

## **Why the Job Network is not working: Submission to Independent Review of Job Network by the Productivity Commission.** by Victor Quirk<sup>1</sup>

### **Summary.**

The Job Network is not an effective, quality employment service. Its systematic shortcomings appear intentional and to resemble Therborn's model of 'brazilianization'. It systematically discourages staff from developing an understanding of their clients, or their trust, which are crucial to effective job brokerage. The Job Network structure is not conducive to information sharing, which is central to the function of an employment service. The cost savings under the Job Network are largely achieved by inequitable cost shifting, and are ultimately inefficient. The purchaser / provider model is favoured by senior bureaucrats because it accommodates their lack of operational knowledge and absolves them of practical / operational responsibility. It entrenches poor quality service because operational insight is permanently locked out of policy development. I recommend replacing the Job Network with a quality public sector employment service, and if that is not acceptable, giving Job Network clients full consumer sovereignty. I also propose that the incomes of Senior Bureaucrats should be linked to their achievement of a full employment outcome.

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The Productivity Commissioners have received a fairly consistent message from unemployed people about the poor quality and limited service and support they receive from the Job Network(JN) and Centrelink. They will also realize that welfare compliance has become a major concern of jobseekers, and that they engage with Centrelink, employment agencies and employers from a position of intimidation and disempowerment. Predictably, organizations that derive their income from the JN are more positive about its achievements, while the responsible Ministers and their Departments assert, with dubious evidence, that JN / Centrelink is a high quality and efficient system that they continue to refine. In its draft report, the Commission is unimpressed with the JN's outcomes<sup>2</sup>, apart from the very substantial 'compliance effects' of some elements<sup>3</sup>. It found little evidence of better quality job placement or other outcomes<sup>4</sup>. It also criticises the Commonwealth's survey of job seeker satisfaction for suppressing evidence of dissatisfaction.<sup>5</sup> Despite all this, even despite calling for the abandonment of Job Matching (the

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<sup>2</sup> "Using a variety of assessment methods, the Commission finds that Job Network programs have probably only had modest effects on a Job Seeker's chance of gaining employment". Productivity Commission, 2002, *Independent Review of Job Network*, Draft Report, Canberra, March. p XIX

<sup>3</sup> "Despite its apparent intention to provide job search skills, a primary (although implicit) function of JST is to act as a 'sieve', separating out the 'discretionary' unemployed and individuals who are not genuinely eligible for benefits because they already have jobs. This compliance effect is [Job Search Training Program's] biggest impact (Chapter 5). Its average program effects are very small". Productivity Commission, 2002, *Independent Review of Job Network*, Draft Report, Canberra, March p 7.10.

<sup>4</sup> "There is limited evidence on the quality of the job and other outcomes achieved by Job Network programs" Productivity Commission, 2002, *Independent Review of Job Network*, Draft Report, Canberra, March, p 5.2

<sup>5</sup> Among the techniques: One sixth of potential respondents were excluded if they answered 'no' to the question "at any time since May last year have you received assistance from (JOB NETWORK PROVIDER) to improve your skills and help you find a job". Another 4200 (out of 20186 respondents) were excluded because they could not recall having any contact with the Job Network. 2000 of these were on Intensive Assistance at the time. Productivity Commission, 2002, *Independent Review of Job Network*, Draft Report, Canberra, March p 6.7

Why the Job Network has failed.

Victor Quirk

basic job brokerage function) the PC still argue that the purchaser / provider model is working! They recommend minor improvements.

Clearly, the system is deeply flawed – a failed application of economic fundamentalism and managerialist dogma. Its failings may be addressed on any number of fronts, but I will direct my comments to: (1) questioning the JN's objectives; (2) the problems of mixing welfare compliance with labour market intermediation; (3) other systemic faults (4) the cost shifting that accompanies the JN's cost savings (5) the inadequacy of the purchaser / provider model, and; (6) some suggestions for improving / replacing the current system.

