

ADDRESS BY THE PRIME MINISTER, THE HON P J KEATING MP
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Thank you for the invitation to officially open the ACOSS 1994 National Congress. It is good to be here today, meeting once again with people from some of the key support organisations in Australia.

You may remember I opened this Congress in 1992, in different political circumstances and in a less favourable economic climate. It is interesting to reflect on that occasion.

At the time the Congress provided an opportunity for the Government to put on record our determination to improve social justice in Australia.

I assured you that Labor Governments are reformist by nature - but that none would be more reformist than this one. I said you would see further advancement and change.

And these last two years have seen some of the most important, progressive and equitable policy innovations - innovations that I hope will in time be seen as significant landmarks in our social history.

These recent policies have been motivated by a desire for greater equity and greater economic efficiency. This is a crucial point which our opponents have trouble understanding. They cannot reconcile equity and efficiency.

But it is not new to link humane and economically responsible perspectives. Over a hundred years ago, Alfred Marshall, who is these days usually described as one of the intellectual parents of conservative economics, did exactly this.

He said that "It will be my most cherished ambition...to increase the numbers of those, whom Cambridge...sends out into the world with cool heads but warm hearts, willing to give some at least of their best powers to grappling with the social suffering around them".

This disposition at once sounds both familiar and fresh to the Government. Thus the theme of the 1994 ACOSS Congress, "Challenging the Divide: Equity in the Age of Efficiency", is both a very appropriate and important one.

The theme encourages us:

- . To explore the often essential complementarity of equity and efficiency:
- . To show that what equity and efficiency might have in common is, in many instances, much more substantial than what is sometimes seen to separate them; and
- . To illustrate, through a real policy example, that not everything economists think is a good idea will turn out to be a social disaster.

The related and significant issue is that so often what is given prominence in public and academic debate is the supposedly inevitable, but often false, choice between equity and efficiency.

For many these goals are always seen to involve large trade-offs, the common idea being that redistribution from the rich to the needy always involves a leaky bucket - that moving water from the swollen dam to the parched creek means that valuable resources will be spilt.

This Government thinks and acts differently about the presumed trade-off. In many instances it is not only possible, but prudent and beneficial to institute policy that is both redistributively fair and financially rational. There may be no divide to challenge.

Arthur Okun, the great American liberal economist, said this best: "[social justice and markets]...need each other, to put some rationality into equality and some humanity into efficiency." The Government endorses these sentiments, and much more than just rhetorically.

It is this view of the role of social democratic policy that brought into being this year one of Labor's great redistributive and economic achievements - the Job Compact, the centre-piece of the Government's revolutionary White Paper, *Working Nation*. Let me explain its basis.

The Compact is a quintessential example of the connection between compassion and the optimal allocation of scarce resources. It should make profound sense to the dedicated welfare worker, and receive at least the tacit approval of parsimonious chartered accountants. Philanthropists and misers, Florence Nightingale and Scrooge could both put their hands up for it.

With the Job Compact, warm hearts and cool heads beat and nod together.

The Job Compact involves the offer of work for all people who have been actively seeking employment for 18 months or more.

Much of the expenditure will be directed to a large expansion of the successful Jobstart scheme, in which firms are given generous wage subsidies for employing members of the targeted group.

We have also introduced a training wage which, in combination with wage subsidies, will mean that the longer-term unemployed will have a real chance to gain useful and accredited training.

For some of the targeted group Jobstart or the training wage will not be enough, perhaps because of locational disadvantage or other demographic factors. For these people the Compact offers New Work Opportunities - Government financed, but locally planned, designed and delivered jobs.

There is more. The new policy directs resources and counselling to those in shorter-term unemployment but at risk of continuing joblessness.

In other ways the Compact pays particular attention to the personal characteristics and specific employment needs of the targeted group. This is through Case Management, the value of which is well appreciated by ACOSS.

For the client, Case Management means personal service, from someone who knows their history and their employment goals. With the Case Manager, the client will prepare a plan for return to work. It will perhaps involve training, counselling, referral to other specialist agencies, or combinations of all of the above - but its end-goal is a job.

The Case Manager will continue to provide support in the critical months during and after the job placement. It signals a more personal, flexible and caring approach to assisting unemployed people.

This is the policy material of warm hearts.

There is also a side to the changed Case Management arrangements to satisfy hard heads. For the first time Case Management has been opened up to competition.

Individuals in the Compact will have a choice between the Commonwealth Employment Service and other groups.

Competition will enable us to draw on the expertise and commitment in the community. It will put all service providers on their mettle to provide higher standards of service for their customers.

