

What Are Low Ability Workers To Do When Unskilled Jobs Disappear?

Part 1: Why More Education and Training Isn't The Answer

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EXECUTIVE SUMMARY

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- Employers are reporting shortages of skilled labour, yet unskilled workers are sitting idle on welfare. Many commentators think both problems can be solved by more education and training, but this paper disputes this. The solution to the skills shortage lies in policies like delayed retirement and increased female participation in the workforce. The solution to unskilled joblessness lies in generating more unskilled employment.
- The official rate of unemployment in Australia is lower than it has been for thirty years, and the 'economic participation rate' is higher than it has ever been. These two statistics might suggest that almost anyone who wants a job has one, and that more people than ever before are contributing to the economy, but the reality is more complicated.
- Unemployment figures exclude more than 700,000 Disability Support Pension (DSP) claimants (mostly men), and 600,000 Parenting Payment claimants (overwhelmingly women). Many of these people represent the 'hidden unemployed.'
- Economic participation figures disguise the fact that full-time employment rates and overall employment rates for males have both been falling.
- Many welfare recipients are unskilled. Demand for their services has fallen over the last forty years because of technological change and globalisation. Fewer than 60% of unskilled men aged twenty-five to fifty-nine are now in full-time employment.
- There are only two possible ways to get unskilled welfare recipients into jobs. One is to offer them education and training in the hope they will gain the skills employers want; the other is to reduce the cost of employing unskilled labour so they can find jobs.
- The training option is widely supported by commentators, but while it helps mature age women return to the labour force, it achieves much less for other groups and has little impact on overall employment levels. There is also widespread support for increasing the number of students remaining in school to year 12, but we are now encountering diminishing marginal returns as more students are pushed through courses for which they are not suited.
- Education and training improves the earnings and job prospects of higher ability people but does not lead to comparable outcomes for those of lower ability. Commentators have confused average benefits with marginal benefits.
- Persistent calls for more education and training ignore the distribution of intelligence in the population. The employment prospects of those in the bottom quartile of the IQ distribution will not be helped by more spending on education and vocational training courses from which they are unlikely to benefit. The best way to help them is to increase the demand for unskilled labour and to equip them with the social skills needed to perform these jobs successfully.

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What Are Low Ability Workers To Do When Unskilled Jobs Disappear? Part 1: Why More Education and Training Isn't The Answer

'The world has changed and we do not know how to deliver what we want, or even whether it is possible.' —Bob Gregory¹

Introduction to Part 1

This is the first of two papers that confront what is arguably the core problem facing social policy today: what is to be done with low-skilled, poorly educated Australians who, even in today's booming economy, seem incapable of finding jobs?

Much progress has been made in welfare reform over the last ten years, and the rapid rise in rates of welfare dependency since the 1970s has been slowed. The principle of 'mutual obligation' for unemployed people is now established, and changes to the eligibility rules governing disability and sole parenting payments mean that everybody of working age who is capable of doing a job is now expected to look for employment. Further reforms of the benefits system may still be worthwhile, but most of the major changes that were needed to stem the growing tide of welfare dependency have now been put in place.

Despite this wave of reforms, there are still around a million working-age Australians living on welfare who should be working but seem incapable of finding employment. In this paper, I look at who these people are, why they cannot find work, and why current policies aimed at helping them are not succeeding. In the next paper, I will consider what might be done to help them avoid whole lifetimes spent on welfare.

Can getting people off welfare solve the skilled labour shortage?

There are currently two debates about workforce participation going on in Australia. Both are important, but they are about quite separate issues, and they call for different solutions. Sometimes the two debates become tangled up with each other, but it is important that they be kept apart.²

The first debate is about *how to raise the rate of workforce participation*—how to get more adults of working age into paid work. There are two reasons we are having this debate, and both are driven by economic considerations. One is the growing shortage of skilled labour as the economy heats up. The government is predicting a shortage of 240,000 skilled workers by 2016, and one way of addressing this problem is to get more people working.³ The other reason is that the population is aging, and on current trends the ratio of working-age people to retirees will fall from 5.6:1 in 2000 to just 2.4:1 in 2040.⁴ The Treasury is keen to get more people into work so it can improve this ratio and generate some of the money that is going to be needed to pay the age pensions and medical bills of those who are retired.

Table 1: Working-age income support, spending, and numbers of recipients for selected payments 2005–2006

Payment Type	Cost (\$'000)	Recipients
Newstart Allowance	4,527,720	
<12 months		174,209
>12 months		264,351
Youth Allowance (unemployed)	535,595	75,186
Parenting Payment Single (PPS)	4,818,425	433,370
Parenting Payment Partnered	1,229,878	159,719
Disability Support Pension	8,256,566	712,163
Total	19,368,184	1,818,988

Source: ABS⁵

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The second debate is about *how to reduce the level of welfare dependency* among working-age adults. Clearly, economics are a factor here too, for as table 1 shows, it costs almost \$20 billion per year to give more than 1.8 million working-age Australians an income for which they do not work.⁶ If some of these recipients could be transformed into net tax-payers by getting them off welfare and into employment, the federal government budget would benefit on both sides of the ledger.

In reality, however, many of these 1.8 million people are only marginally employable, and getting them off welfare and into work may cost the government almost as much as it saves. This means the key reason for wanting to reduce welfare dependency is more social than economic. Widespread reliance on government payments is socially divisive, for it drives a wedge between a 'middle mass' of taxpayers and a welfare-dependent 'underclass.' It also politicises civil society as groups jostle to get bigger handouts from government, and it erodes the culture of self-reliance as more and more people become habituated to a life on benefits.⁷ Even if reducing welfare dependency saved the government no money at all, the social reasons for doing it would still be compelling.

The debate about raising workforce participation (the first issue) obviously intersects with the debate about lowering welfare dependency (the second issue), if only because getting people off welfare usually means getting them into work. However, the most effective policies for increasing workforce participation have little or nothing to do with reducing welfare dependency, which is why the two issues should not be confused.

If the concern is primarily to raise the rate of workforce participation, the most effective way to do it is to encourage people who are already in the workforce to stay there.⁸ This means targeting early retirees. Although Australia is more successful than many OECD countries in dissuading the pre-retirement-age cohort from leaving work early (we rate thirteenth out of thirty), there has been a substantial decline in the proportion of Australian men aged fifty-five to fifty-nine who are working.⁹ If we could increase participation among this group to match the levels achieved by the best-performing OECD countries, our overall workforce participation rate over the next forty years would 'only' fall to 61%, as compared with a predicted 57%. This improvement would have a huge impact. GDP per head in forty years time would be almost 10% higher, and the budgetary problem currently facing us would reduce significantly.¹⁰ In this context, the federal government's recent superannuation changes, which set out to encourage over-55s to delay retirement, make a lot of sense.

If more still needs to be done to boost the size of the workforce, the next group to target is probably women with dependent children (though we should be cautious about encouraging women with very young children to increase their working hours).¹¹ The rate of workforce participation for women of childbearing age has been rising in recent decades, but at 73% it still lags behind the OECD average (we currently rank twentieth out of thirty OECD countries).¹² Changes to the tax and family payments system,¹³ together with policies supporting childcare and parental leave,¹⁴ could encourage more women who currently stay at home to work part-time, and those who currently work part-time to increase their hours. Many women who are currently outside the labour force were working before they had children, so they have the skills and work habits that employers are looking for. There is no motivation problem here, for more than 350,000 women say they would like to undertake more paid work than they currently do.¹⁵

Only after encouraging more early retirees to stay at work longer, and more women to return to the workforce, would it make much economic sense to try to raise workforce participation rates even higher by getting people on long-term welfare into jobs. This is because, unlike the other two groups, most long-term welfare recipients are (a) unproductive or only marginally productive at current wage rates; (b) less motivated or in some cases strongly resistant to getting a job; or (c) less capable of leading self-reliant lives.

These are harsh truths, and many politicians, employers, and social commentators prefer not to face them. It is more comfortable to pretend that people who have been living on welfare for years are no different from those who are in jobs, and that if a few 'barriers to participation' could be lowered, they would become eager and productive workers who

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contribute fully to the nation's GDP. In some cases, this may be right. But in many cases, it is wishful thinking.

Many people on welfare today are there because they are only marginally employable, or are acculturated to dependency. Fifteen years of a booming economy, coupled with the recent tightening of welfare eligibility rules, will by now have removed most of the 'easy cases' from the welfare rolls. The federal government has tightened the definition of incapacity to make it harder to qualify for the Disability Support Pension; it has required single parents on benefits to seek part-time work once their youngest child turns six, rather than waiting until their children reach school-leaving age; and it has told those who have been unemployed for two years or more to enrol in a 'Work for the Dole' scheme if they want to continue receiving benefits. Most of the loopholes have been closed, so only the 'hard cases' are likely to remain.

