would counteract the costs of unemployment discussed in Chapter 3. Having a real job was recognised as an essential component for full participation in economic and social life, for maintaining self-esteem, and providing a positive role model for children. Moreover, the ongoing nature of employment under the JG was seen as a positive component. Indicative comments included:

I like the concept; its positive...develops dignity and self-respect and then helps to preserve it. It develops self-worth and achievement; it has got a skills development underpinning to it as well. I also like that it puts people into a real continuum.

emphasis needs to be put on the ancillary benefits; the role model for children, less crime, drug and alcohol, suicide rates etc...

The JG for it to be successful would have to be valued by the community and actually the people who are getting involved in it and it is seen as a way of being able to, as a

worker: “that my labour is valued; I’m paid a living; I’m paid a basic wage but I’m also being given the opportunity to improve my situation”.

The inclusion of a strong training component in the JG model was commented on by all focus groups since it addressed many of the concerns raised earlier in the sessions regarding lack of training opportunities for clients through the Jobseeker Account or Work for the Dole (see Chapter 6. Skill enhancement of the labour force through the training component would deliver efficiency benefits by supplying skilled labour to meet employer needs. When combined with the labour market research and a forecasting function proposed as part of the JG approach to skill development, many participants viewed the proposal as a marked improvement to the current situation. One participant commented on how skilled JG workers could meet existing industry needs:

We’ve got a big horticultural company locally that can’t get enough workers and trained people or people with the right attitude and capabilities. If there was a JG and there was a project at the community nursery then that employer can come and have a look and say “Yep, I’ve got a job here, you know, you 5, or in fact, you 20 or you 100.

If they are on the JG programme they’re up and running already. They are in the system, they’re contributing, they’ve got the skills and they are in that mode so therefore it’s a lot easier to transfer that individual to the private sector, than where they are now.

The potential for the JG to facilitate labour market planning and provide training opportunities prior to major new employment expansion was recognised. As participants noted:

Well you can actually put something in place a year before a large infrastructure project is undertaken ... accessing those jobs when they come on line.

You could take advantage of growth spurts more easily.

A major issue that was identified was the necessity to involve employers interested in the JG and the benefits that it could provide in terms of increasing the supply of skilled labour. Two roles were identified for business:

1. It was suggested that employer representations to government to lobby for implementation of the JG would be more successful than if the employment providers themselves were the main lobbyists;
2. The JG should establish and maintain strong links to local employers, anticipate future skill needs and ensure that employers maintained positive perceptions of JG workers and their abilities. In this way JG workers could progress to vacancies in the private sector as they became available.

One participant suggested:

The Business Council of Australia; get them on side. Get them saying: “We can’t get workers. You need to be putting more money into the system because we can’t get workers”.... We’ve got to get the employers willing to see that its not a Work for the Dole person because Work for the Dole has no status for our clients now in terms of getting into work...so if they’re a JG person then there’s got to be some status and recognition from employers so I think the employer link and the industry body link is critical for getting the government on side but also you know, making it work on the ground.

There were several other benefits of the JG identified by the focus groups. One participant commented that the JG would be an effective mechanism to increase the labour supply by

absorbing marginally attached workers. In September 2007 there were 845,000 people outside the labour force but with marginal attachment to the labour force (ABS, 2008c). These included 67,100 people who were actively looking for work but not available to start work in the reference week, and 778,000 people who wanted to work and were available to commence work within four weeks but were not actively looking for work. Focus group participants identified this group as potential future labour supply especially under a JG scheme that guaranteed employment to all people wanting to work. One participant commented:

So many more people will become part of the labour market because there is an incentive. There is the ability in terms of skill shortage to actually tap into those workers that we're not tapping into.

The fact that the JG model included supervision was appreciated by many of the participants, especially those who identified lack of supervision as a major problem with other programmes such as CDEP and Work for the Dole. One participant commented:

I love the fact that the supervision was in that model. They have made it really strong. ...I think there's enough experience around with people that have seen both the good and the bad from the CDEP situations to be able to see that this model doesn't make the same mistakes.

