



**NESA:**

**Reach Beyond the Headlines**

**Strengthening Australia's Employment Assistance**



## About NESA

**The National Employment Services Association (NESA) established in 1997 is the peak body of the Australian employment services sector. NESA is dedicated to a vision of opportunity for everyone through employment and inclusion.**

Employment inclusion and participation are cornerstones of the economic and social health of society. For the individual, employment participation is more than a means to income; it provides connection, purpose and inclusion. Employment participation and productivity are key drivers of economic growth and underpin the quality of life of all Australians enabling access to such things as a well-functioning health system, quality education and strong social safety net.

The Australian employment services sector plays a critical role in preparing Australians to participate productively in the labour market and connecting them to employment opportunities.

NESA's mission is to lead a sustainable, effective, and diverse employment services sector to support individual job seekers and employers and to contribute to our nation's achievement of employment participation objectives.

NESA membership encompasses the breadth of Australia's diverse labour market assistance programmes including Workforce Australia, Disability Employment Services (DES), the Community Development Program (CDP) and all complementary programs and services. A large proportion of NESA members deliver multiple programmes.

Our membership is extensive and diverse, and open to all contracted providers (for-profit, not-for-profit and public). To illustrate, of providers of Australia's largest employment programme – Workforce Australia – NESA members have a collective footprint covering 100% of Employment Regions.

NESA delivers intensive policy, operational and capacity building support to member organisations. NESA works collaboratively with Government Departments, agencies, and non-government stakeholders to support the effective delivery of labour market assistance and social policy. Our extensive membership and intensive member and stakeholder interaction provide unique insight into the policy and operational settings that underpin effective labour market assistance.



## Reach Beyond the Headlines

Unemployment has serious economic and social impacts and is a scourge on Australia's social and economic wellbeing. The impacts of unemployment ripple throughout the fabric of our nation and result in huge social and economic costs that restrict our economy's productive potential and growth<sup>1</sup>. As the Philip Lowe Governor of the Reserve Bank stated, having a good job at a decent rate of pay is important for individual Australians and our collective good and economic prosperity<sup>2</sup>.

For individuals, being engaged in quality work is health-protective, providing positive personal development, self-esteem, sense of identity and social connection whereas the experience of unemployment and underemployment can have profound effects including strong impacts on physical and mental wellbeing. Research indicates unemployed people have more illness and disability than those of similar age who are employed and are at higher risk of death including through self-harm<sup>3</sup>.

There has been much celebration about the strength of recovery in the Australian labour market and the resulting positive impact on jobs growth and reducing unemployment. As indicated in the Treasurers 2022-2023 Budget Speech Australia has experienced a world leading bounce back from the heights of COVID-19 impacts including a reduction in unemployment to 3.9%; a level that is the equal lowest achieved in 48 years with prospects of further improvement<sup>4</sup>.

While our economic recovery is worthy of celebration, there is a dire need to ask the question, what level of unemployment or underutilisation of labour is acceptable?

Australia is committed to full employment; from an economic point of view unemployment represents a waste of society's scarce (and valuable) resources that leads to a permanent loss of society's potential output (GNP). Full employment is generally accepted to refer to a situation in which people who are willing to work at existing wages are able to get jobs readily and quickly move from one job to another if they wish. While in practice full employment does not mean 100% of people are employed, some level of frictional unemployment is unavoidable; however, it is generally accepted that under full employment no involuntary unemployment is persistent.

The Non-Accelerating Inflation Rate of Unemployment (NAIRU) is the lowest unemployment rate that can be sustained without causing wages growth and inflation to rise. NAIRU is a concept used to gauge how much 'spare capacity' there is in the economy and infer at what point full employment would be achieved. The NAIRU is not observable but is derived from analysis of the relationship between the unemployment rate and inflation (or wage growth).

There is a real risk that while we celebrate headline unemployment, we continue to underestimate the road to genuine full employment and ensuring that Australia's prosperity can be shared by all its citizens.

Researchers have known for a long time that the headline unemployment rate, which measures the unemployed as a percentage of the labour force, is a poor indicator of the efficiency of labour markets in utilising labour resources<sup>5</sup>. In the past the rate of underemployment moved fairly closely with the unemployment rate, providing a reasonable proxy for spare capacity in the labour market. However, more recently greater variation between unemployment and underemployment rates has been observed and economists have argued unemployment is no longer a reliable proxy for labour utilisation. It is argued that the focus on the headline unemployment rate has potentially led to understating the degree of spare capacity in the labour market and as such how close we are to a state of full employment<sup>6</sup>.

To fully understand utilisation of labour it is necessary to look beyond the headline unemployment rate and recognise the wider quantum of Australians that are not counted in this data, but nonetheless want work or more work and that underutilised labour capacity can assist achievement of economic growth.

