Centre for New Industry

A percapita initiative

Submission to the Senate Standing Committee on Employment and Education Inquiry into the Jobs and Skills Australia Bill 2022 [Provisions] and the Jobs and Skills Australia (National Skills Commissioner Repeal) Bill 2022 [Provisions]

AUGUST 2022

percapita

FIGHTING INEQUALITY IN AUSTRALIA

Table of Contents

Centre for New Industry at Per Capita *1*

About the Centre for New Industry *3*

Introduction *4*

Cracks In The Foundations: Challenges in the skills and training system *6*

The breakdown of the education-employment nexus 6

Skills mismatch 7

Migration and Skills Shortages 8

The Funding of Vocational Education and Training 9

Coordinating the Efforts of the States and Territories 10

Employment services interaction with skills and training 11

Conclusion: Smoother labour market transitions *12*

Bibliography *13*

About the Centre for New Industry

The Centre for New Industry is an applied research centre at Per Capita that aims to propose policy solutions that support a mission-oriented approach to industrial policy, and advocate for economic diversification, decarbonisation and democratisation.

We believe that Australia needs a vision of the future that provides greater employment opportunities for workers and their families, greater stability and security for regional communities, and better equips Australia to respond and adapt to economic and industrial change.

About the Author

Shirley Jackson is the Director of the Centre for New Industry and a renowned policy expert in the fields of industry policy, employment, and skills formation. His work has helped shape new approaches to industrial development and is widely cited by government and media sources. Shirley has extensive experience in not only thought leadership and public policy, but has spent a decade working in government engagement, political campaigning, and stakeholder relations. This expertise is grounded in years of lived experience relating to the issues that he is so passionate about.

Prior to his public facing work, Shirley spent years working in warehousing and logistics, hospitality, retail, academia, the print industry and being unemployed. These experiences have guided Shirley's research and policy work, and shaped his approach to inclusive, participatory methodologies.

Introduction

As Australia emerges from the long tail of the COVID-19 pandemic and its associated economic crisis, the fault lines in our economy resulting from a decade of mismanagement and neglect have been exposed. As businesses shut their doors and economic actors, both public and private, scrambled to address the lack of ventilators, intensive care beds and personal protective equipment for frontline medical staff, the supports and supply chains that sustain our economy were shattered, leaving many without work or the necessities required to weather the storm that the pandemic created.

However, long after the lockdown ended and the economy 'snapped back' to life, the enduring scarring effects of the labour market contraction are being intensely felt, particularly by young workers, recently arrived migrants and other recent entrants to the labour market. In particular, the complications of a labour market with generations of slack in the system have been exacerbated by a crisis that pushed our economy to breaking point.[1]

These cracks in the foundation have been driven in large part by a long-underdiagnosed skills deficit that has come to the fore in the aftermath of the pandemic. This deficit has been driven by two main opposing pressures, as too many recent entrants to the labour market are locked into cycles of un- and under-employment in short term, insecure service jobs and at the same time the economy has been plagued by nation-wide skills shortages in crucial industries, across multiple trades, the bourgeoning technology sector and in crucial care work.

Worse still, for the better part of a decade, the approach to addressing the slack so obvious in our system has been a privatised employment services sector that incentivises a 'work first' attitude to labour market transitions. Unemployed people need to be moved off income support and into work, any work, regardless of the security or long-time viability of that work.

While many commentators have been quick to point to the dropping unemployment rate as proof that we are in a 'Full Employment' economy, and that there is a labour shortage that can only be filled by migration miss the qualitative experience of unemployment, underemployment and structural inequality existence within our system.

In short, true Full Employment is not a simple statistical equation that determines a low unemployment rate, but a context in which the people who comprise the economy and our society are able to live well, with secure, safe and satisfying work that they can build a good life around. While we may have weathered the crisis through a combination of good fortune and decisive action, the storm is far from over.