Getting the 'hard cases' off welfare is likely to cost a lot of time and money. In America, the number of welfare claimants has more than halved since the big reform of 1996, but much of the money previously spent on benefits now goes on supporting employed former claimants with services like child care, counselling, transport to work, and literacy programs.¹⁶ Likewise, in Australia, a trial scheme to raise employment rates among Disability Support Pensioners ended up costing around \$50,000 for every person moved permanently into work.¹⁷

Moreover, even if significant numbers of those who remain on welfare can be found jobs, they are unlikely to earn much, so they will not contribute much in tax revenue. Many of them, including single parents with young children and people with genuine physical or mental disabilities, will only be able to work part-time at best, and will therefore still need substantial financial top-ups from government to achieve an adequate income. Nor, given their skills and capacities, will their participation in the workforce do much to resolve the growing 'skills shortage.' Nor should we expect increased participation by people currently on welfare to deliver much of a boost to GDP growth.¹⁸ Indeed, the recent tightening of eligibility rules will in the short-term *reduce* average per capita productivity levels by drawing low-productivity people from benefits into the labour force.¹⁹

Looked at in purely economic terms, therefore, the unemployed are not a pool of job-ready, high-value labour that can be tapped to solve the workforce participation problem. In purely economic terms, it would probably be cheaper just to leave them where they are. But the compelling arguments for getting them off welfare and into work are not economic. They are social.

How many people lack jobs?

The official unemployment rate in Australia for September 2007 was 4.2%.²⁰ Unemployment has been below 5% for more than a year. It is more than thirty years since the country experienced sustained levels of unemployment this low.

Today's low unemployment rate is all the more impressive because it has been achieved at a time when more Australians than ever before are making themselves available for work. The official economic participation rate in September 2007 was 65%. This means that almost two-thirds of adults of working age are now 'economically active'; they are either employed or looking for work. Participation levels have never been this high before.²¹

Both of these statistics seem encouraging. They seem to indicate that almost anyone who wants a job has one, and that more people than ever before are contributing to and benefiting from the growing economy. However, this interpretation of the data is overly optimistic, for while it is true that the economy has been booming, and official unemployment rates are low, table 1 indicates that nearly two million people of working age are drawing on welfare. Thirty or forty years ago, many of these people would not have been claiming government benefits—they would have been in paid work, or would have been 'housewives' supported by a spouse's earnings.

Only a minority of today's working-age welfare population—around one-quarter of them—are unemployed people on Newstart or Youth Allowance. Most of them are only

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on benefits for a relatively short period: 42% of unemployed workers find another job within eight weeks, and almost 70% are re-employed within six months.²² These temporary claimants clearly do not represent a serious problem as regards employability, but we see from table 1 that among the unemployed there are also more than a quarter of a million people who have been without work for more than a year. They are likely to be much more difficult to remove from the welfare rolls.

Australia has performed much better than most other OECD countries in reducing long-term unemployment rates in recent years. In 1994, the proportion of unemployed Australians who were out of work for a year or more was 36%, which was also the average for the OECD as a whole. Since then, long-term unemployment in Australia has halved to 18% of the unemployed population, yet the OECD figure has hardly changed, declining just marginally from 36% to 32%.²³ Those who remain long-term unemployed in this country are the most difficult to place in a job. Nearly half of them have no qualifications beyond year 10, and even when jobs are found for them, they have trouble keeping them (three quarters of people who go through Intensive Support programs to help them find work subsequently stay in a job for less than three months).²⁴

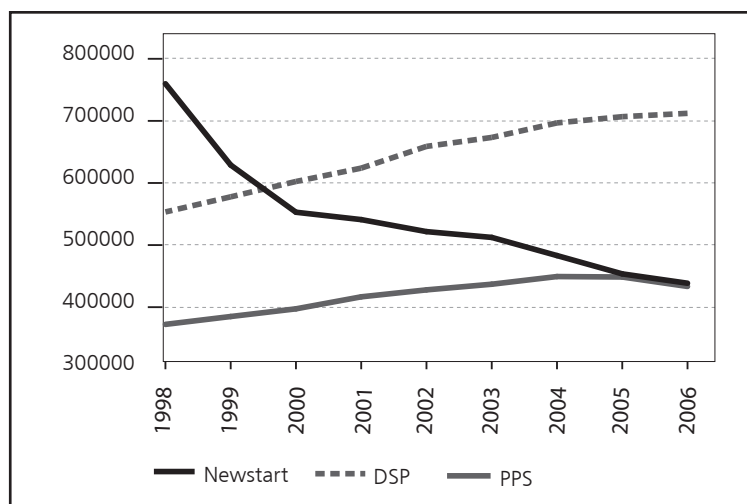
The rate of unemployment among teenagers is also a cause for concern. Of those teenagers who want full-time work, 20% are unemployed,²⁵ although mostly for the short term. Fewer than 10% of teenagers are long-term unemployed.²⁶ Nevertheless, an initial period of unemployment after leaving school has been found to 'scar' career prospects later,²⁷ so it is important for policymakers to minimise teenage joblessness. The hardest cases in this group are found among those who leave school early with no qualifications.²⁸

Summing up, there are perhaps a quarter of a million long-term unemployed adults and another fifty thousand unemployed teenagers who have few skills, and who appear to be struggling to hold down jobs even in this buoyant economy.

To their numbers we must add hundreds of thousands more people who are dependent on welfare for the long term, but who never appear in the unemployment statistics. The unemployment rate may be back to where it was in the 1970s, but there are many more jobless people receiving other welfare benefits today than there were then. In particular, as we saw in table 1, there are now almost three quarters of a million people drawing the Disability Support Pension (DSP) and another 600,000 on Parenting Payment (although 'only' 400,000 of this latter group have earned no income of their own).

Both disability and parenting payments are more generous than unemployment benefits, and they also have less demanding mutual obligation requirements. There has therefore been a strong incentive for unemployed people to get themselves reclassified into one of these more favoured categories, and this is what seems to have happened, for recipient numbers for disability and parenting payments have mushroomed over the last three decades at the same time as the unemployment figures have been falling.²⁹

Figure 1: Newstart, Disability Support Pension, and Parenting Payment (Single) recipients, 1998–2006



Source: ABS³⁰

Figure 1 charts the trends from 1998 to 2006. It shows that as unemployment figures (as measured by numbers of Newstart recipients) have been steadily falling, the number of people drawing the other two payments has been rising just as steadily (although the upward trend in Parenting Payment recipients appears to have peaked). The Newstart numbers fell by 320,000 in these eight years, but DSP/PPS numbers rose by 180,000, and there is a strong and statistically significant negative correlation between the two sets of figures.³¹

The DSP is the principal form of welfare for economically-inactive men (male claimants outnumber women 420,000 to 290,000). Half of all inactive men of working age are claiming it, and most claimants report disabilities like 'psychological stress' or 'bad backs' that are hard to diagnose and measure accurately.³² Many of these claimants have gravitated to DSP after a year or more on unemployment benefits, which suggests the disability pension has to some extent been operating as a substitute for Newstart.

Thirty years ago, just 3% of men aged 15 to 69 cited disability as their reason for economic non-participation; today, 6% do. The proportion of men outside the labour force claiming to be permanently unable to work stayed fairly constant from 1978 to the early 1990s, but it has increased five-fold since then.³³ Once on DSP, the probability you will return to the workforce is minimal. In 2005, the federal government tightened the definition of 'disability' to try to stem this flow, but the impact from this change is unlikely to be felt for some time, since existing claimants are exempted from the new rules.

Elsewhere, I have argued that while some of the increase in DSP recipients over the last thirty years can be explained by factors like population aging, much of it represents displaced unemployment. This interpretation gains weight from a recent analysis by Ralph Lattimore of the Productivity Commission, who shows that a large part of the increase in DSP recipients can be explained by labour market changes (specifically, the decline in demand for low-skilled workers) coupled with the perverse incentives of the welfare system (the higher payments available on DSP and the reduced demands made on claimants). As many as half of all DSP claimants can probably be regarded as 'unemployed' (unable or unwilling to find suitable work) rather than 'incapacitated' (unable to perform work).³⁴

Just as economically inactive men often gravitate to DSP, so economically inactive women have tended to cluster on the Parenting Payment (the welfare payment for single parents and parents with unemployed partners). Just like the men, many of them are low-skilled (60% of Parenting Payment claimants dropped out of school and did not complete year 10).³⁵ For them, too, pension payments have appeared as a higher-paying alternative to unemployment allowances.