<sup>1</sup> Sila U. & V Dugain 2019, "Income poverty in Australia: Evidence from the HILDA survey", OECD Economics Dep Working Paper, No.1539, OECD Pub Paris, <https://doi.org/10.1787/322390bf-en>

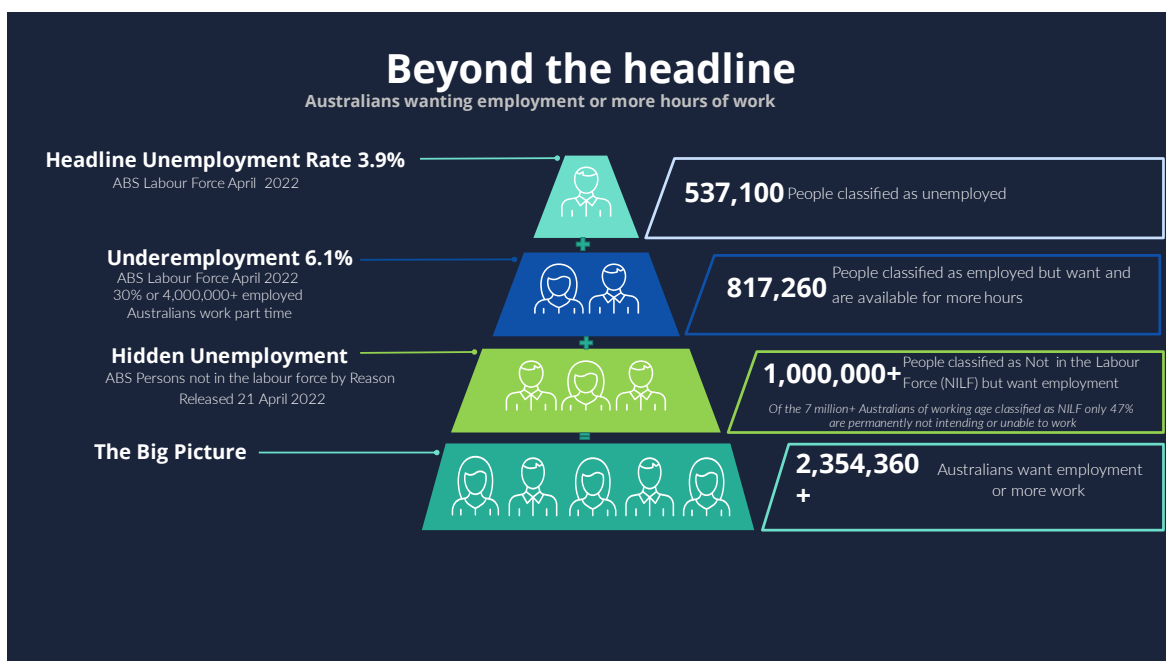
<sup>2</sup> The Labour Market and Spare Capacity, Philip Lowe Governor RBA, Address to a Committee for Economic Development of Australia (CEDA) Event Adelaide – 20 June 2019

<sup>3</sup> Health and Unemployment D Dooley, J Fielding, and, and L Levi Annual Review of Public Health 1996 17:1, 449-465

<sup>4</sup> Budget Speech 2022-23 Delivered on 29 March 2022 on the second reading of the Appropriation Bill (No. 1) 2022-23 accessed online <https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/speeches/budget-speech-2022-23>

<sup>5</sup> Pressing Towards Full Employment? The Persistence Of Underemployment In Australia; Iain Campbell JOURNAL OF AUSTRALIAN POLITICAL ECONOMY No 61, 2008

<sup>6</sup> Estimating the NAIRU and the Unemployment Gap Tom Cusbert\* RBA Bulletin June 2017



As can be seen those people counted as unemployed by the ABS (using internationally recognised standards) represent only 23% of all Australians wanting work or more work.

From an economic perspective, the longer people are unemployed the less likely they are going to be able to contribute to the economy due to issues such as skills atrophy also termed the scarring effects of unemployment. As such the length of unemployment is at least as important as the unemployment rate from both an economic and social perspective particularly social concerns such as financial hardship and poverty.

Long-term unemployment is defined by the ABS as duration of job search of 52 weeks or more. While Australia's unemployment rate is at a relatively low 3.9%; 1 of every 4 unemployed persons has been looking for work for more than 52 weeks; with the average duration of job search amongst all long-term unemployed job seekers being 165.2 weeks. 60% of all people classified as long term unemployed have been job searching for more than 104 weeks, making them very long term unemployed.