While the impact of this once in a generation pandemic has upended many aspects of our economic and social lives, and we may never return to the same kind of 'normal' we had before, we must also realise that this is not an absolute negative. We must view the crisis and its aftermath as an opportunity to challenge the orthodoxies and shibboleths of our political economy and seek to interrogate them anew. There are lessons to be learned from every big disruption, and we have an opportunity to rethink some entrenched ideas and practices that may once have seemed unchangeable but have long since stopped being fit for purpose in a modern, innovative and inclusive economy.

[1] Matthew Lloyd-Cape, *Slack In The System: The Economic Cost of Underemployment* (2020).

The solutions to these complicated and interconnected problems will not be simple, and there is no quick fix. However, the need for a smart, agile and active coordinating skills authority is paramount to addressing the challenges that these structural problems present us.

Therefore, this submission supports the proposed Jobs and Skills Australia Bill 2022 [Provisions] and the Jobs and Skills Australia (National Skills Commissioner Repeal) Bill 2022 [Provisions] as crucial and necessary legislative reforms that build towards a true Full Employment economy. In particular, the following submission highlights the challenges of skills mismatch and underutilisation, the crucial role that funding plays in our vocational education and training system, the need for effective coordination and the importance of smoothing labour market transitions in a Full Employment economy.

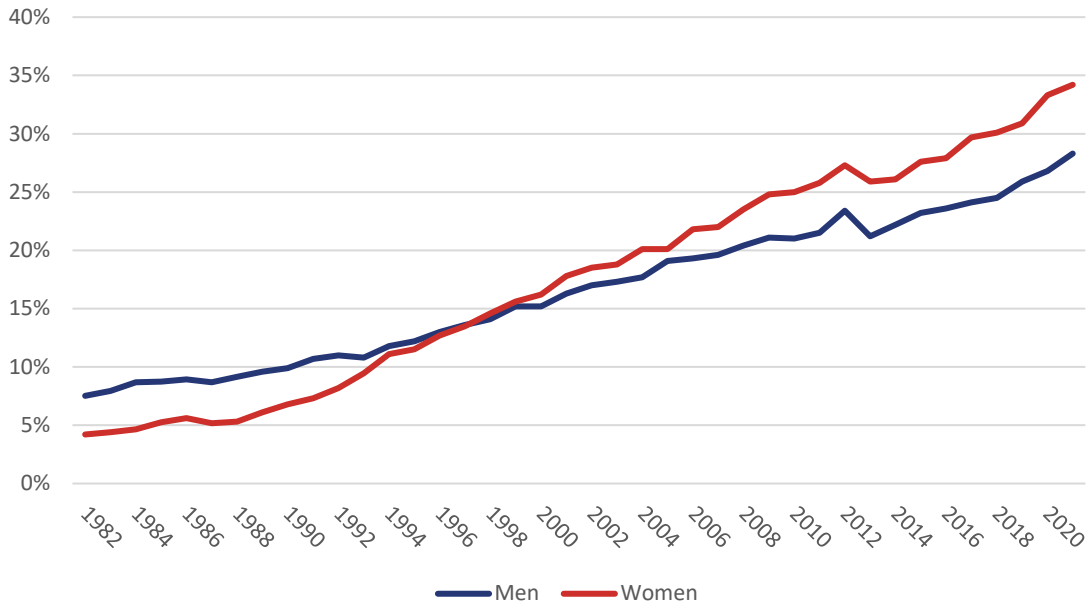
Cracks In The Foundations: Challenges in the skills and training system

There is significant capacity for reform in the skills and training system. As the government begins to take its first steps in addressing these challenges, there needs to be a frank and clear discussion of the scale and scope of the problems that create them.

The breakdown of the education-employment nexus

Australians are more educated than ever. Since the opening of higher education under the Whitlam Government, university level education has been held up as the best protection against unemployment. This translated into a rapid expansion of university education, particularly amongst young women. In 1982 less than 15% of young women graduated with bachelor's degrees, by 1997 gender parity in attainment was reached and at the time of writing, one in three women will have completed undergraduate education (see Figure 1).