Like their male counterparts on the DSP, many women who access Parenting Payment have previously been claiming Newstart, although their paths through the welfare system tend to be more complicated than those of the men.³⁶ They often begin on Newstart Allowance when they are younger, and move onto Parenting Payment when they have children. Until recently, they were entitled to remain on Parenting Payment until their youngest child reached school-leaving age, and a pattern developed where claimants would switch between Parenting Payment Single and Parenting Payment Partnered as they moved in and out of relationships. Once their children had grown up, these people had often become almost unemployable, and some of them would fill in the time before qualifying for the age pension with a period drawing Carer Payment.

Data from the pre-2005 period (before the changes to the eligibility rules were introduced) reveal that seven out of ten women who came onto Parenting Payment as a result of having a new baby (as against those who already had children and who applied for Parenting Payment as a result of a relationship break-up) had previously been on Newstart. Having a baby meant many young women could exit unemployment benefits for a higher-paid and more comfortable welfare payment. Once there, more than half of them went on to have additional children, indicating that the prospect of

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continuing long-term dependency on welfare did not unduly worry them. Over a period of 7.5 years, Bob Gregory found that fewer than one in five sole parents who accessed the benefits system ever left it and, on average, each woman entering the system spent 5.7 of those 7.5 years living on benefits.³⁷

Overall, the evidence is compelling. The DSP and Parenting Payment have (until recently) both been functioning as better-paid, less demanding alternatives to unemployment benefits. While men have been moving from long-term unemployment onto DSP, women have been moving from long-term unemployment onto Parenting Payment. And where men have tended to stay on welfare once they make it onto DSP, so women have tended to stay on welfare once they get onto Parenting Payment (although doing so is now more difficult once their youngest child turns six).

Once we include the large increase in the number of Parenting Payment and DSP recipients over the last few decades, it is clear that the welfare dependency rate among working-age adults is as high as it has ever been. The official rate of unemployment may have dropped since the early 1990s, but there has been a significant displacement of jobless people into other welfare categories that are more long-term.

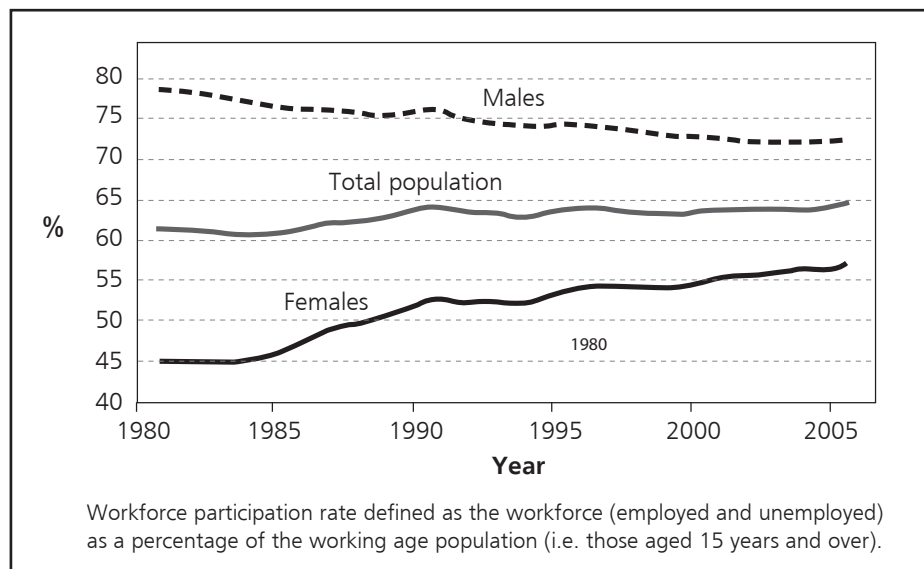
The loss of self-reliance

We have seen that 65% of the Australian working-age population is actively participating in the labour force. This is higher than ever before, and given that the aging of the population would be expected to drive participation rates down, it is clearly a positive outcome. It also compares favourably with most other OECD countries, for after adjusting the international data to achieve comparability, only Iceland, New Zealand, Canada, and Switzerland have a greater proportion of working-age adults in the labour force than we do.

However, as with the unemployment data, the raw figures on economic participation conceal as much as they reveal. The rise in the rate of labour force participation has been quite modest (up by just 3.5 percentage points in twenty years), and during that period it was driven *entirely* by an increase in part-time work, much of it undertaken by women. The rise in economic participation overall disguises the fact that male employment rates, and full-time employment rates for both sexes, have fallen.

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Figure 2: Male, female, and total workforce participation rates, 1980–2006



Source: Abhayaratna and Lattimore³⁸

Male workforce participation rates have dropped significantly (figure 2). In the last twenty years, as female workforce participation rose by roughly 10 percentage points (from 47.4% to 57.2%), the male rate fell by almost 4 percentage points (from

75.9% to 72.1%).³⁹ Bob Gregory calculates that since 1970, ‘One full-time male job in four has disappeared.’⁴⁰ The growth of female employment has not made up for this fall in male full-time employment, for the proportion of women aged 15 to 59 who work full-time has hardly changed in the last forty years. Gregory calculates that the ‘average woman’ has increased her period of involvement in economic activity from 17 to 22 years since 1966, but this increase in the average is almost entirely due to a rise in female part-time employment.

Gregory concludes from all this that there are more than a million Australians on income support today who in 1970 would either have been working or sharing a spouse’s income. Either way, they would have been members of self-reliant households rather than depending on welfare payments.⁴¹

What happened? The Great Disruption and the reduced demand for unskilled labour

Two major changes that explain the fall in economic self-reliance and the surge in welfare dependency have occurred between the 1960s and the present.

One was what Francis Fukuyama has called ‘The Great Disruption’, a cultural revolution that swept most western countries during the 1960s and 1970s, transforming patterns of family life and challenging long-held norms of social behaviour. In Australia, marriage went into decline, divorce rates rose, rates of single parenthood escalated, and ex-nuptial births increased from 1 in 20 in the early 1960s to 1 in 3 today. Single parenthood used to be unacceptable and stigmatised, but has now become commonplace.⁴² Because many of those who become single parents cannot afford to support themselves without a partner, the welfare system has had to shoulder much higher costs.

The second change was that demand for unskilled labour declined. This happened in all advanced economies. Total employment in the OECD rose by one-tenth of a percentage point each year through the 1990s, but the employment rate for people with less than an upper secondary education fell each year by an average of 0.3 of a percentage point.⁴³ In Australia, 1.3 million new jobs were created between 1990 and 2003, but 70% of these were for university graduates, and only 12% went to people with no post-school qualifications. While the number of graduate jobs doubled in just thirteen years, the number of jobs for those with no post-school qualifications increased by only 4% (table 2).

In Australia, 1.3 million new jobs were created between 1990 and 2003, but 70% of these were for university graduates, and only 12% went to people with no post-school qualifications.

Table 2: Employment change 1990–2003 by gender and level of qualification

Gender and highest qualification	Employed in 1990 No.	Employed in 2003 No.	Change No.	Change %	Share of increase %
Male					
Degree+	605,800	981,100	375,300	61.9	27.3
Trade/other qual	1,844,300	1,960,300	115,900	6.3	8.4
No post-school qual	2,073,700	2,151,400	77,700	3.7	5.6
Female					
Degree+	350,000	940,800	590,800	168.8	42.9
Trade/other qual	1,157,300	1,285,800	128,500	11.1	9.3
No post-school qual	1,714,600	1,802,900	88,200	5.1	6.4
Persons					
Degree+	955,900	1,921,900	966,100	101.1	70.2
Trade/other qual	3,001,600	3,246,000	244,400	8.1	17.8
No post-school qual	3,788,300	3,954,200	166,000	4.4	12.1
TOTAL	7,745,800	9,122,200	1,376,400	17.8	

Source: AMP and NATSEM⁴⁴

The increase in the number of jobs since 1990 has not been sufficient to stem the fall in male labour force participation rates, and most of this decline has been concentrated

What is going to happen to Australians with few skills as the domestic demand for unskilled work continues to decline?

among unskilled workers. Three quarters of unskilled men of working age had full-time jobs in 1981, and their employment rate was only 8 percentage points lower than that of skilled men. Twenty years later, employment of unskilled men had fallen below 60%, and the gap between their employment rate and that of skilled men had grown to 18 percentage points.⁴⁵ Even during the boom period since 1990, the participation rate of men with no post-school qualifications fell by 10 percentage points, from 78% to 68%. It is estimated that 336,000 unskilled men who would have had jobs in 1990 are now outside the labour force.⁴⁶

Is mass welfare dependency unavoidable?

