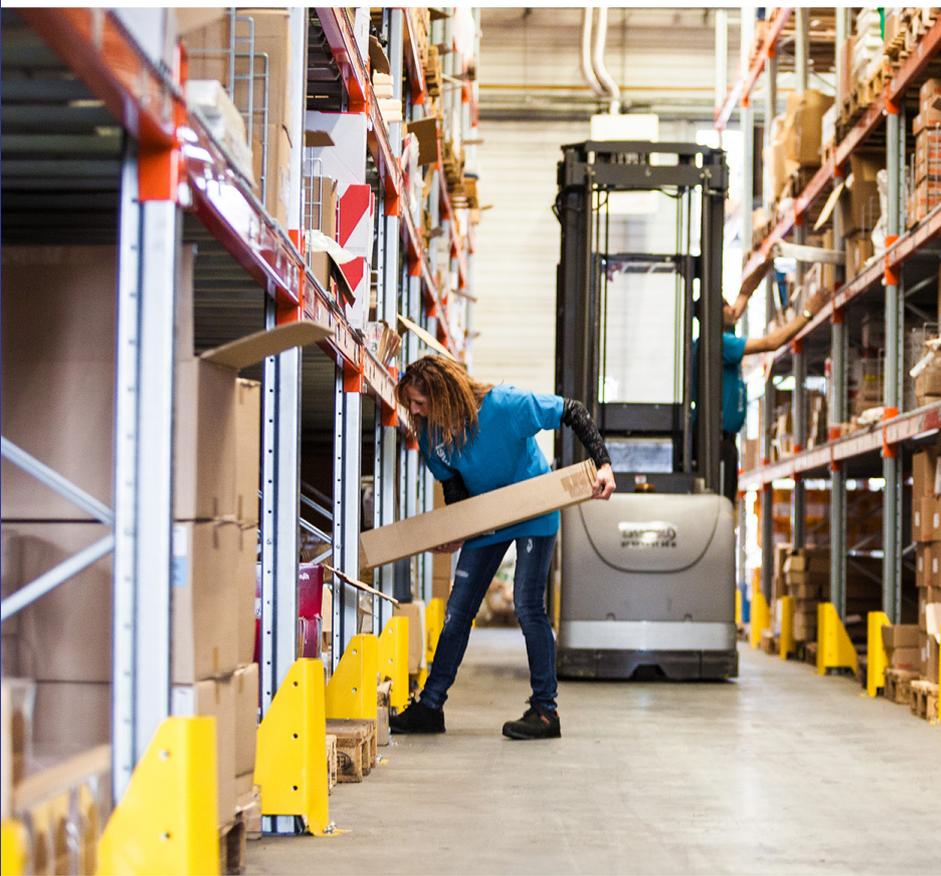


Labour market policy after COVID-19

The scramble for jobs: who will be employed when the music stops?