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JN / Centrelink treatment of unemployed people is so systematically bad that it raises the question: is this the intention? Such a notion conforms disquietingly with Therborn's model of 'brazilianization', whereby the conspicuous immiseration of an unemployed underclass is used to pressure those in employment to accept harder working conditions to avoid losing their jobs and joining the underclass themselves.<sup>6</sup> This is not very far removed from the PC's conception of the role of the employment services system as increasing the 'effective' competition for jobs to constrain 'wage pressure', pushing wage levels down to their market clearing equilibrium.<sup>7</sup> In Therborn's model, fear of unemployment is a tool for driving down wages to maximize profits (sustaining a decadent elite), whereas the PC seeks to drive down wages to enable more labour to be purchased, thereby lowering unemployment. Both models seek to depress wage levels through their management of the unemployed, although with the former the immiseration of the poor is *necessary* while with the latter it is *optional*. Given current breach rates (386,000 during 2000-2001)<sup>8</sup> and the consequential poverty epidemic in Australia<sup>9</sup>, it appears the option is being exercised. Deliberately grinding the poor into the ground to increase the wealth of business people, whether this is hoped to reduce unemployment or not, is not morally defensible. If the deplorable treatment of the unemployed by the Job Network / Centrelink System is intentional, then who intended it and when were the Australian people to be told about it? However, if the poor quality service and harsh, discouraging treatment of the unemployed is not intentional, we need to consider whether the system is so *fundamentally* flawed that it should be abandoned, or whether with certain changes it may yet deliver the better outcomes its champions have always promised<sup>10</sup>.

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<sup>6</sup> Therborn, Goran. *Why Are Some People's More Unemployed Than Others*, Verso, 1986.

<sup>7</sup> Productivity Commission 2002, *Independenet Review of Job Network*, Draft Report, Canberra, March. P2.6.

<sup>8</sup> Draft Hansard, Employment Education and Training Senate Estimates Committee, Feb 2002.

<sup>9</sup> Eg: The Salvation Army, *Stepping into the Breach: A report on Centrelink Breaching and Emergency Relief*. Salvation Army Australia Southern Territory, August 2001. and ACOSS, *Making it Work: A Report of the Independent Review of Breaches and Penalties in the Social Security System*, Summary and List of Recommendations, 2002

<sup>10</sup> The 3 key principles:[1] a strong focus on outcomes, that is to deliver a better quality of assistance to unemployed people, leading to better and more sustainable employment outcomes;[2] to address the structural weaknesses and inefficiencies inherent in arrangements at the time, by changing the role of government to that of a purchaser rather than a provider of assistance, and;[3] the use of competition to drive greater efficiency for the taxpayer and increased choice for consumers. Cited in: Productivity Commission 2002, *Independenet Review of Job Network*, Draft Report, Canberra, March. P4.

**Can the JN meet the complexities of labour market intervention?**

A good employment services system assists people to find their best employment. Employers explain what they want in a worker and job seekers explain what they want in a job, and the agent / job broker arranges the most compatible pairing available. It sounds simple, but it's a complex process. Employers and jobseekers describe jobs and what they require / can do with varying clarity and objectivity. Job seekers (and employers) may not be able to see skills and abilities in abstract terms, and therefore not see their transferability. Prejudices about certain types of jobseekers and certain types of jobs cloud objectivity. Industries and occupations have a vast lexicon of esoteric terms and practices. Then there are psychological barriers of confidence and motivation, variable interpersonal and communications skills (with both jobseekers and employers), and issues arising from the advantaging strategies employed by jobseekers and employers in pursuing the mutually exclusive aspects of their relationship<sup>11</sup>. People performing this work need to possess substantial occupational and industrial knowledge, analytical and communication skill, and developing these requires a considerable investment in staff selection and training.