Why has the demand for unskilled workers fallen so dramatically? Most economists attribute it to two main factors: technological change (including the continuing shift from manufacturing to services) and the expansion of global markets.

New technologies reduce low-skilled jobs by replacing human labour with machines or computers. In a growing economy, other jobs are simultaneously created, but few of these are unskilled. Over time, therefore, the gap grows between levels of skilled and unskilled employment opportunities.

Globalisation also knocks out some local jobs by opening western markets to goods and services produced by cheaper labour in developing countries, thereby pricing out equivalent goods and services created by more expensive Australian workers.⁴⁷ It also subjects Australian firms to more intense competition, which forces them to raise efficiency levels by getting rid of less-productive workers. Again, skilled workers are less threatened by these trends than unskilled workers, because they are less easily substituted and are generally more productive.

Most economists suggest that the decline in unskilled work has been caused more by technological change than by globalisation.⁴⁸ However, as Deepak Lal points out, the two trends are intimately connected and cannot easily be disentangled, for technological change enables and promotes globalisation.⁴⁹ Improvements in global communications and transportation, for example, have allowed western firms to outsource their labour-intensive operations into low-wage overseas countries while keeping higher-value research and development, marketing, design, and management functions in the metropolitan core. This outsourcing has reduced the demand for unskilled labour at home, just as if the task had been automated.

These two trends cannot easily be separated, nor will they be reversed in the future. This then raises the key question: what is going to happen to Australians with few skills as the domestic demand for unskilled work continues to decline?

The default option—the one we have been taking until now—is to expand welfare to support increasing numbers of unskilled people on DSP, Parenting Payment and Newstart. But we have seen there are good social reasons for avoiding this outcome. This leaves only two other possible options.

One is to make it more attractive for employers to take on unskilled labour. The key policy here would be to change minimum wage legislation to allow the wages of unskilled workers to fall to a point where employers find they are once more worth employing. Supplementary policies might try to strengthen the ‘social skills’ of unskilled people (including time-keeping, appearance, and politeness) so employers are more inclined to take them on. Options like these can be summarised as *improving the prospects of low-skilled workers*, and I shall outline them in some detail in my next paper.

The second option is to increase vocational training and/or raise education levels to enhance the employability of low-skilled workers by increasing their skill levels. The assumption here is that workers with more qualifications will be able to compete more effectively for the new, more highly skilled jobs that are being created. This second option can be called *turning low-skilled workers into high-skilled workers*.

Understandably, most politicians and employers prefer the second option to the first. The problem is that it generally doesn't work.

Skilling the unskilled is not the answer

If we want to raise the participation levels of low-skilled workers, the obvious way to attempt it is to raise their productivity through additional government spending on education and training so they can compete for better-paid, more demanding jobs. This is the ‘motherhood and apple pie’ option, popular with almost all sections of society.

Employers favour it because they think it will deliver a bigger pool of skilled workers to recruit from, and they are happy for government to pick up the cost. Trade unions favour it because they think additional training will increase their members’ bargaining power. Teachers and lecturers favour it because it increases demand for their services. Welfare pressure groups favour it because they prefer jobless claimants to spend their time in the classroom rather than in low-skilled ‘Work for the Dole’ tasks. And politicians favour it because sending unemployed people on training courses and keeping more students in school gives voters the impression that they are ‘doing something’ to help ‘battlers’ find work (the new Labor government in Canberra has flagged education and training as its top priority).

The problem is that, with few exceptions, increased exposure to education and training does very little to increase the employability or earning capacity of low-skilled people.⁵⁰ Reviewing evidence on the effectiveness of government training schemes in the USA and around the world, James Heckman dismisses the prevailing belief that unskilled adult workers can be trained relatively easily to fit into more highly skilled jobs as ‘a dangerous myth.’⁵¹ In America, he finds the increase in unskilled workers’ earning capacity when they undertake training is so small that it would cost US\$1.66 *trillion* to provide the training needed to restore their relative earnings to their 1979 level. It would be much cheaper just to subsidise the wages they earn in their existing jobs. Heckman concludes, ‘The evidence points strongly to the inefficiency of subsidizing the investment of low-skill, disadvantaged workers ... The available evidence clearly suggests that adults past a certain age and below a certain skill level obtain poor returns to skill investment.’⁵²

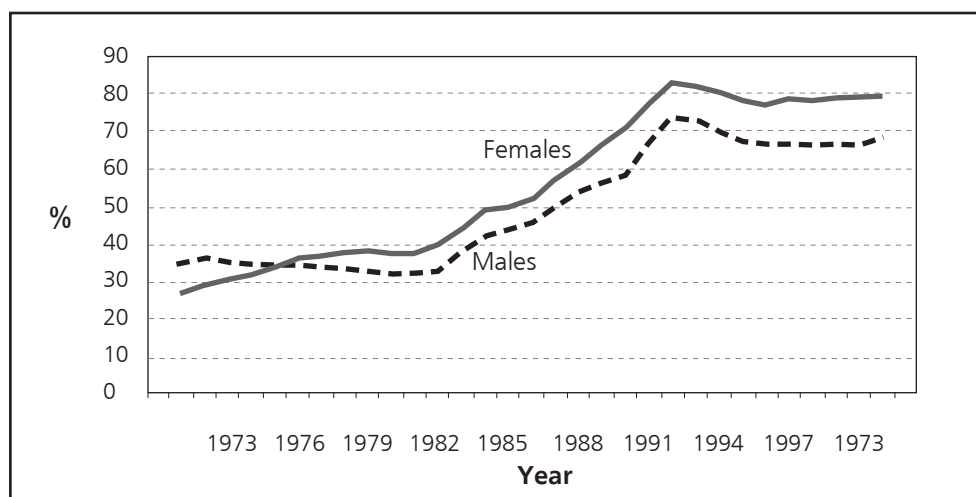
OECD research appears to bear this out. It identifies only one group among the non-employed that consistently benefits from government training programs: mature age women seeking to return to the labour force after a period spent raising children.⁵³ They are generally highly motivated, often have a history of relevant work experience, and benefit from the opportunity to brush up on skills that have gone rusty during their period of economic inactivity. If we want to raise workforce participation rates by attracting women back into jobs, investment in this sort of training is a good idea.

But it is a mistake to assume that what works in getting ‘housewives’ back into the labour force will also work in getting people off welfare. To reduce welfare dependency, policies have to raise the employability of unskilled people like unqualified school leavers, the long-term unemployed, men on DSP and women on Parenting Payment. Training in vocational skills generally achieves little for these groups.⁵⁴ Helping them with basic literacy and numeracy can be effective,⁵⁵ but training aimed at giving them new vocational skills rarely pays off, and for the young unemployed, training is almost a complete waste of time.⁵⁶

Nor are the returns to educational investment as unambiguously positive as is sometimes imagined. As regards higher education, Australia has more than doubled the number of places since 1980, and today around 40% of young people get admitted to university-level courses.⁵⁷ This policy of higher education expansion has been defended mainly on the grounds that the economy needs more graduates, yet half a million graduates (more than 20% of the total) are currently unemployed or doing jobs for which university qualifications are not required. One in five of those graduates in jobs say they do not need or use their qualifications in the work they do, and a recent study finds that 38% of undergraduates and 45% of postgraduates say they are ‘over-skilled.’⁵⁸ Andrew Norton finds that ‘Despite the longest period of economic growth in Australia’s history, and long-term structural changes in the economy that favour university-qualified workers, the number of graduates in jobs that require lower skill levels continues to grow ... the case for encouraging more university attendance overall is weak.’⁵⁹

With few exceptions, increased exposure to education and training does very little to increase the employability or earning capacity of low-skilled people.

Figure 3: Apparent retention rates to year 12, 1971–2001



Source: Gregory⁶⁰

Australia has also substantially lengthened the average number of years young people spend at school (figure 3). Three quarters of school students now stay on to year 12, and many commentators want to push this figure even higher. But Gregory claims there have been ‘no noticeable macro employment effects’ from all this spending on additional schooling,⁶¹ and almost half of all workers who completed year 12 claim they are ‘over-skilled’ relative to the tasks they have to perform in their jobs.⁶² Raising the *quality* of schooling may well benefit individual students as well as the economy at large, but spending more public money to keep more students at school for a longer time is unlikely to do anyone much good.

Young people who have gone through ten years of formal schooling without gaining any qualifications are unlikely to benefit from a compulsory extension of schooling requiring them to endure even more of the same thing.⁶³ They may have become disenchanted with formal education, they may have reached the limits of their abilities, or they may simply have found a job or apprenticeship that appeals to them.⁶⁴ In any event, the evidence shows they are better off leaving school and finding low-skilled work, rather than staying on at school (or attending a vocational education course) in the hope of accumulating a few low-grade certificates.