In one focus group there was a lengthy discussion regarding the problems associated with low labour demand and high unemployment. One participant stated that the current expectation that job seekers should be prepared to move to more buoyant labour market areas was unrealistic due to attachment to place and substantial economic and social costs.

The government answer at the moment is move the job seeker...not let's get some jobs out there. ... It's taking people out of those areas and to basically accelerate the drain away from regional areas.

When asked for an overall reaction to the JG concept as workers in the Job Network, some participants remained sceptical about the viability of the JG or the prospect of such a scheme being implemented. One participant said:

That's very nice. That's very nice in theory. It's too nice, too nice...I think It's too perfect, a perfect world...This guarantee of a job, I'm sorry I've been in the industry for a very, very long time. This thing of a guarantee of a job...at the end of the day, where does it come from?

However, as some of the comments above indicate many participants responded positively to the JG proposal. Some other positive comments included:

I'd rather be ensuring that somebody gets the JG than into Work for the Dole or coming into our office...

You wouldn't be working with the unemployed; you'd be working with the employed.

I think it's a good idea. I think it's a great idea.

I'd work there tomorrow. It would be fabulous...It's like take away Work for the Dole and you'll be paid a minimum wage and you'll get your training...I think it would be fabulous for my clients and it would be fabulous for the town.

In general, the Job Network staff who participated in the focus groups identified several benefits of the JG proposal in terms of addressing skill development, enhancing the productive capacity of the Australian labour force, encouraging greater labour market participation and providing benefits to individuals due to participation in work and receipt of the services provided by JG workers.

13.11 Conclusion

To illustrate what advocates of the JG believe is macro-economically feasible, we have provided a description of how such a system could operate in the Australian context.

The scheme is underpinned by modern monetary macroeconomic theory (see Mitchell and Muysken, 2008 for a discussion) that is applicable to flexible exchange rate economies such as Australia's where the federal government has the monopoly over currency issuance (a so-called fiat currency system). This theoretical framework addresses the known deficiencies of mainstream macroeconomic theory which is largely inapplicable to modern monetary economies. Within a modern monetary economy, the JG shows how price stability can be established and maintained without the need to render hundreds and thousands of Australian's unemployed. So instead of imposing economic hardship, social exclusion, skill-atrophy and despair of the most disadvantaged workers in Australia under a system of inflation targeting, which is unavoidable under current practices based on the prevailing macroeconomic orthodoxy, the JG achieves price stability by maintaining full employment. We all have an interest in preserving price stability, but only a privileged minority benefit from the unnecessary and barbaric practice of using chronic underutilisation of labour to do so.

Discussion of the JG proposal generates numerous questions including how to fund the scheme, how it controls inflation, how it would not undermine economic activity by drawing on resources required elsewhere in the economy, how successful would it be in addressing unemployment and how would workplace discipline be established. The answers to these questions derive from an alternate reading of how monetary systems operate, which differs from orthodox descriptions at several crucially significant points. This alternate view leads to the conclusion that under specific monetary system arrangements (which currently exist in many countries, including Australia), the degree of labour under-utilisation (unemployment, under-employment, labour force marginalisation) is entirely a question of political choice. For the past thirty years, the choice of successive governments has been to maintain a pool of Australians in a condition of poverty and social exclusion, even to publicly denigrate them, to punish unsuccessful competition for jobs and thereby engender a greater willingness in the workforce to accept conditions of employment on offer. This is a poor strategy for controlling wage inflation because it necessarily makes large numbers of people less employable, and therefore less competitive. The 500,000 Australians on activity tested unemployment benefits are not alone in needing and wanting more employment, and yet immigration is being increased to address a reported skill shortage that is fuelling inflation (Mitchell and Quirk, 2005).