Dr Peter Davidson
September 2020

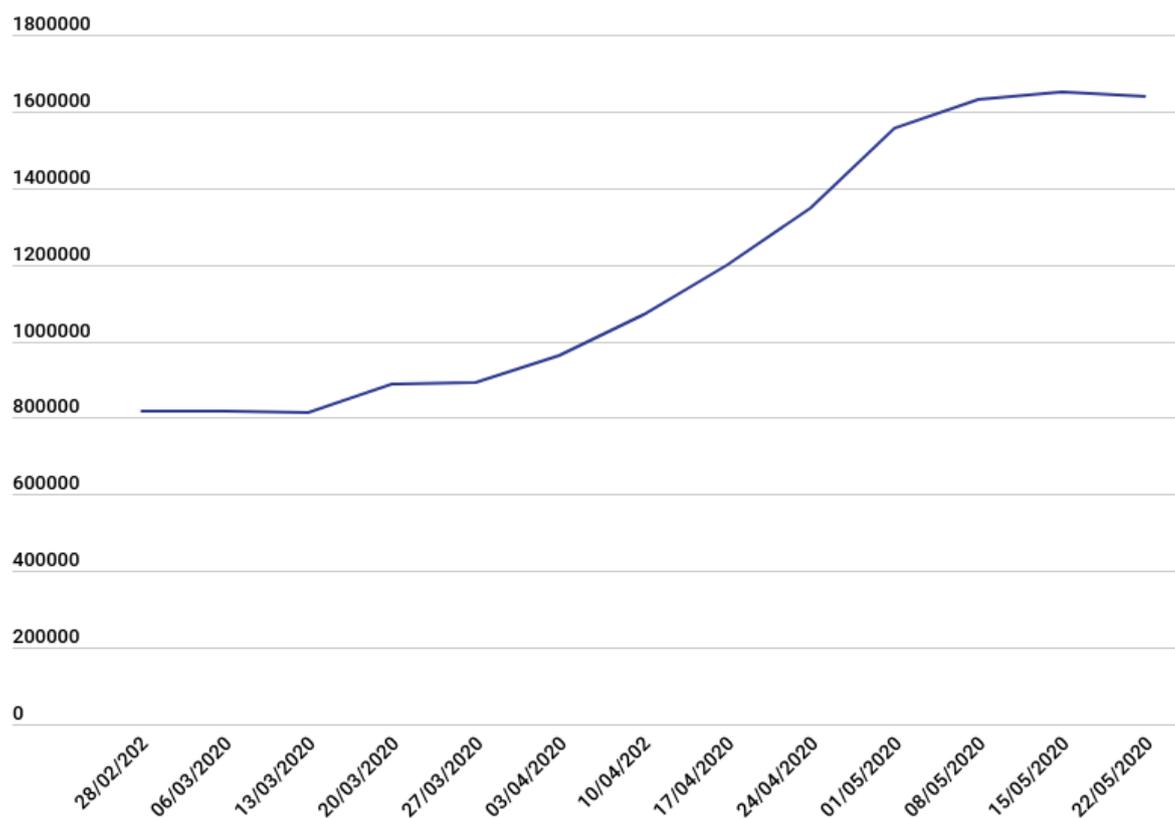
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Introduction

The number of people receiving Jobseeker payments (formerly Newstart Allowance) and Youth Allowance (unemployed) has doubled since March 2020, from 800,000 to 1,600,000 (Figure 1). They are likely to be joined by many of the 165,000 employees working zero hours for economic reasons (stood down) in July 2020¹ as the JobKeeper subsidies are phased out.

If we are to meet this challenge and avoid the legacy of prolonged unemployment that followed previous recessions, employment services and training will have to scale-up dramatically and adjust to the new conditions.

Figure 1: Jobseeker and Youth Allowance recipients



Source: Department of Social Services (2020), Response to Senate COVID Committee Question No SQ20-000453

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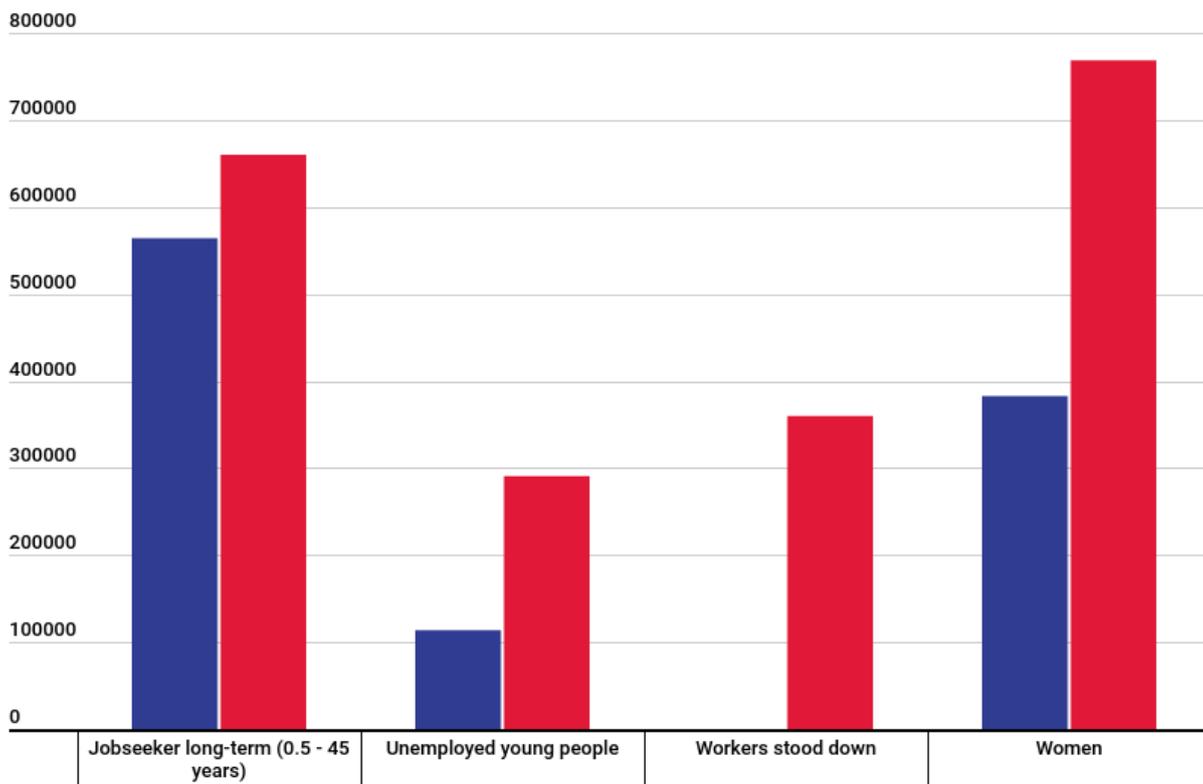
Four groups at risk