Furthermore, quality job brokerage relies on both client groups *trusting* their intermediary's good offices. If they are confident that they will not be punished, or compromised or otherwise disadvantaged by doing so, employers and jobseekers will disclose more information about themselves / their position, enabling the intermediary to make a more thorough determination of the suitability of the match than would otherwise be possible. This enables them to protect employers and jobseekers from potentially costly and even dangerous recruitment errors<sup>12</sup>. If the broker earns the trust of employers by virtue of the quality of information they possess about their jobseeker referrals, employers will be more willing to consider applicants that don't conform to their preconceived ideal. This is how good job brokerage protects the interests of both parties while maximizing the chances of mutually beneficial arrangements. It is the only sustainable basis for jobseeker advocacy.

The Job Network cannot support this sort of quality practice. The heavy emphasis on income generation precludes sophisticated staff training and development, beyond that necessary to generate commencement and outcome payments. The profit-maximising job agency<sup>13</sup> does not encourage its staff to understand unemployed job seekers, but keeps them focused on short term revenue pursuit. Sophisticated interviewing and assessment skills provide staff with a deeper understanding of the impact of poverty and unemployment on the lives of their clients. While this is crucial to understanding their clients barriers to employment and how to overcome them, at the same time it discourages ruthless profit-seeking behaviour, such as withholding remedial support to IA clients, or breaching clients to earn agency ratings for 'reducing their dependence on welfare'. When staff understand the difficulties their clients face they tend to want to lessen

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<sup>11</sup> For example, although pay rates influence job seeker interest in a given job, employers using the Job Network prefer not to reveal what they are willing to pay until they are face-to-face with the applicant. Allowance recipients who refuse to work for what they see as exploitatively low rates of pay are penalized for refusing a job, and so they prefer to know what the pay rate is before expressing their interest in the job or attending an interview. Most Job Network vacancies indicate the pay is either 'award' or 'TBA'.

<sup>12</sup> For example, a jobseeker may not disclose epilepsy that is induced by excessive physical exertion if they suspect they will be discriminated against, and an employer may not disclose that occasionally they expect an office worker to unload trucks.

<sup>13</sup> I include not-for-profits and public sector providers that employ the same income maximising – expenditure minimising strategies as the for-profit agencies.

Why the Job Network has failed.

Victor Quirk

them, not add to them. They understand that people lose motivation for reasons beyond their control, and that enthusiasm is engaged by empowerment not coercion. In any event, even if staff were encouraged to engage meaningfully with their clients, the welfare policing role of the JN undermines the willingness of job seekers to engage candidly with their JN providers. Constant threats of compliance penalties on JN correspondence reinforces the perception that JN providers are not on their side.

The Norgard Review of the CES (1977) was very clear that a modern, effective employment service needed to place high priority on staff training and development and should not be involved in the policing or administration of unemployment benefits.<sup>14</sup>

### **Problems compounded by the JN's structure.**

The lack of knowledge JN providers have of their clients is compounded by the lack of communication between JN providers and their record keeping practices. Because the JN is not a network in the information-sharing sense, agencies do not have access to comprehensive records of all job seekers available in a given geographic area for a given vacancy, severely limiting their capacity to match effectively. To compensate they rely on jobseekers responding to positions advertised on the National Vacancy Data Base (NVDB)<sup>15</sup>. This usually requires job seekers to provide a complete dossier (agency registration form, resume, proof of ID, etc) to every agency they approach about a job. Furthermore, many agencies have chosen not to maintain a comprehensive client records system, to save money, and so require the same jobseeker to repeatedly provide a fresh dossier for every job application made through their agency. This a massive drain on job seeker resources and motivation. It also provokes many job seekers, driven to desperation by their hardship and compliance obligations, to tailor their employment histories and claims to skills to suit each situation, which leaves the JN agencies 'flying blind' when it comes to assessing the suitability of people for different jobs. Some have attempted to address the issue by embracing excessively intrusive (and methodologically suspect) psychological testing, but cut-throat competition among agencies tends to emphasize speed, occasioning the adoption of rough screening techniques. Referrals to employers are either 'hit and miss' or play safe by pandering to the worst pre-conceptions and prejudices employers have of the unemployed, to the great disadvantage of many.