Most importantly, it will enable community organisations to directly assist unemployed people back to work. The new arrangements will encourage Case Managers with local knowledge, expertise and concern. For example, Aboriginals and Torres Strait Islanders are often best helped by other Aboriginals and Torres Strait Islanders.

Improved effectiveness, more choice, higher levels of service and better outcomes for clients - the familiar phrases of micro-economic reform, the rhetoric of hard heads.

And all this in the context of a job guarantee for the most disadvantaged in the labour force. We are challenging the divide: equity in an age of efficiency.

The Job Compact is an extraordinary labour market approach in the way that it treats the individual unemployed as having idiosyncratic needs. It allows, motivates and encourages the solution to their employment problem to be flexibly resolved.

There is no one answer for the special aspirations and difficulties of the several hundred thousand longer-term unemployed. But for the first time there will now be an opportunity to package a resolution for all.

As I promised on election night 1993, we will not leave the unemployed behind.

Nothing like the Compact exists in any other country. Yet our longer-term unemployment is not unusual in comparison with most other countries.

What is different in Australia is our innovative and sophisticated approach to policy. It is useful to trace the origins of the Compact to see how we ended up here.

The Job Compact was motivated essentially by a concern with the fundamental unfairness of market economies left to themselves.

There are two clear facts.

A short time after the beginning of the 1982 recession the number of people who had been out of work for 12 months or more trebled, to reach nearly 200,000. There was a similarly large increase in the numbers of this group after the beginning of the early 1990s downturn.

This is the first fact: left alone, long-term unemployment goes up dramatically after recessions start.

And while the economy created 1.6 million jobs in the considerable boom of 1983-89, the number of those who had been out of work for over a year fell by only 70,000, or 40 per cent.

This is fact number two: left alone, long-term unemployment comes down slowly, even when the economy booms.

Before the Job Compact these phenomena were in danger of being repeated over the 1990s.

An implication is that economic growth, while crucial to solving the unemployment problem, is not by itself enough. This is not understood by our political opponents, to the extent that we can garner that they have any views at all on this issue.

When market economies are left alone in a recession, the economy's influenza becomes pneumonia for a proportion of the unemployed. And for some of these there is no quick cure when the winter is over for the rest of us.

This then is the first justification for the Compact - equity.

We cannot allow a minority to continue to bear the most severe pain and costs of recession. It is simply not fair, not just, not what a sophisticated democracy should be about.

The second equity justification for the Compact is closely related to this.

Ask yourself the question - Are those who experience long term unemployment typical citizens or are they also disadvantaged in other respects?

The answer is as clear as economic data get.

Typically, those bearing the disproportionate costs of economic fluctuation through long term unemployment are members of some of the most disadvantaged groups in the labour market.

Some examples are helpful here. One is that those who did not finish secondary schooling have roughly twice the chance of being out of work for over 12 months compared to those who did.

Another fact is that immigrants from non-English speaking backgrounds have more than twice the rate of long-term unemployment.

And of unemployed Aboriginals and Torres Strait Islanders typically around 60 per cent have been jobless for over a year.

These numbers explain why an important part of our policy response concentrates on those at risk of remaining unemployed.

The second equity justification is thus as obvious as the first. Those who are likely to enter longer-term unemployment need active employment assistance before this eventuates. Without this the moderately disadvantaged can become the profoundly disenfranchised.

There is yet a third equity point of having active labour market programs targeted on long-term unemployed people.

It is a fact that those in continuing employment in Australia experience on average about a three per cent real increase in remuneration every year, from promotion or by moving to better jobs.

But the longer-term unemployed receive nothing extra as time passes - indeed their skills deteriorate and their morale evaporates.

What this means is that the lifetime outcomes of those targeted in the Job Compact would otherwise be diminishing quickly. Unfettered market economies naturally tend to widen the gap between the haves and the have-nots. And because markets do not have soft hearts there is nothing in the process which is self-correcting.

If no other reasons were offered for the Job Compact the equity reason would be sufficient.

But there is much more than this about it. There is a substantial, strictly economic rationale for the interventions announced as part of the Job Compact. And this is what we mean when we speak of policy motivated by equity in an age of efficiency.

Twenty years ago, Leonard Silk, perhaps the best US financial journalist of the last half-century, wrote that: "...the output lost from the waste of human resources is almost certainly greater than the social costs needed to develop them."

This observation is intensely relevant to the economic story behind the Compact.

There are several interrelated factors at work that put the Compact securely in the realm of sensible economics.

One is that, until the Compact, the Australian approach to the paying of income support to the unemployed was more passive than active.