Some Job Network staff who attended focus groups took some time to comprehend fully the implications of a JG for the operation of the Job Network and the labour market as well as the implications for clients. Feedback from Job Network staff indicated that the JG would provide clients with valuable employment experience, opportunities for skill enhancement and importantly, enable them to participate in economic and social activities and thereby reduce the damaging effects of unemployment that involve skill atrophy, loss of dignity and social exclusion.

In short, the JG provides a mechanism for macroeconomic stability that is superior to the current use of unemployment fluctuations, provides meaningful employment to all those seeking work and supplies socially valuable outputs that enhance the lives and opportunities for the most disadvantaged.

14 Investing in a Job Guarantee in Australia

14.1. Introduction

In this chapter we provide detailed investment estimates that would be required to run a national JG. While some readers may interpret this chapter as conducting a costing exercise, we caution against this interpretation. The nominal entries that are recorded in budget statements are not “costs” in any real sense. The real costs of the JG would be the extra resources (for example, food, capital equipment etc...) that are required to change the system from its present state to that with a JG. When we ask a question like - Can the government afford this? – We are really asking whether there are sufficient real resources to underpin the programme. The nominal outlay shown in the budget statement is an accounting entry and does not necessarily reflect the real resource investment.

In terms of fiscal policy, there are only real resource restrictions on its capacity to increase spending and hence output and employment. If there are slack resources available to purchase then a fiscal stimulus has the capacity to ensure they are fully employed. Further, in a JG scheme, the government spending to fund the JG wage would not be at market prices because by definition there is no market bid for the workers in question. The real resource costs would be the extra food, clothing and transport resources that the JG workers might consume, given that they now earn the minimum hourly wage, rather than receiving unemployment benefit, the disability support pension or no income at all. Given that the minimum wage should be aligned with community expectations of what constitutes a reasonable standard of living, the extra resources that the JG workers would consume could not be considered excessive. If there are overall real resource constraints imposed by the consumption of extra resources by JG workers, then we advocate making these resources available by redistributing from other workers. However, we do not anticipate that this latter situation would be the norm.

But with these caveats in mind and in the interests of transparency, this chapter presents a thorough assessment of the nominal investments that the Federal Government would have to make to introduce a JG in Australia.

14.2. Determining required resource outlays

14.2.1 Interviews with local government officials

As a derivative study to the national local government JG survey, interviews were conducted with relevant local government officials to allow us to more accurately assess the resource investment needed to mount a national JG.

Initially, it was planned to elicit both quantum and cost information from the national local government JG survey. For reasons outlined in Chapter 7, questions relating to costing of potential jobs were eliminated as a result of analysis that was undertaken in the pre-testing phase.

The alternative strategy was to engage some experts from a few local governments in in-depth face-to-face interviews to more fully probe the costing issues.

These interviews gave us information about:

- Annual labour costs associated with employment of a worker on the Federal Minimum Wage. We were able to get breakdowns for “typical JG jobs” by:
 - Wages;
 - Leave entitlements;
 - Superannuation;
 - Workers compensation;
 - All other direct costs.
- How many workers are usually required to form a work team in areas such as road work;
- The resource outlays necessary to provide the standard protective clothing or equipment per person in an array of JG-type jobs;
- The resource outlays necessary to provide standard on the job training (including OH&S and induction training) per person;
- The types of formal training that could be combined with work experience and on the job training to increase the skill level and employment prospects of workers in these jobs;
- The typical ratio of supervisory to operational staff that would be required to organise and manage these jobs;
- Any additional labour cost per supervisor that would be required;
- The resource outlays necessary to provide capital equipment that would be required to perform the typical “JG-type” jobs;
- Information about typical purchase or rental costs of standard equipment, the annual cost of depreciation and insurance premiums to furnish the capital equipment, and the rates of utilisation of the equipment;
- The average costs of raw materials per annum consumed in the typical “JG-type” jobs; and
- Any extra administrative and operational costs that might be involved (travel, rent, cleaning, utility charges, payroll and administration, strategic management and strategic planning, purchasing etc...).

14.2.2 International experience

We also conducted a literature survey to ascertain realistic parameters for capital and training costs.