### **Are the cost savings of the Job Network efficient?**

The Job Network looks cost-effective only because unemployed people, their families and welfare agencies are carrying a larger burden of their income support and job search costs. For example, the high 'compliance effect' the Productivity Commission sees as a positive feature of certain JN programs are achieved by shifting the cost of income support to an over-burdened community, as the Salvation Army have recently argued:

“The view that breaching is purported to save on the public purse is simplistic and distorting in its incompleteness; it fails to recognise the massive cost shifting that breaching entails. As this survey found, large numbers of unemployed people affected by breaching are turning up to

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<sup>14</sup> Review of the Commonwealth Employment Service / report by J.D. Norgard for the Minister for Employment and Industrial Relations, June 1977 Canberra : Australian Government Publishing Service, 1977

<sup>15</sup> It is from this database that the Australian Job Search internet system and the Centrelink and non-Centrelink Touch Screen Kiosks draw their vacancy information.

Why the Job Network has failed.

Victor Quirk

Salvation Army and other community welfare agencies to seek assistance to survive, and considerable Commonwealth [Emergency Relief] dollars are needed in many cases to attempt to undo the enormous hardship that breaching can bring about. Its impact also reverberates beyond the immediate cost of providing ER crisis assistance, to the cost to individuals and the community of homelessness, poor health and crime. Far from being a reassuring saving for the tax paying citizens of Australia, breaching is shifting the personal and public costs elsewhere – to the homelessness and health sectors, and the justice system.”<sup>16</sup>

The fragmented / dispersed nature of the JN, arising from its ‘competitive’ structure, has imposed an enormous increase in travelling and communications costs on job seekers. The unsupervised facilities provided at Centrelink offices are an inadequate and tokenistic response to the problem. Job seekers have to directly bear costs formerly covered by the Fares Assistance Scheme (FAS), Relocation Assistance Scheme (RAS) and a vast range of vocational training programs. If travelling to job interviews, phoning, faxing and acquiring vocational skills are fundamental labour market activities, how is it more efficient to make them more expensive and make people with little money responsible for bearing the cost of them? To count the Job Network’s cost savings but not take into account the cost increases they impose on other sections of the community either reflects accounting incompetence or deep ideological bias.

### **The weakness of the purchaser / provider model**

Australian employment service policy has been severely hamstrung by the absence of practical expertise among policy makers since the late 1980’s, particularly after the removal of the CES Central Office from Melbourne in 1988<sup>17</sup>. The 1987 Public Sector reforms increased the influence of (substantially neo-liberal) economists throughout the Commonwealth bureaucracy, including the Employment portfolio, and decreased the influence of other sources of policy ideas, such as direct operational experience.<sup>18</sup> Each wave of 1990’s ‘reforms’ (Newstart, Differentiated Servicing, Case Management, Working Nation, Job Network) increased the control of a central elite over operational matters of which they had little practical understanding or appreciation.

The imposition of a cost-saving ‘tough compliance’ regime was their main concern as this was attractive to their masters in Treasury / Finance / Prime Minister & Cabinet. Since compliance enforcement undermines quality practice, each re-organisation delivered poorer results, which were blamed on the attitude and incompetence of the CES staff, no matter how impractical the plans were and how difficult they made the day-to-day work of the CES. The solution was always to reduce the autonomy of operational staff to overcome their ‘resistance to change’, or their ‘inability to grasp the big picture’.

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<sup>16</sup> Jones, Amanda. *Stepping Into The Breach: A Report On Centrelink Breaching And Emergency Relief*, The Salvation Army, Australia Southern Territory, August, 2001.p12.