Figure 1
Bachelor's Degree Attainment, by Gender.



Source: Author's calculations, based on ABS 6227.0, Table 28

However, well before the pandemic and its associated economic crisis, Australia was failing to provide sufficient opportunities for young people to find work that utilized their skills and education. While there is a correlation between recessions and declines in graduate employment, the current generation is experiencing a much longer crisis than did previous generations.[2] Since 1983, there have been three significant recessions, the "Recession we had to have" in 1990, the Global Financial Crisis (GFC) in 2007 and the COVID-19 Crisis in 2020.

For Gen X, the associated graduate employment recession began in 1990, dropping from a growth rate of 11.3% in 1989 to -9.4% in 1992, a drop of over 20%. Employment growth didn't hit positive figures until 1996, demonstrating a recovery time of approximately six years.

[2] Shirley Jackson, *Coming of Age in a Crisis: Young Workers, COVID-19, and the Youth Guarantee* (2020).

For Gen Y, the GFC saw the graduate employment rate drop from 4.95% in 2008 to -11.9% in 2014, for an overall decline of 16.85%. The recovery has been much slower, and six years after the trough, graduate employment growth was still at -8.6% of 1983 employment levels, a similar level to the depth of the 1990s recession. While it is too early to tell the length and depth of the crisis for graduates during the coronavirus crisis, the initial results are not promising. The number of graduates finding full time employment have shrunk by -3.3% since 2019 and will almost certainly maintain current levels without government intervention.[3]

However, a myth persists that education is the best predictor of future employment outcomes, despite recent research shows that the causal relationship between education and employment has been eroded over time.[4] It is true that until the 1990s, for every additional year of post-secondary schooling that a student completed there was an associated increase in earning capacity. However, this correlation has been weakened consistently overtime, and employment and education outcomes have been slowly uncoupling across the intervening decades.

We recommend that Jobs and Skills Australia (JSA) conduct research into the breakdown of the education-employment nexus and invite broad consultation into the process. There needs to be comprehensive analysis of this complex relationship, in order to create the evidentiary basis for reform.

Skills mismatch

Crucially, one of the driving factors of this uncoupling has been a mismatch in the skills that are being provided. The latest Graduate Outcomes Survey (GOS) shows that approximately one in three of those who did find full time employment after graduation were 'working in a job that did not allow them to fully use their skills or education'.[5] Two thirds of those respondents listed labour market factors as the reason for this mismatch.

Yet while professional, white-collar graduates in Medicine, Pharmacy and Engineering all have a full-time employment rate of over 80%, crucial skills shortage areas like Nursing (74.2%), Health Services and Support (72.5%), Computing and Information Systems (67.9%) have all seen graduate employment fall over the past five years. Furthermore, as the recently released Jobs and Skills Summit Issues Paper notes,

Of the government-funded VET students who completed their qualification in 2020, only 60 per cent had improved their employment status after their training…[additionally] 42 per cent of technician and trade occupations are currently facing a skills shortage compared to 19 per cent for all assessed occupations. Completion rates for trade apprentices declined to 54 per cent for those who commenced in 2017, five percentage points lower than completion rates for those commencing in 2013. Skills shortages are projected to continue in technician and trade occupations, as well as other occupations.[6]
In short, somehow we have created a situation where we have nationwide skills and labour shortages in multiple trades, midwifery and software engineers there are also record numbers of law graduates with

[3] Graham Challice et al, *Graduate Outcomes Survey* (2022) 2 <https://www.qilt.edu.au/surveys/graduate-outcomes-survey-(gos)#anchor-1>.
[4] Hernan Cuervo and Johanna Wyn, 'An Unspoken Crisis: The "Scarring Effects" of the Complex Nexus between Education and Work on Two Generations of Young Australians' (2016) 35(2) *International Journal of Lifelong Education* 122.
[5] Challice et al (n 3) 19.
[6] Australian Government, *Jobs and Skills Summit* (2022) 8.

some of the lowest employment outcomes of recent years. This is a significant failure in our skills and training system.