Gary Marks reports that nine out of ten school leavers who do not bother with further training courses manage to find full-time jobs with little difficulty. Even those who initially go into casual or part-time jobs generally succeed in building full-time work careers. Those who opt for further training or vocational education, however, get no career benefit out of it whatsoever: ‘Full-time study at non-university institutions, and these are usually vocational courses, does not have the expected beneficial effects on employment.’ Marks concludes that policymakers have placed ‘too much reliance on vocational education as a solution to problems in the school-to-work transition.’⁶⁵

Misunderstanding the evidence on education and training

Many commentators continue to shut their ears and eyes to evidence like this. They want to believe that increased spending (which they call ‘investment’) on education and training (which they call ‘human capital’) is the answer to the collapse of employment opportunities for low-skilled people, even though the evidence suggests it is not.

- Welfare groups like the Australian Council of Social Service (ACOSS) want jobless workers to be offered education and training courses rather than being required to accept available, unskilled work.⁶⁶
- The Job Network service providers (many of which are voluntary-sector welfare organizations) want training to be offered as an alternative to low-skilled employment to people on welfare.⁶⁷

Spending more public money to keep more students at school for a longer time is unlikely to do anyone much good.

- The Labor Party thinks there is a ‘compelling case’ for more training for ‘those currently peripheral to the workforce’ and that ‘all young Australians benefit from completing year 12 or equivalent vocational qualifications.’⁶⁸ The Minister for Small Business and the Service Economy, Craig Emerson, would compel all young people to complete high school.⁶⁹
- The Business Council of Australia wants to reduce welfare dependency by ‘encourag[ing] more unskilled people to increase their education and skill levels,’ and it supports policies to ‘minimise early disengagement from education and bring about re-engagement of those who do not complete school.’⁷⁰
- The Australian Industry Group argues in a joint report with the Dusseldorp Skills Forum that, ‘Boosting the proportion of young people completing school [i.e. year 12] or an apprenticeship to 90 per cent would represent good value for the investments required.’⁷¹

The call for more government spending on education and training has become a familiar mantra, but it is based on fallacious assumptions and a good dose of wishful thinking.

It is true that there is a strong correlation between people’s level of qualification and their employment outcomes. Lifetime unemployment across the OECD is twice as high among school leavers with low or no qualifications as among college and university graduates.⁷² In Australia, one fifth of all unemployed people, and almost half of the long-term unemployed, left school at year 10 or earlier,⁷³ and six out of ten unemployed Australians have no non-school qualifications.⁷⁴ ACOSS and the Australian Industry Group estimate that the probability of employment is 30% higher for those who complete year 12 or an equivalent qualification.

But none of this means that keeping more students in school longer, or putting unskilled welfare recipients through training schemes, will make more of them employable. Those who advocate these policies fail to distinguish the *average* effects of increased qualifications from their *marginal* effects. As the Productivity Commission’s Ralph Lattimore has explained, if you keep increasing education and training, eventually you will encounter diminishing returns.⁷⁵

More education and training cannot benefit everybody

Suppose only a quarter of young people stay in education to year 12. The marginal benefits of getting more students to stay on will probably be considerable, for many of those who were failing to achieve their full potential will now be able to do so. But if (as is the case in Australia today) three quarters of the cohort completes year 12, the marginal benefit to be gained from getting even more to stay on is likely to be much smaller because most of those who have the potential to benefit from more schooling are probably already getting it. As Lattimore explains, ‘These (relatively) high rates of return from more education do not imply that the benefits stay fixed in *absolute* terms as more marginal students acquire education.’⁷⁶

Not everyone can benefit from extra schooling. Bright students who stay on at school tend to benefit by getting better jobs at higher pay, but it does not follow that their less able contemporaries will fare just as well if they too stay on longer.⁷⁷ Indeed, pushing lower ability people into courses designed for those of higher ability may even prove counterproductive.

In higher education, extending access further down the ability range has increased wastage and drop-out rates.⁷⁸ And in schools, increased year 12 retention rates have begun to produce diminishing—and even negative—returns.

A bright student who stays at school from year 10 to year 12 increases his or her full-time earnings on entering the labour market by 2% per annum, but an average student who does the same thing *decreases* their earnings by 3%.⁷⁹ Students who stay at school beyond year 10 but do not complete year 12 fare *worse* than those of comparable

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Additional education or training clearly pays off for those who have the ability to benefit from it, but mounting evidence suggests it can disadvantage those who don't.

ability who leave at year 10. Among relatively low-ability students, *more* time spent at school correlates *negatively* with hourly wage rates, total earnings, and employment rates when they leave school. If your literacy and numeracy scores are below those considered necessary for successful completion of year 12, your risk of unemployment *rises* by 3 percentage points if you decide to stay at school for two more years, and if you manage to find a job, your weekly full-time earnings will be 2.4% *lower* for every additional year you spent at school.⁸⁰

Additional education or training clearly pays off for those who have the ability to benefit from it, but mounting evidence suggests it can be disadvantageous for those who don't. As Lattimore concludes: 'The best labour market results for students generally occur when they match their underlying potential for completion with the corresponding choice of further schooling. Poor matching yields the worst outcomes.'⁸¹

The commentators who demand that unskilled welfare recipients be put through training courses to make them 'skilled,' or that unqualified school leavers be kept on at school to make them 'qualified,' implicitly assume that these people have the ability to benefit from these additional inputs. Their whole approach is premised on the unspoken assumption that what works for people of higher intelligence will work just as well for those of lower intelligence. But they are wrong.

Intelligence: The missing variable

Nearly 10% of the Australian workforce is employed in elementary clerical, sales, and service occupations (jobs like those of filing clerks, sales assistants, switchboard operators, messengers, security guards, and caretakers). Another 8.6% work in unskilled manual jobs like labouring, cleaning, packing, and general farm work.⁸² Taken together, this means around 18% of jobs in the Australian labour market are unskilled occupations.

According to the official classification of occupations, the skills needed to perform these jobs are no greater than those attained by successful completion of ten years of schooling.⁸³ You need to be numerate and literate, but little is required in the way of independent reasoning and problem solving. Shop assistants, for example, need to be able to handle money and credit cards, and to balance their takings at the end of the shift, but any non-routine problems will generally be referred to a supervisor. Packers may need to be able to read labels, but they are not expected to show initiative in discharging the tasks they are given.⁸⁴

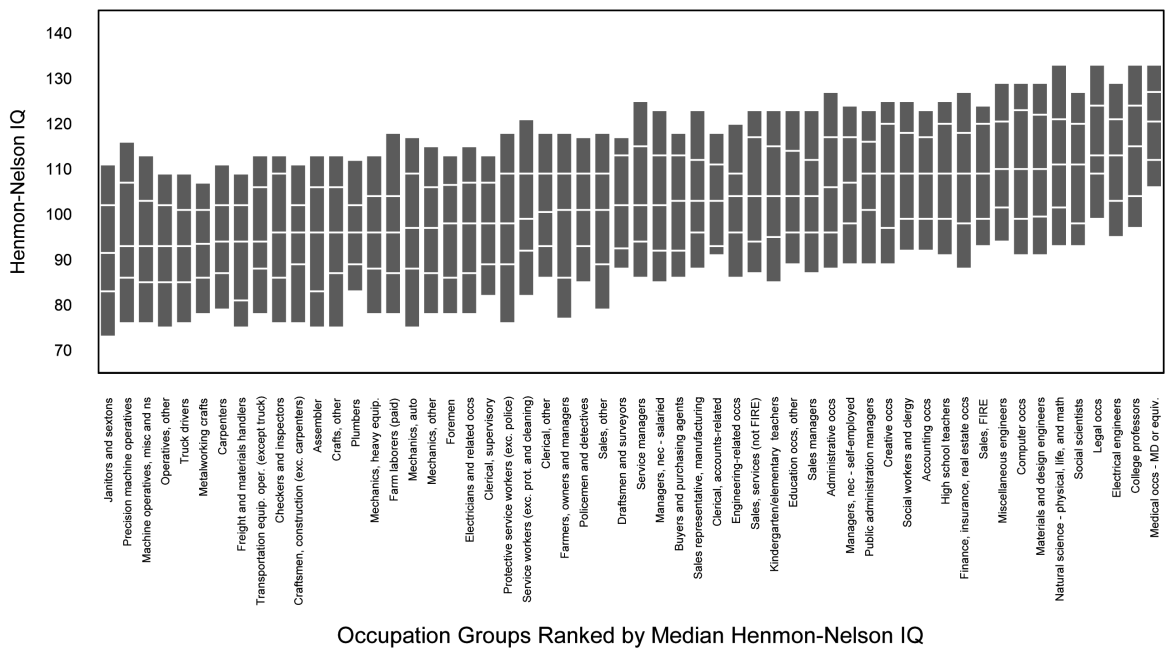
All sorts of other personal qualities and attributes may be necessary or desirable in jobs like these (honesty, reliability, politeness, and so on), and I shall consider the importance of those in my next paper. But how *intelligent* do you need to be to carry out one of these low-skilled occupations to a competent standard?