<sup>17</sup> The Department of Employment & Industrial Relations maintained central offices in Melbourne to be nearby the Federal Arbitration Courts and located Employment Division staff there as well. Periodic rotation between Canberra and Melbourne were common. Many Central Office staff begun their careers in the CES and maintained extensive contacts throughout. It meant that Central Office staff had close and regular contact with a large metropolitan CES network, and through formal and informal contact, there was a significant appreciation of operational issues at the highest levels of the department. This positive arrangement ended with the public sector reforms of 1987.

<sup>18</sup> Campbell, C & J Halligan, *Political Leadership in an Age of Constraint: Bureaucratic Politics under Hawke and Keating*, Allen & Unwin, Sydney, 1992. P105.

The purchaser / provider model is the culmination of this progressive insulation of the senior bureaucracy from the operational consequences of their management decisions. It affords them protection from criticism for failure at the operational level, because responsibility rests with the contracted provider that has not performed, or who has attracted public censure. The bureaucrats can say they have done their bit: they directed contracted providers to produce employment placement outcomes! Because they leave the details of how such outcomes are to be achieved to the providers themselves, non-achievement is the fault of the providers. But while the bureaucrats can immunise themselves from criticism when specific *elements* of the system fail, what if the *whole* system is not performing?

The purchaser / provider model suffers from a lack of precise control over the *means* of service provision. It is a puppet show operated using 100 meter elastic strings, in which the puppets have been encouraged to put their own interests first. Consequently, every provider has embraced strategies that shift costs, risks and inconvenience on to someone else, usually the hapless unemployed. A modern 21<sup>st</sup> century economy needs a more intelligent and responsive mechanism for managing the development and allocation of its labour resources. It cannot be managed by people without a comprehensive understanding of the practical aspects of labour market intermediation, nor without long term and medium term perspectives of the labour market as a whole. What is required is a labour market service in which policy is formed at the highest level by people with an intimate and up-to-date understanding of what is happening at the lowest level. This suggests a public sector agency in which senior policy makers participate regularly in service delivery. The purchaser / provider model, by contrast, sets the separation of policy maker and service deliverer in concrete, creates incentives for suppressing or distorting labour market intelligence and by insulating policy makers in this way, entrenches poor quality public service.

There is nothing new about applying the purchaser / provider model to the management of the unemployed. It was utilised during several periods of the English Poor Law Acts (1601 – 1834, 1834 – 1930). It is associated with the worst abuses of human dignity in modern British history, with entrepreneur poor law contractors and workhouse operators, appointed by competitive tender, delivering excellent ‘compliance effects’ through harsh application of the ‘work-house’ test. It was promoted by wealthy people who resented their taxes being used to provide subsistence income to the poor and by employers who opposed the alleviation of suffering because it undermined the wage-lowering effects of unemployment. The purchaser / provider model achieved excellent cost containment and was so successful in applying downward pressure on prevailing wage levels, that full time workers rarely earned enough to adequately feed themselves. The model was invariably abandoned because public outrage threatened social order, and reinstated only after enough time elapsed for people to forget its horrors.<sup>19</sup>

The Productivity Commission recommends the retention of the purchaser / provider model for the delivery of labour market services but recommends the cessation of ‘Job Matching’, the most fundamental labour market service. It argues that the ‘non-disadvantaged’ unemployed have

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<sup>19</sup> While various examples exist earlier, the poor law entrepreneurs became a widespread phenomenon after the Local Government Act of 1722 allowed both for the contracting out of parish poor law provision and enforcement of the work-house test which made it profitable. Gilberts Act of 1782, responding to fears of civil revolt, undermined the profitability (and incidence) of poor law entrepreneurialism by abolishing compulsory work-house incarceration of dole recipients.

Why the Job Network has failed.