Unemployment is expected to rise to 10 per cent by December 2020 and still sit at 8.5 per cent a year later.² As the lockdowns ease and the labour market adjusts from a stay-at-home economy to a new equilibrium, a cruel game of 'musical chairs' will play out as more people compete for fewer jobs. The stakes are high for those already disadvantaged in the labour market, who could be pushed to the end of a much longer queue.

Four groups are especially at risk:

1. The 660,000 people on unemployment payments for over 12 months, most of whom are over 40 years old (Figure 2);
2. The 880,000 'new' recipients since September 2019, half of whom are under 35 years. Most have either just entered the paid workforce or have lost casual employment;
3. Many of the 165,000 people stood down in their employment (often on the JobKeeper Payment) who are likely to be made redundant as that payment is wound down; Women, who have been disproportionately affected by job losses in services. Those re-entering the paid workforce after full-time caring are especially at risk.³

Figure 2: Four groups affected by higher unemployment



Sources: Department of Social Services (2020), Responses to Senate COVID Committee Questions Nos SQ20-000429 and SQ20-000426; ABS (2020), Labour force, Australia, May 2020. Note: Recipients of Jobseeker and Youth Allowance payments (except 'workers stood down', derived from ABS labour force data for May 2020). **Note: The number of 'workers stood down' has fallen to 165,000 in July 2020 (ABS Labour force July 2020)**



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They will be competing in a labour market where vacancies fell by half (from March to June).⁴ The nature of the jobs and skills required are likely to be different. Many services previously provided face-to-face will be offered online and many entry-level jobs will be automated, while opportunities may open up in sectors such as logistics, call centres, care services and manufacturing.

Stimulate jobs growth

The most important contribution governments can make to keep unemployment below double-digits is to chart a smooth transition from Jobkeeper payments and other elements of the 'locked-down' economy such as debt and rent freezes. Those programs should be phased out gradually, and large-scale economic stimulus will be needed during 2020-21 to carry consumer demand, confidence and employment through this second economic 'danger zone'.

Another way to promote growth in the regions most affected by unemployment is to raise the rate of the Jobseeker payment (\$285pw), which has not increased in real terms for 25 years. [Modelling by Deloitte Access Economics](#) indicates that the economy would grow by \$1.2 billion for each \$1 billion spent to increase this and related payments such as Youth Allowance and Austudy Payment. In July, just before a 'second wave' of the pandemic hit Victoria, the Australian Government announced that both the Coronavirus Supplement for people relying on income support and the JobKeeper wage subsidy would be reduced by \$150pw from 28 September. This puts the economic recovery at risk and will throw most recipients of Jobseeker Allowance and related payments back into poverty.⁵

Expand and improve employment assistance and training

Over the next two years, job vacancies will be tightly rationed. Although good-quality employment services and training cannot of themselves greatly increase the number of jobs available, they can bring the groups listed above closer to the front of the queue. This sorting function is socially and economically vital; at a given level of unemployment it is better for most of those affected to be out of work for a short time rather than a long time. Employment assistance is often thought of as a supply-side exercise, yet effective employment services work as much on the demand side, with employers.