General intelligence is measured on a continuous IQ scale with a mean score of 100 and a standard deviation of 15. These scores are normally distributed in the population, which means that about one quarter of the population has an IQ below 89.⁸⁵ An IQ at this level indicates that someone can perform routine tasks but probably lacks the ability to undertake tasks requiring more complex reasoning. With an IQ in the eighties, you should be able to complete year 10 at school, and there is no reason why you should not attain basic numeracy and literacy skills, but you will struggle with the abstract reasoning and complex problem-solving skills required by additional education.

Other things being equal, we would therefore expect about one quarter of the population—those with IQ scores in the eighties or lower—to complete their education at year 10. As we have seen, this is exactly what happens in Australia today, where school retention rates have flattened out at around 75% (figure 3).

Not only will the quarter of the population with IQ scores below 89 tend to finish school earlier, but we should also expect them to gravitate towards relatively low-skilled jobs where complex reasoning is not required. In Australia, this means they will be competing to get one of the 18% of jobs that only requires the basic skills and competencies furnished by a year 10 education.

Figure 4: Male IQ distributions for different US occupations, 1992–1994



Source: Hauser⁸⁶

It is important to recognize that different kinds of jobs require different levels of intelligence (as well as different levels of qualification) to perform them. In the USA, Robert Hauser has tracked the occupational positions achieved by a large sample of men whose IQs were measured when they were children. Figure 4 shows the range of IQ scores of men who ended up in various occupations. (The bars are divided at the twenty-fifth, fiftieth, and seventy-fifth percentiles, and extreme outliers have been removed.)

At the bottom of the distribution are the men who became janitors. Their IQ scores range between 75 and 110, with a median just above 90. Although some men of above-average intelligence (IQ >100) did become janitors, we see that most janitors have IQs below this level, and getting on for half of them have an IQ below 89. At the other end of the chart, by contrast, almost all medical doctors have above-average IQ scores and most are more than one standard deviation above the mean (IQ >115). We can deduce from this that, while a few above-average-IQ people do become janitors, no below-average-IQ people have the ability needed to become doctors.

Looking along the bottom of the chart, we see that substantial numbers of people doing jobs like assembling, freight handling, and machine operating have IQs below 90. This suggests that people of relatively low intelligence can perform jobs like these adequately. Higher up the occupational scale, however, we see that almost nobody with an IQ under 90 is employed in ‘middle-skill’ jobs like those of accounts clerks, clerical supervisors, buyers, sales reps, engineers, kindergarten teachers, and real estate agents. This strongly suggests that to perform tasks like these competently you need to be of average intelligence or higher. Otherwise, we would find more low-IQ-people represented in these occupations.

The fact that people with IQs below 90 rarely make it into middle-skill occupations suggests they lack the cognitive ability necessary to perform the tasks required in these sorts of jobs. If this is the case, offering them more education or training in the hope they will then attain higher-skill positions is likely to be a waste of time. We saw earlier that government vocational training schemes aimed at low-skilled jobless people have generally produced disappointing results, and now we can understand why. Many of the people targeted by these schemes probably fall in the bottom quarter of the IQ distribution and do not therefore have the ability to perform the medium-skill-level tasks for which they are ostensibly being ‘trained.’

People with IQs below 90 rarely make it into middle-skill occupations ... They lack the cognitive ability necessary to perform the tasks required in these sorts of jobs ... Offering them more education or training in the hope they will then attain higher-skill positions is likely to be a waste of time.

We saw earlier that the Australia Industry Group wants 90% of young people to be kept in education to year 12, or to complete Certificate-III-level training, and that the Labor party thinks everyone can benefit from a year-12 education. We now see that proposals like these are doomed to fail, for we know that students towards the bottom of the IQ distribution lack the ability needed to attain these levels of academic or vocational achievement. If around a quarter of the population is limited by its cognitive ability to performing routine tasks that do not require complex problem-solving skills, pushing them through education and training courses that assume they have these abilities will achieve little more than frustration and despair.⁸⁷

What is to be done?

If more education and training is not the answer, what is to be done for those in the bottom quarter of the intelligence distribution? Something needs to change, for in our current labour market, there are too few unskilled jobs to keep them all employed. Without some fresh thinking, increasing numbers of low-ability people will simply be consigned to the welfare system. The lucky ones will find shelter on parenting payments or disability pensions, and the less fortunate will rattle around on unemployment benefits, undertaking pointless training schemes as a condition of receiving financial aid.

The way to avoid these outcomes is not to provide low-ability people with more years of education, from which they will gain little benefit. Nor is it to spend even more money on training them for work which is beyond their capacity to perform. The solution, if there is one, will be found in supporting the growth of useful low-skilled jobs for them to do.

Although technological change and globalised labour markets have reduced the demand for unskilled labour, there are social and demographic trends within Australia that could expand it. As the population ages, for example, there is a growing potential demand in the personal services sector for low-skilled workers to help older people with routine tasks like shopping, gardening, and cleaning. Similarly, the growth of female employment is increasing the demand for competent, caring people to look after young children while their parents are working. These and other personal service tasks do not necessarily require people with formal qualifications or high levels of cognitive ability, and they cannot easily be taken over by computers or by workers based overseas.

For these potential personal service jobs to eventuate, however, two conditions need to be met. First, the wages for these jobs must not be higher than the value of the tasks being performed, for the supply of low-value jobs will be stifled if laws require potential employers to pay high wages. Secondly, although personal service workers in these kinds of jobs may not need elaborate academic qualifications or vocational skills, they will certainly require social skills and competencies like politeness, reliability, honesty, and physical cleanliness.

Wages and social skills are thus the two areas where public policy needs to focus if we are to tackle the growing problem of joblessness among people of relatively low ability. I shall address these two issues in my next paper.

This paper is based on a lecture given to the Department of Employment and Workplace Relations All SES Conference at the Amora Jameson Hotel, Sydney, on 2 August 2007. I am grateful to participants at that conference for their comments, and I also wish to thank Helen Hughes, Matthew James, Ralph Lattimore, Gary Marks, and Charles Murray for very helpful comments on earlier drafts of this paper. It is important to emphasise that responsibility for the paper rests entirely with me

Without some fresh thinking, increasing numbers of low-ability people will simply be consigned to the welfare system.