Victor Quirk

alternative avenues through which to seek work, and that it would be more equitable to concentrate public job brokerage resources on the 'disadvantaged jobless'. The suggestion is to allow unemployed people to access vacancies transferred to the Australian Jobsearch web site and Centrelink Touch Screens from newspaper classifieds, employer direct advertising and private recruitment services, meaning there would be no vacancies for which unemployed people had *priority* access. This fails to acknowledge that unemployed people are not competitive when applying for the same jobs as employed people. For example, 'The Age' newspaper found that 96% of jobs filled through its classified advertising went to people who already had jobs. When employers use public employment services, like the CES and Job Network, they *expect* to have unemployed people referred to them, and accept this as a reasonable trade-off for having their vacancies advertised and applicants screened free of charge. It is for this reason that a free, universal, labour exchange service is considered fundamental to a fair and decent society, and was included as a requirement of ILO Convention 88, which Australia ratified in 1949.

It is true, though, that a job brokerage system as user-*unfriendly*, and incapable of promoting equitable outcomes as the JN Job Matching system is not worth maintaining: its competitive purchaser / provider model is ill-suited to the delivery of this type of service. It is incapable of delivering effective advocacy on behalf of unemployed people, especially the disadvantaged, because the brokers fear losing income by alienating their employer clients by challenging their prejudices. Only a universal public employment service, encompassing the entire labour market and free to act objectively in the provision of service, can serve as honest broker for both employers and jobseekers, and perform the brokerage function equitably and efficiently. The current privatized approach to job brokerage is not effective, nor justifiable on the grounds of improved equity. The solution is not the abandonment of job brokerage but the abandonment of its privatization. Is the PC such a captive of free-market ideology that it cannot recommend the restoration of direct public sector provision of this basic service even when the evidence is so clear that the purchaser / provider model has failed?

## **Recommendations for effectively assisting unemployed people.**

### **1. Replace the Job Network**

Australia requires a human resources management system that is:

- a) Focused on reducing frictional unemployment
- b) Trusted by employers and job seekers,
- c) Available to any person entitled to work or employ people in Australia
- d) Staffed by highly trained and skilled people
- e) Managed by policy makers who are intimately familiar with the operational realities of labour market intermediation.
- f) Not involved in the administration of welfare compliance and consequently not located in Centrelink offices
- g) Capable of researching and responding to emerging labour market trends at the local level.

The Job Network experiment demonstrates this is not achievable using purchaser / provider arrangements. With some modification, the CES of 1980 – 1986 could serve as a viable base model for a new national public sector employment service.

## 2. Improve the Job Network

If the Job Network is to be retained, the obvious power imbalances and constraints on information sharing need to be corrected, to create an atmosphere conducive to quality service provision. The obvious way to improve the quality of service to jobseekers under a quasi market system is to give them the consumer sovereignty<sup>20</sup> they were initially led to believe they would have.

- a) Remove responsibility for policing welfare compliance from the Job Network, leave it entirely to Centrelink.
- b) Make participation in all aspects of the Job Network completely voluntary.
- c) Make public all documentation surrounding the contracting of successful providers, eg, the 'Declarations of Intent' that detail the levels of support IA providers claim to be offering their clients.
- d) Establish a publicly funded Employment Services Consumers Association to poll job seekers and represent their views at policy making forums such as Area Consultative Committees and Productivity Commission hearings
- e) Reverse the 'cashing out' of labour market programs (vocational training, wage subsidies, fares assistance, etc), with non-arbitrary eligibility criteria, and reduce up-front payments to IA providers accordingly.

## 3. Achieve full employment

- a) Link the income of senior policy makers to the achievement of positive outcomes. Deduct 15% from the salary of the top 10% of Senior Executive Service staff employed in Treasury, Finance, Prime Minister and Cabinet, DEWR and the Reserve Bank, for each percentage point that unemployment exceeds 2%.

## References

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<sup>20</sup> The Productivity Commission opposes granting 'full consumer sovereignty' to jobseekers because appropriately empowered jobseekers could avoid elements of the JN that produce the 'compliance effects' it so applauds. It also considers disadvantaged job seekers incapable of understanding what is best for them, but considers the government capable of making these 'relatively simple' choices on their behalf. IRJN p 8.11.



Why the Job Network has failed.

Victor Quirk

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