In the short term, employment assistance must be scaled up to assist unemployed people to adjust to a changed labour market and employers to recruit and train the right people. Over the next two years, its main purpose should be to contain the inevitable rise in long-term unemployment by assisting those already unemployed long-term, and those most at risk, to secure more of the available vacancies. In 2018, the Government's Employment Services Expert Panel (of which I was a member) found that the jobactive system was compliance-oriented rather than help-oriented, and not fit for purpose to assist people disadvantaged in the labour market.⁶ We can improve employment and training services in a few key ways:⁷



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Improve career guidance and training

The most pressing need for three of the groups identified above – new entrants and re-entrants to the labour market and those who lose their jobs – is career guidance and training. Young school-leavers and older retrenched workers alike will need help to navigate a changed labour market.⁸

Of the 600,000 additional people in 'jobactive' employment services from March to May 2020, the vast majority were assessed as 'Stream A': the least disadvantaged classification. In a normal labour market, most of them would secure employment quickly with a minimum of help, but this is no normal labour market.

Further, many in this group (for example, young people who have come out of a long period of relative social isolation) are anxious about their future and unfamiliar with the social security and employment services systems. Since the pandemic, psychological distress has been especially elevated among people who are unemployed whose incomes are low and insecure.⁹

It is a good thing that job search requirements and associated penalties have been suspended since April, as the pre-COVID benefit compliance system was brutal: people who didn't attend a jobactive provider interview had their next payment automatically suspended that same day, regardless of the reason. Before activity requirements are reinstated, the employment services system must pivot from its previous emphasis on compliance with job search requirements towards career guidance and support.

The government has laid foundations by establishing the Careers Institute to gather and interpret real-time data on jobs available now and in the near future, skill requirements and courses. Yet career guidance is more than information on a website.

Successful career guidance and training programs for unemployed people have come and gone over the years: including Jobs Education and Training (JET) then Employment Preparation for sole parents and carers, Youth Connections then Transition to Work for young education leavers, and Career Transition Advice for older workers.¹⁰ It is time to *permanently* weave career development into the fabric of employment and training systems.

It is also time to properly resource literacy, language and digital training for the 40 per cent of the paid workforce who lack these basics to function effectively in modern workplaces.¹¹ This is especially important now that a large share of newly-unemployed workers comes from culturally and linguistically diverse backgrounds.

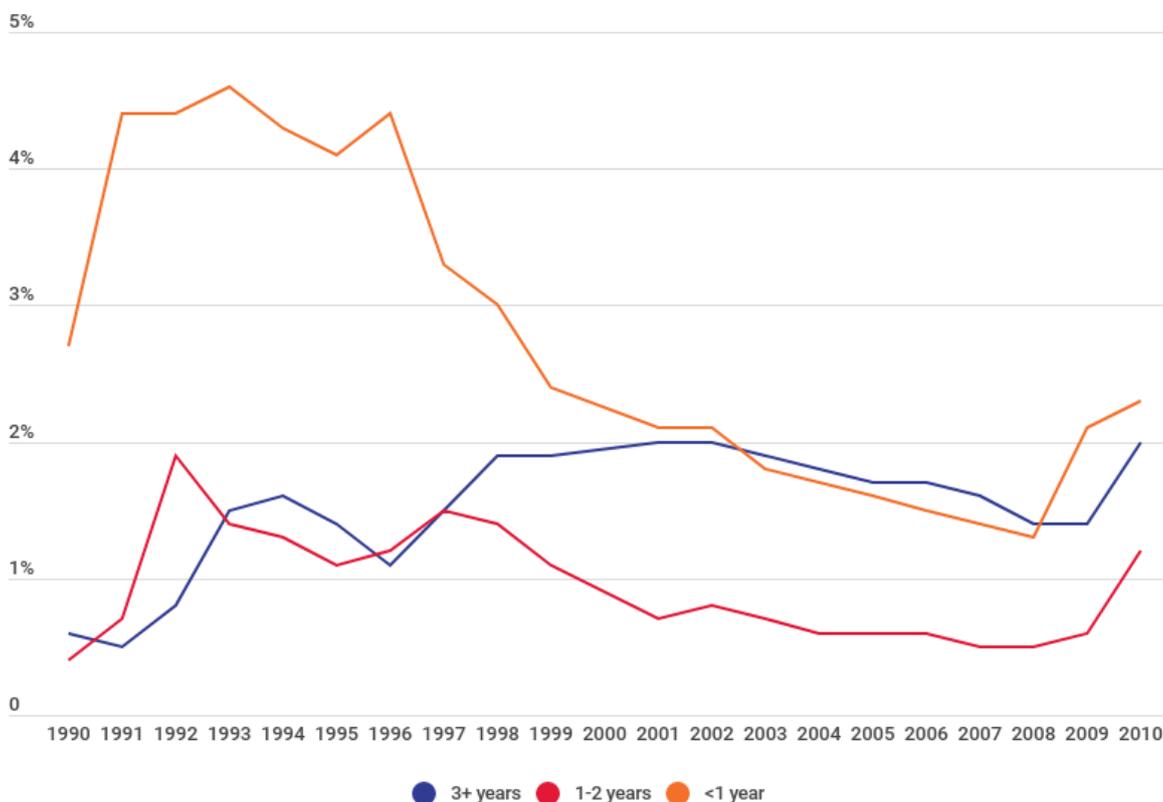
Incidentally, a pivot towards education and training for people out of paid work can also help with 'job rationing'. If young people and women re-entering the labour market after full-time caring can benefit from further education, then unemployment payment and employment services rules should facilitate this, not get in the way as they have until now.¹²