We recommend that JSA continues the work of the National Skills Commission in tracking and analysing the skills mismatch in the Australian economy and provides visible and transparent reporting of these crucial challenges.

Migration and Skills Shortages

Concerningly, the solution offered by many commentators and particularly by employer groups is the same as it has been for 30 years: relax the rules governing temporary immigration and import the needed workers from overseas.[7]

It's certainly true that many of the sectors experiencing staff shortages are those that have traditionally relied upon temporary migrant and student workers: agriculture, aged care, hospitality, early childhood education and care, retail. It's also undoubtably true that migration is a net benefit for the country, and plays a crucial role in our past, present and future as a proud, multicultural, migrant nation.

However, the use of temporary migration does little to improve the lives of migrants and a lot to improve the profits of the businesses who employ them. At the same time as employers complain that they can't find workers, there are almost a million Australians receiving some form of income support, primarily either JobSeeker or Youth Allowance.

This is especially troubling when we consider the recent research published by the Melbourne Institute at the University of Melbourne found, just as did the Productivity Commission in 2018, that nearly 15 per cent of Australians live in permanent income poverty.[8] With a population of over 26 million, that's around three million people living below the poverty line – a great many more than the headline unemployment figures would indicate.

While skilled migration can, and must be part of the short-term solution, it does not address the growing structural problems in our economy. We need smart and active government reform and coordination that creates smooth transitions through the skills and training system to give underutilised people a safe, secure and sustainable skilled career path around which a life can be built.

We recommend that JSA be tasked with the analysis of migration and skills, and that the use of temporary visas in key skills shortage areas be reported in a manner which is transparent and accessible.

---

[7] Pi-Shen Seet and Janice Jones, 'Migration Offers an Urgent Fix for the Skills We Need Right Now, but Education and Training Will Set Us up for the Future', *The Conversation* (online, 6 July 2022) <https://theconversation.com/migration-offers-an-urgent-fix-for-the-skills-we-need-right-now-but-education-and-training-will-set-us-up-for-the-future-186374>; Angus Thompson, 'Australia Inflation: Jennifer Westacott Wants Wages in Line with Living Costs in Jobs Summit Agenda', *The Age* (online, 20 July 2022) <https://www.smh.com.au/politics/federal/business-lobby-boss-wants-wages-in-line-with-living-costs-in-jobs-summit-agenda-20220720-p5b361.html>.

[8] Esperanza Vera-Toscano and Roger Wilkins, *The Dynamics of Income Poverty in Australia: Evidence, from the First Three Waves of the HILDA Survey* (2022).

The Funding of Vocational Education and Training

Not only does underutilisation saddle workers with debt for degrees that have not improved their labour market outcomes, it also creates a reliance on non-career industries that are plagued by insecurity, low wages and exploitation. This has serious ramifications not only for the labour market, but also for the Higher Education Contribution Scheme (HECS) and by extension the VET student loans scheme.

The implementation of a system of income contingent loans (ICLs) in exchange for education was first implemented in Australia in 1989, following an options paper proposing the scheme that was commissioned by the Minister the previous year.[9] Embedded within this document was the assumption that by engaging in higher education, young people will receive considerable financial benefit from their studies in the future, and therefore should share the cost associated with their studies.

Indeed, when introducing the Bill, John Dawkins then Minister for Employment, Education and Training in the Hawke Government, described how the bill would ensure that "…people who benefit from participation in higher education will be required to make a small contribution towards the cost of their study…[and] increase the fairness of funding arrangements for higher education, ensuring that the total burden of funding does not fall entirely on the taxpayer".[10]

Yet, as discussed previously, the benefit that young people are receiving from their education is being delayed and, in an alarming number of cases, denied. The reasons for this have already been outlined by the author of the original options paper commissioned by Minister Dawkins, Bruce Chapman, who acknowledges that the design and implementation of ICLs contains inherent risks. Most importantly, he describes the uncertainty that surrounds the future value of educational investment, and notes that …what looked like a good investment at the time it began might turn out to be a poor choice when the process is finished…many prospective students, particularly those from disadvantaged backgrounds, may not have much information concerning graduate incomes".[11]