Endnotes

- ¹ R. G. Gregory, 'Australian Labour Markets, Economic Policy and My Late Life Crisis,' in Joe Isaac and Russell D. Lansbury (eds), *Labour Market Deregulation: Rewriting the Rules* (Sydney: Federation Press, 2005), 220.
- ² For examples, see Business Council of Australia (BCA), *Employing Our Potential: Ensuring Prosperity Through Participation*, Workforce Participation Roundtable discussion paper (2007), <http://www.bca.com.au/DisplayFile.aspx?FileID=178>; National Employment Services Association, *Workforce of the Future* (Melbourne, 2007). In both reports, the problem of reducing welfare dependency is conflated with that of increasing workforce participation.
- ³ Jennifer Hewitt, 'Search for Missing Workers,' *Weekend Australian* (10–11 November 2007).
- ⁴ AMP and NATSEM, *May the Labour Force be with You: Changing Face of the Labour Force 1985–2005*, AMP.NATSEM Income and Wealth Report 12 (November 2005), <http://www.amp.com.au/group/3column/0,2449,CH27105%5FNI136044%5FSI3,00.html>
- ⁵ Australian Bureau of Statistics (ABS) *Year Book Australia, 2007* (Canberra: ABS, 2007), tables 7.9, 7.12, 7.15. Note that about one-third of Parenting Payment claimants, and around 10% of DSP claimants, have also earned some income and are not therefore wholly reliant on welfare.
- ⁶ The cost is actually far higher, for many welfare recipients also receive Family Tax Benefit, child care, and maternity payments on top of income support, and there are other, smaller categories of income support claimants not included in this table. The table also excludes 274,000 students on Youth Allowance, who cost another \$1.5 billion.
- ⁷ See Peter Saunders, *The Government Giveth and the Government Taketh Away*, (Sydney: The Centre for Independent Studies, 2007). Also James Bartholomew, *The Welfare State We're In* (London: Politico's, 2004).
- ⁸ This is consistent with a recent Reserve Bank of Australia report that finds a quarter of the increase in the size of the labour force in the last five years is accounted for by older workers working longer, and that retaining older staff is the most important likely source for boosting labour supply in the future. Adrian Rollins, 'Debt Servicing Rises to Record,' *Australian Financial Review* (21 September 2007). Immigration is, of course, another effective potential source of skilled labour, but my focus here is on how to raise participation rates among people already living in Australia.
- ⁹ Joanna Abhayaratna and Ralph Lattimore, *Workforce Participation Rates: How Does Australia Compare?* Productivity Commission Staff Working Paper (Canberra: Productivity Commission, 2006), 10.
- ¹⁰ BCA, *Employing Our Potential*, 36; Commonwealth of Australia, *Budget Paper No. 1: Budget Strategy and Outlook 2007–08* (Canberra: Commonwealth of Australia, 2007), <http://www.budget.gov.au/2007-08/bp1/download/bp1.pdf>, 6.
- ¹¹ For a review of the evidence on the impact of institutional care on young children, see Anne Manne, *Motherhood: How Should We Care for Our Children?* (Sydney: Allen and Unwin, 2005), chapters 9 and 10. See also Jennifer Buckingham, *Child Care: Who Benefits?* CIS Issue Analysis 89 (Sydney: The Centre for Independent Studies, November 2007).
- ¹² Abhayaratna and Lattimore, *Workforce Participation Rates*, tables A6–A9.
- ¹³ Terry Dwyer, 'The Taxation of Shared Family Incomes,' in Peter Saunders (ed.), *Taxploitation* (Sydney: The Centre for Independent Studies, 2006).
- ¹⁴ BCA, *Employing Our Potential*, 27, 35.
- ¹⁵ Abhayaratna and Lattimore, *Workforce Participation Rates*.
- ¹⁶ Matthew Gray and David Stanton, *Lessons of US Welfare Reforms for Australian Social Policy*, Australian Institute of Family Studies Research Paper 29 (Melbourne: Australian Institute of Family Studies, 2002).
- ¹⁷ Ralph Lattimore, *Men Not At Work*, Productivity Commission Staff Working Paper, (Canberra: Productivity Commission, January 2007), http://www.pc.gov.au/__data/assets/pdf_file/0018/60435/mennotatwork.pdf, 270.
- ¹⁸ According to personal communication with Matthew James, increasing the size of the workforce by 2% by raising participation by people on welfare would deliver no more than a 1% increase in GDP.
- ¹⁹ This was made explicit by Workplace Relations Minister Joe Hockey, cited in Adrian Rollins and David Crowe, 'Dole Plan Draws Fire,' *Australian Financial Review* (11 May 2007).
- ²⁰ ABS, *Labour Force, Australia, Sep 2007*, Cat. No. 6202.0 (Canberra: ABS, 2007), <http://www.abs.gov.au/ausstats/abs@.nsf/ProductsbyReleaseDate/440E32B467891F28CA25738C0012C8CA?OpenDocument>.

- ²¹ Australian Government, *2007–08 Budget Paper No. 1: Budget Strategy and Outlook 2007–08*, (Canberra: Commonwealth of Australia, 2007), <http://www.budget.gov.au/2007-08/bp1/download/bp1.pdf>, 4-1-4-35.
- ²² ABS, *Year Book Australia, 2007*, table 6.33.
- ²³ OECD, *Economic Outlook* 81 (June 2007), table G. A Reserve Bank of Australia report suggests long-term unemployment fell from 4% of the labour force in the early 1990s to 0.75% today. David Uren, 'Demand for Labour Met by Migrants and Older Workers,' *The Australian* (21 September 2007).
- ²⁴ BCA, *Employing Our Potential*, 28.
- ²⁵ Penny Wong, *Reward for Effort: Meeting the Participation Challenge* (Australian Labor Party, November 2006), <http://www.pennywong.com.au/RewardForEffort.pdf>, 32
- ²⁶ ABS, 'Long Term Unemployment,' *Australian Labour Market Statistics, Jan 2006*, Cat. No. 6105.0 (Canberra: ABS, 2006), table 3.
- ²⁷ Gary Marks, 'Issues in the School-to-work Transition,' *Journal of Sociology* 41 (2005), 363–85.
- ²⁸ Tony Nicholson, speech to Brotherhood of St Laurence AGM (29 November 2006).
- ²⁹ Both Disability Support Pension and Parenting Payment pay more than unemployment benefits (Newstart Allowance and Youth Allowance), and, until recently, both were exempt from any mutual obligation requirement on the part of recipients. Since July 2007, however, PPS claimants whose oldest child is over six, and DSP claimants deemed capable of working for more than fifteen hours per week, have been expected to find part-time paid employment.
- ³⁰ This means that the Newstart data for each year strongly predict the DSP and PP data. Correlation (r) between number of people on Newstart and the number on Parenting Payment Single during this period = -0.90 , ($p < 0.01$); correlation with number on DSP = -0.93 ($p < 0.01$).
- ³¹ Australian Bureau of Statistics *Year Books* for relevant years.
- ³² See Peter Saunders, *Australia's Welfare Habit, and How to Kick It* (Sydney: Duffy and Snellgrove, 2004), 110.
- ³³ Lattimore, *Men Not At Work*, xxviii.
- ³⁴ Saunders, *Australia's Welfare Habit, and How to Kick It*; Lattimore, *Men Not At Work*.
- ³⁵ Clinton Porteous, 'Plan to Train Stay-at-home Mums,' *Brisbane Courier-Mail* (5 May 2007).
- ³⁶ The data on single parents comes from R. G. Gregory, 'Can This Be the Promised Land? Work and Welfare for the Modern Woman,' National Institute Public Lecture, Parliament House, Canberra (5 June 2002).
- ³⁷ As above.
- ³⁸ From Abhayaratna and Lattimore, *Workforce Participation Rates: How Does Australia Compare?*, figure 2.3.
- ³⁹ ABS, *Year Book Australia, 2007*.
- ⁴⁰ R. G. Gregory, 'Australian Labour Markets, Economic Policy and My Late Life Crisis,' 215. See also Paul Frijters and Robert Gregory, 'From Golden Age to Golden Age: Australia's Great Leap Forward?' *Economic Record* 82 (2006), 207–24.
- ⁴¹ R. G. Gregory, 'Why is Child Poverty So Large and So Permanent?' paper delivered at 'Inequality in Australia' conference, Australian National University, Canberra (2 November 2006).
- ⁴² Gertrude Himmelfarb, *The De-moralization of Society* (New York: Alfred A. Knopf, 1995).
- ⁴³ Andrea Bassanini, *Improving Skills for More and Better Jobs: Does Training Make a Difference?* OECD draft paper (March 2004), <http://www.oecd.org/dataoecd/57/62/32159209.pdf>, 3.
- ⁴⁴ Taken from AMP and NATSEM, *May the Labour Force Be With You*, table 2.
- ⁴⁵ R.G. Gregory, 'Australian Labour Markets, Economic Policy and My Late Life Crisis,' table 1.
- ⁴⁶ AMP and NATSEM, *May the Labour Force Be With You*, figure 9.
- ⁴⁷ Matthew Slaughter and Phillip Swagel, *Does Globalization Lower Wages and Export Jobs?* IMF Economic Issues 11 (Washington: International Monetary Fund [IMF], 1997), <http://www.imf.org/external/pubs/ft/issues11/issue11.pdf>, 6.
- ⁴⁸ John Martin, 'Addressing the Globalisation Paradox,' in OECD, *OECD Employment Outlook* (OECD, 2007), <http://www.oecd.org/dataoecd/29/26/38749245.pdf>, 13; Slaughter and Swagel, *Does Globalization Lower Wages and Export Jobs?* 11; Lattimore, *Men Not At Work*, 174.
- ⁴⁹ Deepak Lal, 'The World Economy in the New Millenium: A New Golden Age?' Productivity Commission Richard Snape Lecture, Melbourne (20 November 2006).
- ⁵⁰ Improving one's skills later in life doesn't seem to improve lifetime earnings either. Unqualified middle-aged workers in Australia who go back to school or college end up losing as a result. See Steven Schwartz, 'Is Life-long Learning Worth the Effort?' *Policy* 21:1 (Autumn 2005), 21–23.
- ⁵¹ James Heckman *Policies to Foster Human Capital*, National Bureau of Economic Research