In the early 1990s, the city of Berlin linked an ambitious energy saving policy with the need to generate work for unemployed engineers. A consortium comprising the Berlin Environmental Ministry, the Ministry of Labour, local government authorities and environmental interest groups established what became known as the Energy Team project. It aimed to create energy saving schemes by refurbishing public

buildings. The project also had the potential to train and employ unemployed engineers.

All projects were appraised according to their job creation and energy saving potential. At least 20 per cent of the work week was devoted to vocational training.

The estimated share of 73 per cent went towards labour costs and 23 per cent towards material and management costs (Senatsverwaltung für Stadtentwicklung und Umweltschutz, 1995).

Subbarao (1997: 681) analysed a number of public works-oriented, labour intensive job creation schemes in poorer countries and concluded that in ‘most programmes, the share of wages to total cost of programmes varied between 0.3 to 0.6 ... In most road construction activities, the share of wages to total cost ranged between 0.4 to 0.6.’

Frey (2008: 148) evaluated public works programmes in Hungary. Initially the programmes were focused ‘on manual jobs in maintenance and provision of community services that required a low education level or none at all.’ However, the scheme was broadened to include ‘not only core services but also optional council services’, which demanded more skill. Analysing the overall cost of the scheme, Frey (2008: 149) reported a wage to non-wage split per job of 66/34.

Piggott and Chapman (1995) analysed the Job Compact in Australia which was a suite of labour market programmes introduced after the 1991 recession to deal with the burgeoning unemployment. While not a JG-type scheme, one element of the Compact did involve the New Work Opportunities public sector job creation programme for the long-term unemployed whereby an individual could be placed in government-funded community jobs concentrated in disadvantaged regional areas. Piggott and Chapman (1995) estimated that the wage/non-wage split was 72/28, which is in accordance to other international studies of labour intensive job creation schemes.

In a comparison of South African public works programmes, Haddad and Adato (2001) compute labour to non-labour cost splits averaging 12/88 for capital intensive large-scale construction projects to 86/14 to labour intensive projects. The average was 39/61.

International evidence from India (MRD, 2005) suggests that public works schemes can be run under a “labour to non-labour” expenditure ratio of no more than 1.5. Other sources suggest a 60/40 rule where 60 percent of total costs are consumed by wages and the remainder being non-wage costs.

14.3. Job Guarantee employment types

From the interviews with local government finance officers, the results of the national local government JG survey, and the information derived from the literature review we devised 3 stylised JG employment categories, differentiated by their labour intensity and wage to non-wage cost rules:

- Low capital intensity – 75/25 rule;
- Medium capital intensity – 60/40 rule; and
- High capital intensity – 50/50 rule.

So a 75/25 rule says that 75 per cent of total costs will be absorbed by wages with the remaining 25 being classified as “non-labour costs”. All other costs are included in

non-labour costs, which take into account the wages of supervisors, administrative costs, materials used and capital depreciation.

Table 14.1 Job potential by employment type

Low	Medium	High
Caretaker	Builders labourer	Bus driver
Child care worker	Environmental remediation worker	Fencer
Cleaner	Handyperson	Fire prevention
Coding clerk	Trapper	Paving/surfacing labourers
Community arts officer		Rail track worker
Community development officer		
Event organisation assistant/promotion		
Family support worker/mentor		
Gallery/museum attendant		
Garden labourer		
General clerk		
Health promotions officer		
Indigenous education worker		
Inspector/regulatory officer		
Interviewer		
Kitchen hand/food preparation assistant		
Library assistant		
Personal care assistant/home support worker		
Railway assistant		
Refuge support worker		
Sales assistant		
Security officer		
Sports development assistant		
Teachers aide		
Tourist information		
Trekking guide/bush walking guide		
Youth support worker		

Table 14.1 summarises the types of jobs in community development that were identified in the national local government JG survey arranged in terms of degrees of capital intensity (low, medium and high), as defined above.