Therefore, under the current regime, people entering education and training at the age of 17 or 18 are not just learning about a subject area that interests them and entering into a financial arrangement, but they're also expected to shoulder the responsibility for an investment that they might not understand. Yet despite the external origins of domestic recessions that have impacted the global economy in the 21st century, coupled with an ongoing breakdown of the relationship between education and employment, the government continues to decrease the threshold for repayments of these debts. Indeed, the previous government lowered the repayment threshold from $52,000 to $45,881 – just $7,360 above the minimum wage.[12]

Repeated reductions in the HECS repayment threshold, which successive governments have justified in the pursuit of budget surpluses, have effectively destroyed the underlying principle of the design of HECS,

---

[9] B Chapman, 'Australian Higher Education Financing: Issues for Reform' (2001) 34(2) *Australian Economic Review* 195.
[10] John Dawkins, 'Higher Education Funding Bill 1988: Second Reading', *Hansard* (1988) <https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22chamber%2Fhansardr%2F1988-11-03%2F0113%22>.
[11] Bruce Chapman, Timothy Higgins and Joseph E Stiglitz, *Income Contingent Loans: Theory, Practice and Prospects* (2007) 15.
[12] Naaman Zhou, 'Hecs Debt Repayment Changes: Why More People Will Be Forced to Pay off Student Loans | Australian Education | The Guardian', *The Guardian (Australia)* (online, 2019) <https://www.theguardian.com/australia-news/2019/jul/02/hecs-debt-repayment-changes-why-more-people-will-be-forced-to-pay-off-student-loans>.

which was that people should contribute to the cost of higher education when they realised an economic benefit from their tertiary qualifications. It was never intended that university graduates would be required to pay back HECS debts from lower-than-average wages earned in jobs they could have obtained without their qualifications, such as retail and hospitality work.

Rather than ensuring fairness within the system, as was the original intention of the scheme, these changes effectively punish young workers for being reliant on non-career industries that don't deliver the financial security that their education was supposed to provide.

We recommend that JSA investigates the inadequacy of the funding mechanisms within the skills and training system, and that HECS be reviewed entirely. In particular, we recommend a significant increase to the repayment threshold to the median wage for full time employees in the industry area covered by the qualification.

Coordinating the Efforts of the States and Territories

There is significant capacity for the government to play a more active coordination role within the skills and training system. As the Australian Government looks to invest in major projects to help stimulate the economy, it must also address the 'hollowing out' of the labour market and arrest the decline in intermediate or technical skills across our economy. A recent review of the skills profiles of the OECD has found Australia is ranked:

- 8th in the proportion of workers with high skills (tertiary education above Certificate III) (46%);
- 29th in the proportion of workers with intermediate skills (Year 12 completion to Certificate III) (36%); and
- 16th in the proportion of workers with low skills (did not complete Year 12) (18%). [13]

This low ranking for the intermediately skilled workforce points to the need for investment in the vocational education and training (VET) industry, to ensure that our domestic capabilities are in equilibrium with our economic needs. Victoria and New South Wales have already announced priority courses will be offered fee free through their public TAFE institutions, which will be linked to ongoing and planned infrastructure projects.

The Federal Government should coordinate the extension of these programs into other jurisdictions, in order to ensure that the skills gap can be addressed at the national level, and not left to uneven development by state governments. By linking skills shortages to unemployment, skills training programs offer the best value for money investment in recovery and will ensure that young workers are given the opportunity to move into new careers without financial barriers.

We recommend that JSA operates in partnership with the states and territories to facilitate and coordinate the activities of the various state-based skills and training institutions, and to promote best practice across the country.

[13] Jenny Macklin, *Future Skills for Victoria Future Skills for Victoria* (2021) 17.