Australia's long term unemployment problems reinforce that despite the perception, our low unemployment is not indicative of our proximity to full employment. It must be concluded that Australia needs to maintain focus and initiatives to address long term unemployment if we are genuinely in pursuit of the goal of full employment, defined as being the absence of persistent involuntary unemployment.

Long-term unemployed people are more likely to be older and male and have lower levels of formal education and previously held jobs in lower skill occupations than those who have been short term unemployed; but can impact diverse people, e.g.: Australia's long term unemployed currently includes 11% of people who are tertiary qualified. As noted by the Reserve Bank of Australia the long-term unemployed are more than twice as likely to leave the labour market as find employment in a given month. This is consistent with longer-term unemployed people becoming discouraged from searching for work<sup>8</sup>. As such the long term unemployed are likely to flow into categorisation of Not in the Labour Force and become part of the growing population of hidden unemployed.

The headline focus on unemployment fails to give due recognition to the wasted capacity and potential poverty trap that is encompassed in underemployment. The best form of welfare is a job has been a persistent mantra over recent times. However, what if that job does not provide a decent living for individuals and families?

<sup>7</sup> Australia Bureau of Statistics/latest-release

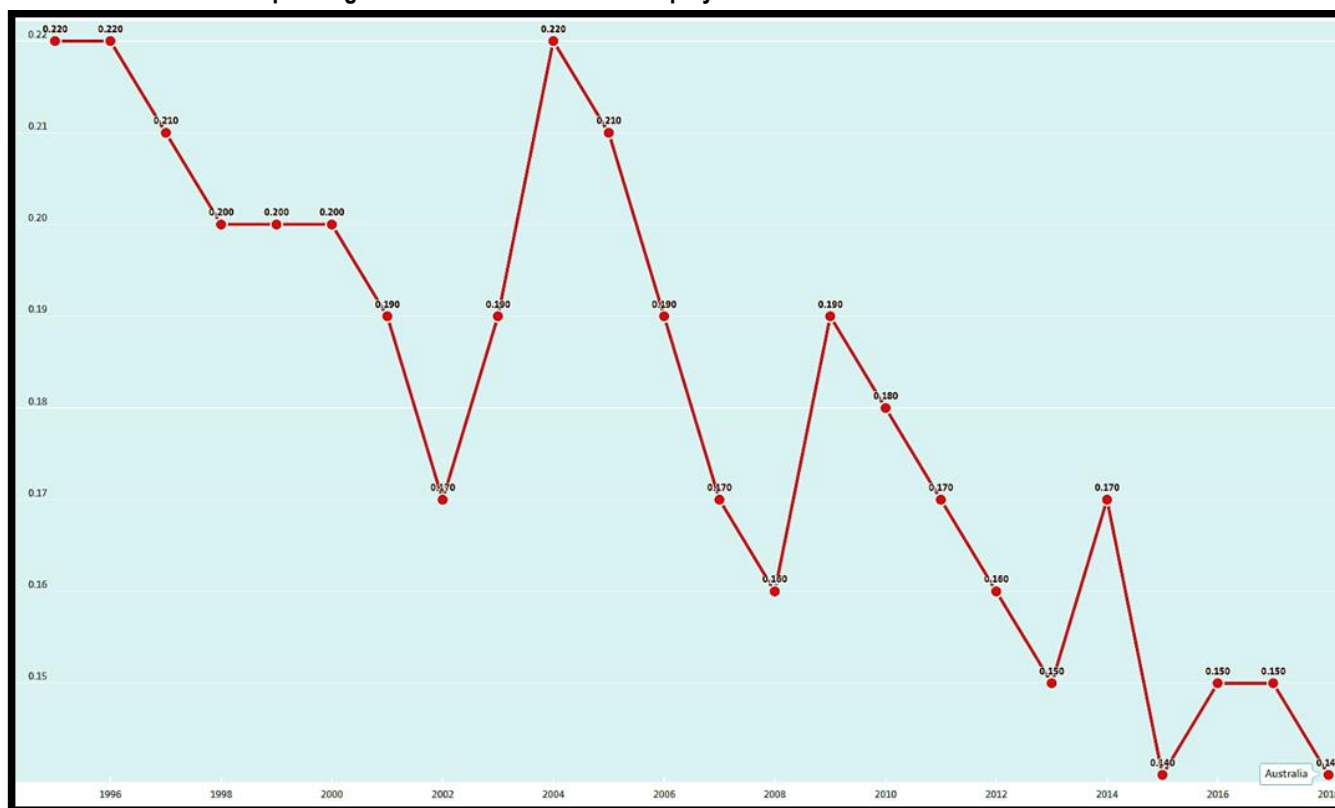
<sup>8</sup> Long-term Unemployment in Australia, Natasha Cassidy, Iris Chan, Amelia Gao and Gabrielle Penrose[\*] RBA Bulletin Dec 2020

To reflect, of the 935,283 Australians who are in receipt of JobSeeker or Youth Allowance (Other) income support approximately 22% (202,883) have declared earnings; but earn so little they are still eligible for income support<sup>9</sup>.