Table 14.2 shows the percentage distribution of potential JG employment by community development category and capital intensity. From the national local government JG survey, the majority of jobs identified as being suitable for low skill workers were in the low capital intensity areas of work, although this varied across the specific need areas (transport amenity; community welfare services; public health and safety; and recreation and culture). Eighty three (83) per cent of the potential jobs identified in transport amenity (either infrastructure development or services) were in the high capital intensity class whereas 81.2 per cent of potential jobs identified in public health and safety were considered to be low in capital intensity.

Table 14.2 Percentage distribution of potential JG employment by community development category and capital intensity

Capital intensity of potential JG employment	Transport amenity % of total TA jobs	Community welfare services % of total CWS jobs	Public health and safety % of total PHS jobs	Recreation and culture % of total RC jobs	% of total potential JG jobs by intensity
Low	12.4	44.2	81.2	51.5	43.3
Medium	4.6	55.8	5.9	47.0	40.2
High	83.0	0.1	12.9	1.5	16.5
Total	100.0	100.0	100.0	100.0	100.0

Note: TA is transport amenity; CWS is community welfare services, PHS is public health and safety and RC is recreation and culture.

14.4. Current levels of labour underutilisation

In May 2008, nearly 477 thousand workers were officially unemployed out of a labour force of 11,155 thousand. Sixty six point four (66.4) per cent of the unemployed were seeking full-time employment. Part-time employees worked an average of 16.9 hours per week and full-time employees 41.7 hours per week.

We use the figure of 2 per cent for the target rate of unemployment, so that we identify full employment with a modest rate of frictional unemployment, rather than a rate of unemployment associated with stable inflation which has been considered to be politically feasible.

We argue that persistent labour underutilisation led to skill atrophy and subsequently skill shortages appeared to intensify, as labour utilisation increased. As a consequence, many researchers conflate the measurement of structural unemployment with demand deficient unemployment at times of high unemployment, so that the sustainable rate of unemployment is considered to be somewhat higher. The solution to high unemployment is job creation and associated on-the-job training, rather than an endless series of training programmes that are disconnected from current job vacancies. The creation of such a large number of jobs and the acquisition of the requisite level of skill by the newly employed will take time, but our calculations ignore this transition process to full employment.

The aggregate labour force participation rate is pro-cyclical, so that an estimate of hidden unemployment (HU) must be included in the computation of the additional jobs required to achieve the target unemployment rate.

The CoffEE Labour Market Indicators (CLMI) reveal that the increase in participation associated with the target unemployment rate of 2 per cent was consistent with a level of hidden unemployment (HU) in May 2008 of approximately 145.8 thousand, of whom 99.5 thousand are seeking full-time employment. Thus to achieve an unemployment rate of 2 per cent requires $(NJ) = 0.98(LF + HU) - N = 396.8$ thousand and LF, N denote the prevailing labour force and employment, respectively.

The bracketed term represents the labour force associated with 2 per cent unemployment. We assume that the 2 per cent of the labour force who are unemployed are spread *pro rata* across the current official unemployed, a high percentage of whom are in receipt of the Newstart Allowance, and also the HU (associated with the May 2008 unemployment rate).

Following the Welfare to Work legislation which came into effect in July 2006, recipients of the Disability Support Pension who could work at least 15 hours a week were shifted onto the Newstart Allowance. It was anticipated that in the following 3 years 75,700 DSP recipients would be affected of whom 17,800 would make the transition in 2008/09. Consequently we use this latter figure to indicate the number of the hidden unemployed who are receiving DSP. For simplicity we assume that these former DSP recipients would choose to work part-time. This represents the lowest impact of DSP recipients on government outlays and receipts. (The alternative is to assume that DSP recipients are not part of HU and would be full-time under a Job Guarantee).