Employment services interaction with skills and training

The skills mismatch that workers are experiencing is endemic. As previously mentioned, Australia has the largest cohort of law graduates in our history, yet we have nationwide skill shortages in midwifery, trades and IT. Unfortunately, the employment services system incentivises a cycling of employment that often leaves workers in precarious positions for years.

The political and economic landscape that workers are entering is rapidly changing, particularly as climate change and structural adjustments reorient our economy from one largely dependent on fossil fuels to one that is transitioning towards a post-carbon era. A 2013 study of student experience of vocational skills training within this context found that increasingly students are not only aware of the changing context, but see it as essential to their skills and training needs, with many young people 'through their positive, value-laden commitment to developing these skills, are training for jobs that they think should exist'.[14] This awareness of and commitment to action on climate change is supported by broader attitudinal data from the seminal Life Patterns longitudinal study of Australian youth, which finds that climate change is the single most important issue concerning young people (followed closely by job security), including a majority of those who are enrolled in or have completed a VET qualification.[15]

Yet, despite this awareness and commitment, many of the structures in our economic life are not geared towards this growing reality. The current active labour market program (ALMP), until recently known as JobActive and now as Workforce Australia, has been found to be woefully inadequate and not fit for purpose. Rather than moving people into sustainable career paths in skilled areas that will experience growth into the future, the most recent governmental inquiry into the system found that there is significant churn of unemployed people back and forth into precarious, insecure, short term employment.[16] The final report of the inquiry found in the reference year of 2017-18, almost 60% of participants in the JobActive program did not meet the 26 week benchmark for employment, and were cycled back into unemployment before it was reached.[17]

Instead, participants are rushed through the current JobActive system and are too often pushed into low paid, insecure jobs that don't utilise their skills. Under the current system, long-term unemployed people are referred to private and non-government providers that are funded by government revenue, which incentivizes providers to maximize profit by receiving multiple payments for placing the same unemployed person in a number of successive short-term jobs.

---

[14] Brown, M., Sack, F., & Piper Rodd, C. (2013). Student voice in "skills for sustainability": A missing component from the demand side of Australian vocational education and training. *International Journal of Training Research*, *11*(3), 213–224. https://doi.org/10.5172/ijtr.2013.11.3.213, p.223.

[15] Chesters, D. J., Cook, D. J., Cuervo, A. P. H., & Wyn, P. J. (2018). *Examining the most important issues in Australia : similarities and differences across two generations*. https://minerva-access.unimelb.edu.au/bitstream/handle/11343/216274/Most important issues report final Sept 2018.pdf, p. 5.

[16] Education and Employment References Committee (Australian Senate). (2019). *Jobactive: failing those it is intended to serve* (Issue February). https://parlinfo.aph.gov.au/parlInfo/download/committees/reportsen/024217/toc_pdf/Jobactivefailingthoseitisintendedtoserve.pdf;fileType=application%2Fpdf, pp. 173-5.

[17] Ibid

We recommend that the Government urgently review the interaction between employment services and skills and training systems, as recommended in our reports *Coming of Age In A Crisis*, *Working It Out* and *Redesigning Employment Services After COVID-19*,[18] and use the findings to build an system that is geared towards finding unemployed workers sustainable careers in areas of labour market skills shortages.

Conclusion: Smoother labour market transitions

The need for reform is substantial. While the current crisis has exposed the fault lines in our economy, it did not create them. The skills mismatch and underutilisation within our labour markets has been apparent for a decade. Far too many workers are stuck in cycles of poverty and precarity while the economy reports nation-wide skills shortages in the care economy and across technical sectors that will be crucial for our ability to navigate the uncertain economic and ecological future that confronts us.

Many of our labour market institutions are ill equipped to handle these challenges and are no longer fit for purpose. However, this creates a unique opportunity to re-examine our economy with fresh eyes without the constraint of orthodoxy and out-dated economic theory. We must view the crisis and its aftermath as an opportunity to challenge the orthodoxies and shibboleths of our political economy, and build a modern, innovative and inclusive economy.