The Reserve Bank of Australia noted that one of the most significant changes to the Australian labour market in recent decades has been the rise in the share of part-time employment to account for nearly one-third of total employment<sup>10</sup> with Australia having the highest rate of casualisation in the OECD. The number of Australians caught in long term underemployment has grown and a continued absence of policy intervention will see more people with tenuous attachment to the labour market and caught in working poverty.

The International Labour Organisation (ILO) has recommended that “given the critical role labour market policies and employment services have played in this COVID-19 and past crises, countries should maintain or increase funding for Public Employment Services and Active Labour Market Program providers as lockdowns are eased and recovery begins, to support effective transitions in the labour market”<sup>11</sup>. As indicated in the graph below, prior to COVID-19 Australia had seen continued reductions to investment in employment assistance including redirection of investment from programs assisting the long term unemployed to other programs.

**Australia Public spending on labour markets: Public employment services & administration % of GDP 1995 – 2018**



**NESA advocates the following recommendations to strengthen stewardship and effective development of Australia’s employment assistance to deliver an inclusive recovery and genuine full employment.**

- A. The Government reaffirms commitment to pursuit of genuine full employment and an inclusive recovery with a focus on eliminating long term involuntary unemployment and underemployment.

<sup>9</sup> DSS Demographics December 2021 sourced online at data.gov.au

<sup>10</sup> The Rising Share of Part-time Employment Reserve Bank of Australia 2017

<sup>11</sup> ILO - Labour market policies and employment services are critical ingredients of the COVID-19 policy responses 18 Aug 2020

- B. Increased targeted policy responses to ensure those job seekers most disadvantaged and least likely to gain employment without assistance are prioritised. For example, responses to address the complex needs of disadvantaged job seekers as part of all employment and job creation initiatives such as higher employer subsidies for long term unemployed and other cohorts that evidence indicates face substantial barriers to economic participation, e.g. Indigenous and mature aged job seekers and people living with a disability.
- C. Improved policy responses to hidden unemployment with strategies to reengage discouraged job seekers and address their key barriers to economic participation (e.g. training, skills and age discrimination<sup>12</sup>)
- D. Improved policy responses to address underemployment including increased access to employment service assistance for both income support recipients and non-recipients earning less than the National Minimum Wage.
- E. The Department of Education Skills and Employment (DESE) has responsibility for all aspects of stewardship of Australian employment services encompassing but not limited to policy, program design, funding, procurement, contract management, managing access to clients, quality assurance and complaints, evaluation and IT systems. Maintaining integrity and accountability requires perceived or actual potential conflicts of interest to be addressed. Arguably, the Department as the main digital employment service provider, now has additional potential conflicts of interest that may influence its decision making, policy advice and recommendations.

In accordance with the recommendations of the Productivity Commission “Introduction of Competition and Informed User Choice into Reforms to Human Services” for the “implementation and ongoing maintenance of sound stewardship arrangements introduce greater independence in service regulation<sup>13</sup>:

- The model for Government provision or procurement of goods and services should separate the interests of policy (including funding), regulation and service provision, and should encourage a diversity of providers (Chapter 1: Competition principles)
  - Governments should retain a stewardship function, separating the interests of policy (including funding), regulation and service delivery. (Vest rulemaking and regulation with a body independent of government’s policy (including funding role). (Chapter 2: Human services)
- F. Ensuring that programs and initiatives delivered by government are effective is vital so that public money is invested well. Efficient and effective public policy must be informed by solid evidence about what actually works, for whom, under what circumstances, and at what cost<sup>14</sup>. Strengthen the evidenced based approach to the development and implementation of policy responses via the establishment of an independent body to provide expert contribution and oversight to research and evaluation of employment assistance programs including digital services.
  - G. Ensure quality independent research and evaluation into labour market assistance is supported via establishment of a research and development fund and provision of accessible and comprehensive data to achieve evidence driven continuous improvement and innovation.

<sup>12</sup> ABS Barriers and Incentives to Labour Force Participation, Australia, Factors that influence how people participate in the labour market and the hours they work, Aug 2020

<sup>13</sup> Introducing Competition and Informed User Choice into Human Services: Reforms to Human Services, Productivity Inquiry Report 2017

<sup>13</sup> Source: The Australian Government Competition Policy Review Final Report 2015

<sup>14</sup> Productivity Commission 2013, Better Indigenous Policies: The Role of Evaluation, Roundtable Proceedings, Productivity Commission, Canberra



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