In total 327.1 thousand full time equivalent jobs would need to be created to achieve a 2 per cent rate of unemployment, taking into account the hidden unemployed and the official unemployed. This is based on the assumption that part-time employees undertake 17.5 hours of work per week, namely 50% of full-time hours, which is marginally above average hours worked by part-time employees.¹

Finally additional hours of work must be created for the underemployed. The ABS publication Underemployed Workers (Cat. 6265.0, September 2007e) reports that 472.2 part-time workers sought an average of an extra 14.4 hours of work per week, which is equivalent to 194.2 thousand FTE workers. We consider that these figures are a reasonable representation of the labour market conditions prevailing in May 2008.

These underemployed workers are grouped across 6 ranges of hours actually worked and 4 ranges of additional hours sought. Using the mid-points of each range, we find that the implied average additional hours sought by those desiring more than 30 additional hours (an open ended range) is less than 30! Consequently we adjust downwards the other 3 figures of average additional desired hours, so that the top range is consistent with 30 additional hours. The other adjustment is to rule out individuals securing a total of more than 35 hours per week, that is current plus desired additional hours. The effect of this adjustment is to reduce the full-time equivalent additional hours to 162.4 thousand.

The difference between the level of labour underutilisation prevailing in May 2008 and this benchmark of 2 per cent unemployment defines an initial Job Guarantee pool

of 489.6 thousand full-time equivalent workers, although clearly once the policy was introduced, the stimulus to the private sector would also erode the pool. We assume that as employment expands each category of underutilised labour (except the underemployed) is reduced pro-rata, so that JG employment and induced private-sector employment is spread evenly across these categories.

14.5. Gross Domestic Product and labour productivity

Nominal Gross Domestic Product for the May quarter 2008 was \$293.4 billion. Average full-time equivalent employment was 9268.8 thousand over this period. Thus annual productivity per full-time equivalent employee was about \$111,000.

The level of foregone output associated with the prevailing level of unemployment and underemployment is proxied by a direct measure of output per worker that is in turn, multiplied by the number of additional employees.

We assume that the productivity of the newly employed full-time equivalent workers in the private sector is \$80,000, reflecting the lower skills of the unemployed and possible capital shortages resulting from the higher level of economic activity. We assume that on-costs in the private sector are 66 per cent for all the scenarios.

On the other hand, JG hires are paid the minimum wage which we set at \$28,600 for a 35 hour week, representing an hourly wage of \$15.71 that lies marginally above the current minimum wage of \$543.78 for a 38 hour week, namely \$14.31. Wage earners are assumed to have a marginal propensity to consume (MPC) of 0.8 out of changes in their disposable income, whereas profit earners have an MPC of 0.6.

14.6. Government outlays and revenue

If a JG were to be implemented, government outlays would increase through the payment of income to newly employed workers and the associated on-costs which are described in Section 14.2. We utilise current DSP and Newstart benefit rates for single individuals which are \$562.10 and \$449.30 per fortnight respectively. The income test is applied to both benefits in computing the net increase in gross income associated with taking up part-time and full-time employment in the public and private sectors. We also make allowance for the fact that of the official ABS unemployment of nearly 477 thousand, approximately 429 thousand are registered Centrelink recipients of benefits.

In addition to reducing benefit outlays, the Federal government will receive higher levels of tax receipts. The income tax scales associated with the 2008/09 financial year are employed. Account is also taken of the Low Income Tax Offset which has a maximum value of \$1,200, which makes the effective tax free threshold for low income earners of \$14,000.² The 15 per cent tax rate then operates up to \$34,000 and then 30 per cent. The corporate tax rate is set at 30 per cent.

Using the table of actual and desired hours of work of the underemployed, described above, we apply the income tax and LITO rates for each of the 24 categories to capture the impact of hours already worked on additional net tax paid.

In addition, we measure indirect taxes by noting that the ratio of GDP at factor cost to GDP at market price over the last 4 quarters was 0.8977. We do not take account of any of the likely savings in government outlays which currently are designed to address the high social costs of unemployment, notably higher crime rates and the incidence of ill-health. Also in the scenarios that we examine in Section 14.8, we do

not take account of the administrative employment which is generated by the employment of JG workers and is reflected in the non-wage costs.