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Employment and training guarantees for people unemployed long-term

This is where the greatest investment in employment and training support should be made, because it is where it can make the most difference. As Figure 3 shows, long-term unemployment rose sharply a year or two after the last recession in 1991 and was much slower to fall than short-term unemployment during the long boom from 1994 to 2008.

Figure 3: Unemployment payment recipients by duration on payment 1990-2010



Source: Department of Social Services (various years), Statistical profile of social security payments.

Unemployed people's employment prospects diminish over time. In 2016, people receiving Newstart or Youth Allowance for less than three months had a 50 per cent chance of being employed and off payments a year later. Among those unemployed for 12-24 months, this fell to 30 per cent, and among those unemployed for five years or more it fell to 10 per cent.¹³ This is due in part to recruitment practices that select out those with large gaps in their resumes, and in part to employment barriers such as disabilities, low qualifications, and age discrimination.

Well-designed employment assistance can make a difference. Effective programs include wage subsidies (to give people experience of regular employment and employers an opportunity to trial them), training (to adjust skills to the profile of jobs available and the needs of prospective employers), and 'demand-led' employment services (where the service identifies job openings and assists both the employer and unemployed person to make the match work).¹⁴



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As with other essential services, governments get the quality of employment assistance they are prepared to pay for. Australia spends less than half the average OECD expenditure on employment assistance (as a share of GDP) because it contracts employment services to offer (mostly) low-cost job search assistance in the hope that if people search harder and smarter, they'll find jobs.¹⁵ This is not the reality for most people unemployed long-term.

People unemployed for one to two years or more should be offered a guarantee of a wage subsidy, good quality training or other intensive support to help them secure employment. Young people should receive this offer after six months' unemployment in recognition of the more rapid impact of unemployment on their well-being and job prospects.

The challenge is to scale up this support over the next one to two years so that it's available to a much larger population of people unemployed long-term, without sacrificing quality and personalisation. There are plenty of examples of large-scale employment programs that missed the mark because assistance was not responsive to the needs of different regional labour markets and individual unemployed people, and of others that worked.¹⁶

Doing employment services differently

In addition to scaling up national programs, the government must ensure that local services match the right people with the right jobs and programs, work with employers and training providers as well as unemployed people, and have the skill and discretion to do all this effectively.

As the Expert Panel found, the present employment services system doesn't fit the bill. The Panel recommended that employment service providers should be better-resourced to specialise in helping people unemployed long-term or otherwise disadvantaged, while referring those who can find employment without much help to a (mostly) digital service.¹⁷

In the challenging new circumstances we face it's time to take a few steps further by:

- Pivoting employment services from their previous role as benefit compliance managers to career coaches and employment facilitators, and giving unemployed people more agency and control;
- Establishing programs to scale up wage subsidies and training for people unemployed long-term (as proposed above) while leaving decisions on the form of assistance offered to be negotiated between employment services and each unemployed person;
- Establishing regional employment and skills development partnerships to join the dots between employers, unemployed people, and local employment and training services in accord with employer and community-driven employment development plans. The Government recently announced a new initiative along these lines in 14 regions with high unemployment. This is similar to proposals advanced by ACOSS, Brotherhood of St Laurence and the Centre for Policy Development.¹⁸

We must urgently build on the consensus around fighting the pandemic to forge a partnership for jobs with a determined focus on reducing unemployment, especially prolonged unemployment.



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Endnotes

1 ABS Labour Force July 2020, Insights into hours worked.

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