We believe that the Jobs and Skills Australia Bill 2022 [Provisions] and the Jobs and Skills Australia (National Skills Commissioner Repeal) Bill 2022 [Provisions] as crucial and necessary legislative reforms that start to build that economy. We welcome this Bill as a step in the right direction, and recommend that the new body, Jobs and Skills Australia be tasked with:

- Conducting research into the breakdown of the education-employment nexus, and invite broad consultation into the process;
- Tracking and analysing the skills mismatch in the Australian economy;
- Analysis of migration and skills data, in particular the use of temporary visas in areas of key skills shortages;
- Investigating the inadequacy of the funding mechanisms within the skills and training system;
- Operating in partnership with the states and territories to facilitate and coordinate the activities of the various state-based skills and training institutions; and
- Reviewing the interaction between employment services and skills and training systems.

We believe that these tasks will be crucial to the future operation of our economy more broadly and represent a significant step towards creating a society that is governed in the interests of its people.

[18] Jackson (n 2); Simone Casey and Abigail Lewis, *Redesigning Employment Services After Covid-19 A Discussion Paper* (2020); Owen Bennett et al, *Working It out: Employment Services in Australia* (2018).

Bibliography

Australian Government, Jobs and Skills Summit (2022)

Bennett, Owen et al, Working It out: Employment Services in Australia (2018)

Casey, Simone and Abigail Lewis, Redesigning Employment Services After Covid-19 A Discussion Paper (2020)

Challice, Graham et al, Graduate Outcomes Survey (2022) <https://www.qilt.edu.au/surveys/graduate-outcomes-survey-(gos)#anchor-1>

Chapman, B, 'Australian Higher Education Financing: Issues for Reform' (2001) 34(2) Australian Economic Review 195

Chapman, Bruce, Timothy Higgins and Joseph E Stiglitz, Income Contingent Loans: Theory, Practice and Prospects (2007)

Cuervo, Hernan and Johanna Wyn, 'An Unspoken Crisis: The "Scarring Effects" of the Complex Nexus between Education and Work on Two Generations of Young Australians' (2016) 35(2) International Journal of Lifelong Education 122

Jackson, Shirley, Coming of Age in a Crisis: Young Workers, COVID-19, and the Youth Guarantee (2020)

Lloyd-Cape, Matthew, Slack In The System: The Economic Cost of Underemployment (2020)

Macklin, Jenny, Future Skills for Victoria Future Skills for Victoria (2021)

Seet, Pi-Shen and Janice Jones, 'Migration Offers an Urgent Fix for the Skills We Need Right Now, but Education and Training Will Set Us up for the Future', The Conversation (online, 6 July 2022) <https://theconversation.com/migration-offers-an-urgent-fix-for-the-skills-we-need-right-now-but-education-and-training-will-set-us-up-for-the-future-186374>

Thompson, Angus, 'Australia Inflation: Jennifer Westacott Wants Wages in Line with Living Costs in Jobs Summit Agenda', The Age (online, 20 July 2022) <https://www.smh.com.au/politics/federal/business-lobby-boss-wants-wages-in-line-with-living-costs-in-jobs-summit-agenda-20220720-p5b361.html>

Vera-Toscano, Esperanza and Roger Wilkins, The Dynamics of Income Poverty in Australia: Evidence, from the First Three Waves of the HILDA Survey (2022)

Zhou, Naaman, 'Hecs Debt Repayment Changes: Why More People Will Be Forced to Pay off Student Loans | Australian Education | The Guardian', The Guardian (Australia) (online, 2019) https://www.theguardian.com/australia-news/2019/jul/02/hecs-debt-repayment-changes-why-more-people-will-be-forced-to-pay-off-student-loans

Dawkins, John, 'Higher Education Funding Bill 1988: Second Reading', Hansard (1988) https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22chamber%2Fhansardr%2F1988-11-03%2F0113%22