14.7. Job creation requirements to reach full employment

Table 14.3 shows the basic features of the Australian labour market in May 2008 which are used to compute the required investment outlays. The data allows us to estimate that to achieve a full employment level (consistent with 2 per cent official unemployment, no hidden unemployment and no time-related underemployment), an extra 559.2 thousand jobs would be required.

Table 14.3 Basic features of the Australian labour market, May 2008

	May 2008
<u>Labour market aggregate</u>	
Labour force (000's)	11155.7
Employment (000s)	10678.7
Official unemployment (000s)	477.0
Hidden unemployment (000s)	145.8
Average full-time hours per week	41.7
Average part-time hours per week	16.9
% unemployed seeking full-time work	66.4
Average hours sought by part-time underemployed workers	11.9
Part-time seeking more hours (000s)	616.3
Full-time as a percentage of hidden unemployment	68.2
<u>Full employment requirements</u>	
Full-time jobs for official unemployed	201.8
Part-time jobs for official unemployed	102.1
Full-time jobs for Hidden unemployed	55.7
Part-time jobs non-DSP Hidden unemployed	25.9
Full-time equivalent jobs for underemployed	162.4
Part-time jobs for DSP Hidden unemployed	11.3
Total jobs required to achieve full employment (000s)	559.2

14.8. Five Scenarios

We consider 5 scenarios below to provide an indication of orders of magnitude of different forms of expenditure associated with the achievement of full employment as defined in Section 14.7. The first is associated with a private sector expansion. The remaining scenarios are based on the operation of the Job Guarantee subject to the 3

levels of capital intensity, outlined in Section 14.3, with the final scenario being associated with the combination of JG jobs outlined in Table 14.2. In all cases the capital intensity in the private sector is assumed to be medium corresponding to the 60/40 rule.

We emphasise that the operation of the Job Guarantee is based on “loose” full employment because the JG hires are paid the minimum wage, whereas an expansion initiated by the private sector or by a conventional fiscal expansion entails hiring additional workers at market wages. The measure of change in employee income in each table takes account of the loss of benefits, following employment.

Scenario 1

The first case we consider is when there is a private sector expansion of employment of nearly 560 thousand, initiated by an increase in aggregate demand which is sufficient to achieve full employment (2% unemployment).

Table 14.4 Parameters defining a private sector recovery to true full employment

Parameter	Estimated change
Δ Output (billions)	43.6
Δ Public sector output (billions)	0
Δ Private sector output (billions)	43.6
Δ Public sector employment	0
Δ Private sector employment	559.2
Δ Employee Income (billions)	15.6
Δ Profits (billions)	3.5
<u>Δ Government Outlays (\$billions)</u>	-3.1
Δ Unemployment benefits	-3.0
Δ Disability benefits	-0.1
Δ Employment expenditure	0.0
<u>Δ Government Receipts (\$billions)</u>	8.0
Δ Taxes on wages	2.5
Δ Taxes on profits	1.0
Δ Indirect taxes	4.5
Δ Net government expenditure	-\$11.2 b

Notes: Δ denotes change. Δ Employee Income denotes the increase in gross income, after adjustment for loss of Unemployment Benefit and Disability Support Pension. Output is measured at market prices.

Table 14.4 shows that if 2 per cent unemployment were to be achieved by an exclusively private sector recovery, along with the removal of all underemployment, the increase in output at market prices (that is, taking account of indirect taxes) would be approximately \$43.6 billion. This represents about 3.7 per cent of nominal annual GDP. The government reduces its outlays on DSP and unemployment benefits of \$3.1b and gains extra revenue of \$8b, comprising the increase in taxes on wages and profits and indirect taxes. In this scenario, of course, there is no JG job creation.

Scenarios 2, 3 and 4

Table 14.5 shows the results of the simulations for Scenarios 2 to 4. Scenario 2 involves the implementation of the JG with the JG jobs associated with low capital intensity that is, using the 75/25 rule (a rate of on-costs in the public and private sector of 33 per cent).