By this I mean that it has been possible in the past for individuals to remain on social security without guaranteed pro-active help from the government, even for very long periods of time. Thus, in an important sense, the Compact promotes the conversion of government social security expenditure into productive employment assistance.

The second and third efficiency issues relate to the loss of skills of the longer-term unemployed, or at least the perception by employers that this has happened. It has several very important implications for the way economies function.

If employers think that there is something wrong with those who have been without work for a long period, they will ignore them. They will ignore them when it comes to the filling of job vacancies, for example.

When firms do not take advantage of the potential skills and availability of several hundred thousand unemployed there is a great economic cost. It means that jobs get filled less quickly, and this means severe costs to the nation - to the national budget in terms of income support payouts and foregone taxes, and to the national economy in terms of the lost production of goods and services.

Independent academic research before the White Paper spelt out these costs. From four separate studies a basic consensus emerged that a poor match of vacancies and unemployment in the labour market results in lost output of over 1.3 billion dollars a year.

In a recent paper presented at the annual meeting of the Australian Economics Society it was reported that the Job Compact is likely to deliver very considerable revenue and savings to the budget - up to a billion dollars a year. In other words, a reasonably hard head might introduce the Compact without any reference to equity.

The final efficiency is this: an economic recovery without the participation of a large proportion of the unemployed could well lead to wage inflationary pressures that assistance to longer-term unemployed Australians will help to obviate.

The Compact can convert many of the longer-term unemployed into more useful labour, forestalling the point at which skill shortages emerge and choke off economic growth. So, again, there are good solid economic efficiency grounds for the policy.

What we make of all this is that in many instances the divide between equity and efficiency may be more imaginary than real.

Moreover, the data concerning our achievements on the long-term unemployment front strongly suggest that targeted labour market programs can and will deliver what is needed on both equity and efficiency grounds. From February this year long-term unemployment has fallen from 365,900 to around 290,000. This is an extraordinary achievement - in similar stages of recoveries in the past long term unemployment did not fall until much later.

Much of the decrease in long-term unemployment seems to be coming from the large expansion of the targeted schemes that will make up the Compact when fully implemented. For so far this calendar year some 90,000 of the long-term unemployed have been directly assisted by programs such as Jobstart, Leap and Jobskills.

In equity terms the data for the first quarter of this financial year are also impressive. Compared to the same period last year, there has been an increase of 3.4 per cent in job placements by the CES, but an 11.1 per cent increase in job placements for long-term unemployed people.

There have been 4,325 job placements for Aboriginal and Torres Strait Islanders for this period. This is a 26.6 per cent increase over the same period last year.

Job placements for people with disabilities were 10.1 per cent higher than last year, for sole parents 4.8 per cent higher, for disadvantaged immigrants 20.9 per cent higher.

In the aggregate and in the targeted groups, even at this early stage, we are on track to meet the ambitious plans we set ourselves. And this is before the full implementation of major parts of the Compact, such as New Work Opportunities.

It is a side issue, but worth noting, that the sensitivity shown to the most disadvantaged in the labour force at this stage of the business cycle is quite rare. Most governments here and overseas have tended to wind down targeted programs when the economy booms, and to bask in the reflected credit of falling aggregate unemployment. Until now the longer-term have been left to fend for themselves, as if the rapid job growth were enough to solve their problems.

Thus the unusual aspect of what has been happening, and what will be the case with the full implementation of the Compact, is that we are choosing to expand assistance to the longer-term unemployed even as overall job creation looks very healthy.

We will not be distracted from our focus on job assistance to the disadvantaged by the current over-reaction to the size of the budget deficit. It is normal and desirable for the budget to be in deficit in times of still high unemployment. As in the 1980s, once the economy fully recovers the deficit will naturally fall.

There is a bottom line from our current and prospective successes in providing assistance to the most underprivileged members of the labour force. It is that while Labor governments come naturally to policy with soft hearts we need to recognise that in general the disadvantaged can be assisted more broadly and deeply if the economic parameters are properly in place.

At the same time, we are in no doubt that when it comes to labour markets and the general good of the population, the economic parameters won't be properly in place unless the disadvantaged are taken on board and given the chance to be a productive part of the process.

The challenge lies in the further and future development of socially just and, whenever it is also possible, economically efficient policies. You may be assured that it is in our make-up, an essential part of what we are as a Government, that we won't be resting in this endeavour.

Soft hearts, hard heads. Justice and reason. Equity and efficiency united for the common good. We will continue to challenge the divide. And we will continue to invite ACOSS to join with us in this most important of endeavours.