- Working Paper 7288, (Cambridge: MA, August 1999), 5. Heckman notes that private sector training sometimes generates better results, but this is because private employers rarely pitch training at unskilled workers, and those who do undertake these courses tend to be self-selected and highly motivated.
- ⁵² Heckman, 'Policies to Foster Human Capital,' 40, 42.
- ⁵³ 'Evaluations of public training programmes in OECD countries suggest a very mixed track record ... the most consistently positive results were recorded for adult women. The findings were less optimistic with regard to adult men: some programmes gave positive results, others not. The most dismal picture emerged with respect to out-of-school youths: almost no training programme worked for them.' John Martin, 'What Works Among Active Labour Market Policies,' *OECD Economic Studies* 30 (2000/01), 93.
- ⁵⁴ John Freebairn, 'Labour Market Programs,' in BCA, *New Directions: Rebuilding the Safety Net*, (Melbourne: BCA, 2000), 100.
- ⁵⁵ Gary Marks, Julie McMillan, and John Ainley, 'Policy Issues for Australia's Education Systems,' *Education Policy Analysis Archives* 12:17 (April 2004), <http://epaa.asu.edu/epaa/v12n17/v12n17.pdf>, 20.
- ⁵⁶ Guyonne Kalb reviews experience in France, the US and the UK, and concludes that young adults 'benefit little from training and employment programs.' Guyonne Kalb, *The Impact of Social Policy Initiatives on Labour Supply Incentives*, Department of Family and Community Services Policy Research Paper 18 (Canberra: Commonwealth of Australia, 2003), 35. See also D. Kalisch, 'Welfare to Work: A Review of International Practices and Outcomes,' paper delivered at Melbourne Institute seminar on welfare reform (25 January 2000).
- ⁵⁷ Total higher education enrollments doubled from 330,000 in 1980 to 686,000 in 1999. Most of this increase took place in the 1990s. Marks, McMillan, and Ainley, 'Policy Issues for Australia's Education Systems.'
- ⁵⁸ Kostas Mavromaras, Seamus McGuinness, Nigel O'Leary, Peter Sloane, and Yi King Fok, 'The Problem of Overskilling in Australia and Britain,' Institute for the Study of Labor Discussion Paper 3136 (Bonn: Institute for the Study of Labor, November 2007).
- ⁵⁹ Andrew Norton, *Mismatch: Australia's Graduates and the Job Market*, CIS Issue Analysis 84 (Sydney: The Centre for Independent Studies, March 2007), 13. In earlier work, Norton found that 8% of Australian graduates were working as clerks in 1996, 5% as sales workers, and 3% as labourers. Andrew Norton, *The Unchained University*, CIS Policy Monograph 56 (2002), 105.
- ⁶⁰ R. G. Gregory, 'Can This Be the Promised Land?' figure 1.
- ⁶¹ R. J. Gregory, 'Australian Labour Markets, Economic Policy and My Late Life Crisis,' 219.
- ⁶² Kostas Mavromaras and others, 'The Problem of Overskilling in Australia and Britain,' table 4a.
- ⁶³ As Ralph Lattimore puts it, 'Mandatory extensions of schooling might be seen as asking a sub-group of non-academically oriented students to do more of what has so far served them badly.' Lattimore, *Men Not At Work*, 226.
- ⁶⁴ Most non-completers leave for positive reasons. Half say they left because they wanted to take up a job or apprenticeship. Only 13% left because they did not like school, and just 1% left for financial reasons. See Marks, McMillan, and Ainley, 'Policy Issues for Australia's Education Systems.'
- ⁶⁵ Gary Marks, 'Issues in the School-to-work Transition,' *Journal of Sociology* 41 (2005), 379, 383.
- ⁶⁶ Australian Council of Social Service (ACOSS), *The Role of Further Education and Training in Welfare to Work Policies*, ACOSS Paper 146 (Sydney: ACOSS, March 2007), http://www.acoss.org.au/upload/publications/papers/2152__Paper%20146%20Further%20Education%20and%20Training%20in%20Welfare%20to%20Work.pdf.
- ⁶⁷ National Employment Services Association (NESA), *Workforce of the Future* (Melbourne: NESA, 2007).
- ⁶⁸ Penny Wong, *Reward For Effort*, 15, 62.
- ⁶⁹ Craig Emerson, 'Squandered Opportunity,' address to 'Making the Boom Pay' conference, University of Melbourne (November 2006).
- ⁷⁰ BCA, *Employing Our Potential*, 22. BCA chairman Michael Chaney says, 'Australia's competitiveness will depend on increasing the number of young people completing 12 years of school or the training equivalent.' 'Editorial,' *BCA Quarterly* 1 (2007-08). This is contradicted by Alfred Dockery's research, which suggests that 'General efficiency of the labour market may suffer from across-the-board increases in schooling attainment,' and that 'the net impact of remaining in school will be negative.' Alfred Dockery, *Assessing the Value of Additional Years of Schooling for the Non-academically Inclined*, Australian Council for Educational Research (ACER) LSAY Research Report 38 (June 2005), 42.

- ⁷¹ Australian Industry Group and Dusseldorp Skills Forum, *It's Crunch Time: Raising Youth Engagement and Attainment—Executive Summary*, (August 2007), <http://www.dsf.org.au/papers/198.htm>.
- ⁷² Australian Government, *Budget Paper No. 1*, 6. 'Low or no qualifications' means qualifications below upper-secondary level.
- ⁷³ ABS, 'Long Term Unemployment,' *Australian Labour Market Statistics, Jan 2007*, table 5.
- ⁷⁴ ABS, 'Job Search Experience of Unemployed People,' *Australian Labour Market Statistics, Jul 2006*, Cat. No. 6105.0 (Canberra: ABS, 2006).
- ⁷⁵ Lattimore, *Men Not At Work*, chapter 9.
- ⁷⁶ As above, 215.
- ⁷⁷ Alfred Dockery, in *Assessing the Value of Additional Years of Schooling for the Non-academically Inclined*, discusses the so-called 'ability bias' in estimates of the value of additional schooling. In *Improving Skills for More and Better Jobs*, Andrea Bassanini speculates that the same may be true for workers who undertake training after entering the workforce, writing that 'Individuals endowed with more productive characteristics are likely to receive more training' (10).
- ⁷⁸ Recent research on university completion shows that it is the students entering higher education with the poorest Equivalent National Tertiary Entrance Rank (ENTER) scores who are the most likely to drop out. The author of the report warns that 'Further expansion of university participation could increase course non-completion if expansion meant more students with lower ENTER scores'—which of course it inevitably would. Gary Marks, *Completing University*, ACER LSAY Research Report 51 (March 2007).
- ⁷⁹ Dockery, *Assessing the Value*, 25
- ⁸⁰ Dockery, *Assessing the Value*; Marks, 'Issues in the School-to-work Transition'; Lattimore, *Men Not At Work*.
- ⁸¹ Lattimore, *Men Not At Work*, 210.
- ⁸² Women outnumber men by a ratio of 2:1 in the low-skill white-collar jobs, but men are over-represented among the unskilled manual occupations (10% of all male employees work as labourers or in related occupations). ABS, *Year Book Australia, 2007*, tables 6.13 and 6.14.
- ⁸³ ABS, *ASCO—Australian Standard Classification of Occupations*, 2nd ed., Cat. No. 1220.0 (Canberra: ABS, 1997).
- ⁸⁴ Higher-ranking ('intermediate') jobs require rather higher levels of competence—the sort of competence required to achieve Certificate Level II in the Australian Qualifications Framework. See *Australian Qualifications Framework Implementation Handbook*, 3rd ed. (Melbourne: AQF, 2002), table 3. At this level, workers must be capable of exercising limited responsibility and autonomy. Here we find jobs like receptionists, keyboard operators, hospitality workers, train drivers, and textile machine operators.
- ⁸⁵ See Richard Herrnstein and Charles Murray, *The Bell Curve: Intelligence and Class Structure in American Life* (New York: Free Press, 1994).
- ⁸⁶ Robert Hauser, 'Meritocracy, Cognitive Ability, and the Sources of Occupational Success,' Centre for Demography and Ecology Working Paper 98-07, University of Wisconsin–Madison (2002), <http://www.ssc.wisc.edu/cde/cdewp/98-07.pdf>, figure 12.
- ⁸⁷ New research actually suggests that the distribution of problem-solving skills in the population is quite limited. According to the ABS, 70% of Australians are assessed at level 1 or 2 on a problem-solving scale, where level 3 is regarded as 'the minimum required for individuals to meet the complex demands of everyday life and work in the emerging knowledge-based economy.' ABS, *Adult Literacy and Life Skills Survey, Summary Results*, Cat. No. 4228.0 (November 2007), 5. It seems certain, judging by this result, that few people in the bottom IQ quartile are likely to cope when almost three quarters of the population is struggling.