Table 14.5 Implementation of JG to achieve true full employment

Parameter	Estimated change			
Δ Output (billions)	20.6			
Δ Public sector output (billions)	11.7			
Δ Private sector output (billions)	8.9			
Δ Public sector employment	445.0			
Δ Private sector employment	114.2			
Δ Employee Income (billions)	12.1			
Δ Profits (billions)	0.7			
<u>Capital Intensity</u>	75:25	60:40	50:50	JG dist
<u>Δ Government Outlays (\$billions)</u>	11.9	15.7	19.4	14.7
Δ Unemployment benefits	-2.8	-2.8	-2.8	-2.8
Δ Disability benefits	-0.1	-0.1	-0.1	-0.1
Δ Employment expenditure	14.8	18.6	22.3	17.6
<u>Δ Government Receipts (\$billions)</u>	3.7	3.7	3.7	3.7
Δ Taxes on wages	1.4	1.4	1.4	1.4
Δ Taxes on profits	0.2	0.2	0.2	0.2
Δ Indirect taxes	2.1	2.1	2.1	2.1
Δ Net government expenditure	\$8.3 b	\$11.9 b	\$15.7 b	\$11.0b

Notes: JG dist denotes the combination of jobs associated with different capital intensities outlined in Table 14.2.

The employment of JG workers gives rise to increased disposable income and increased consumption demand which leads to additional private sector output,

employment and income, which in turn leads to further increases in consumption demand, as is depicted by the multiplier process. Thus the increase of employment of 559.2 thousand is made up of both JG and private sector employment. There are more modest savings on government outlays, because nearly 80 per cent of the addition jobs are paid at the minimum wage. The change in employment outlays represents the wage and non-wage costs of employing the JG workers. In the low capital intensity scenario, the net additional expenditures by government total \$8.3b. The shift to medium or high capital intensity JG jobs merely increases JG employment expenditure by government to \$18.6b and \$22.3b, respectively which leaves net additional expenditures of \$11.9b and \$15.7b, respectively.

Scenario 5

In this scenario, we assume that the composition of JG jobs conforms to the shares outlined in Table 14.2. This is equivalent to a 63.6/36.4 rule that is just below Medium capital intensity. Consequently the net change in government expenditure is below that associated with medium capital intensity, namely \$11b.

14.9. Conclusion

In this Chapter the objective has been to compute the investment required to introduce a national Job Guarantee. We have adopted conservative assumptions about behaviour and estimated the orders of magnitude of expenditure, income and output that would be associated with such a policy change.

Even under the assumption of all JG jobs being associated with high capital intensity, the additional government expenditure is less than the reported cost of the Sydney Olympics, but, if incurred annually³, will convey long-term economic and social benefits to the most disadvantaged members of society.

Again it should be emphasised that the net increase in government expenditure does not represent real costs, unless greater benefits to society can be gained by an alternative use of this expenditure, but none have been articulated in the public debate. At present the (full-time) equivalent of about 559 thousand workers are being underutilised. It is important to note that the calculations do not include the employment of any the 3.5 million individuals of working age, who are not in the labour force, and others who have a marginal attachment to the labour force (ABS, 2007f).

¹ It could be argued that average part-time hours worked significantly understate desired average part-time hours, as revealed by the extent of underemployment. However, a significant percentage of underemployed workers who currently work more than average part-time hours (and a small number who work less than average part-time hours) would be classified as full-time workers should they secure the additional hours of work. Removal of these employees from the calculation of average part-time hours worked would tend to offset the impact of the inclusion of additional hours associated with underemployed employees who still wish to work part-time.

² The LITO is set equal to the level of taxes for an income lying between \$6000 and \$14000. For higher incomes the \$1200 diminishes at a rate of \$4 per \$100 between \$30,000 and \$60,000.

³ Capital costs which are represented as part of non-labour costs should diminish over time.

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