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Official Committee Hansard

**HOUSE OF  
REPRESENTATIVES**

STANDING COMMITTEE ON EMPLOYMENT AND  
WORKPLACE RELATIONS

**Reference: Employment: increasing participation in paid work**

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**HOUSE OF REPRESENTATIVES**  
**STANDING COMMITTEE ON EMPLOYMENT & WORKPLACE RELATIONS**

**Wednesday, 5 November 2003**

**Members:** Mr Baressi (*Chair*), Mr Bevis (*Deputy Chair*), Mr Dutton, Ms Hall, Mr Hartsuyker, Mr Lloyd, Ms Panopoulos, Mr Randall, Ms Vamvakinou and Mr Wilkie

**Members in attendance:** Mr Baressi, Ms Hall and Ms Vamvakinou

**Terms of reference for the inquiry:**

To inquire into and report on:

Employment issues in both rural/regional and urban and outer suburban areas, with particular reference to:

- Measures that can be implemented to increase the level of participation in paid work in Australia; and
- How a balance of assistance, incentives and obligations can increase participation, for income support recipients

**WITNESSES**

**ANDERSON, Mr Peter Christian, Director, Workplace Policy, Australian Chamber of  
Commerce and Industry ..... 1**

**WILSON, Mr Burchell Steven, Economist, Australian Chamber of Commerce and Industry ..... 1**



**Committee met at 11.29 a.m.**

**ANDERSON, Mr Peter Christian, Director, Workplace Policy, Australian Chamber of Commerce and Industry**

**WILSON, Mr Burchell Steven, Economist, Australian Chamber of Commerce and Industry**

**CHAIR**—I declare open the public hearing of inquiry into employment, increasing participation in paid work and welcome Peter Anderson and Burchell Wilson from the Australian Chamber of Commerce and Industry. All proceedings here today are formal proceedings of the parliament. Although the committee does not require witnesses to give evidence under oath, you should understand that these hearings are legal proceedings of parliament and warrant the same respect as proceedings of the parliament. Giving false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The committee prefers that all evidence be given in public, but if at any stage you wish to give evidence in private please ask to do so and the committee will consider your request. I invite each of you to make some preliminary comments about the issues you think are important to this inquiry before we move to questions and discussion.

**Mr Anderson**—Thank you, Mr Chairman. I will be presenting the submission on behalf of the Australian Chamber of Commerce and Industry, assisted, as I may require, by Mr Wilson. The chamber prepared a submission in September 2003 on the subject of increasing participation in paid work for the consideration of the committee. I thank the committee for the opportunity to appear before it today to speak to the submission. I have a brief opening statement that summarises some of the key points in our submission, which may then facilitate discussion and questions.

In starting to consider the issue of participation in paid work, we should note, perhaps, just as a matter of completeness right at the start, that there are two forms of work in the community that this inquiry in its terms of reference is not looking but which are, nonetheless, still very important and should not be neglected generally in policy terms, and that is the issue of voluntary work in the community. There is a great deal of voluntary work done in the community and that has great value to the community. There is also the issue of work as independent contractors rather than as employees. This represents a very substantial part of work in Australia and, whilst the committee's terms of reference, as we understand them, are looking particularly at the issue of participation by employees in employment and paid work in that sense, there is a very large and growing portion of the Australian work force who are independent contractors and who contribute very substantially to the work ethic and productivity of our community and whose role in our economy is no less significant than the role of direct employers and employees.

I turn to our specific submission. Australians need to be more ambitious in demanding and supporting policies from governments and the parliaments that will increase the level of paid employment in our community. That is because increasing the level of paid employment adds enormous economic and social value to our country. Paid employment is a driver of a cohesive society—one where living standards increase according to productivity and where employment contributes to a reduction in social disadvantage and poverty. Indeed, employment, in its variety

of forms, is the greatest single contributor to the reduction of many of our social ills and poverty, not just in this country but in other countries. There are a wide range of reports of international bodies, ranging from the OECD through to the International Labour Organisation, which underscore the linkages between achieving high levels of paid employment and rewarding employment, and the elimination of social disadvantage in the community.

Over the past decade Australia's unemployment rate has trended downwards to its current 5.8 per cent and participation rates have reached high levels. I will say more about that in a moment. These are positive outcomes that are the consequence of a series of steps in policy reform and also the consequence of good economic management and of a period of sustained economic growth. However, these headline figures mask the fact that, on the latest evidence, we still have in Australia 580,000 people unemployed. On the labour force data released in September 2003—I understand the October figures come out tomorrow, 6 November—we have a participation rate of 63.5 per cent, which is relatively high when one looks at trends over the course of the past 10 years, but it has been at a fairly stable level for the last two or three years.

One other significant indicator of the state of the labour market is not just the level of unemployment, but also what the Bureau of Statistics calls the under-utilisation rate. This is important, in our submission, for the committee to have regard to. Under-utilisation effectively combines two forms of failure in the labour market: one is unemployment, as we traditionally describe it; the other is under-employment. Under-employment is the circumstance where a person wants and is available to undertake more work than they currently undertake; in other words, the labour market is not providing them with the amount of work that they seek to perform.

When one combines the level of under-employment and unemployment in Australia in the September quarter of 2002—assessed at 574,000 people, or roughly 5.7 per cent of the labour force—one will see that there is a rate of 11.9 per cent of persons who are either seeking work in the labour market or are currently in the labour market but seeking more work from it. It is the combined effects of both unemployment and under-employment which this committee should be considering in its policy analysis.

Our submission raises a number of areas in which policy makers could improve the outcomes of the labour market both for unemployment and under-employment. There is no magic formula to increase the level of those in paid employment. Ten years ago when the OECD conducted a major report into jobs and the employment and labour markets across a number of countries, it devised what was called the 10-point OECD plan, which recommended to countries within the OECD how you could, in policy terms, take steps to improve the operation of labour markets, both in highly structured economies and in some developing economies. Those 10 points—I am happy to provide the committee with further detail on those if needed—effectively come down to four key areas of policy, none of which will be new to this parliament: tax, welfare, workplace relations and labour market, and education and training policies.

Policy settings in each of these areas are key ingredients to driving improved labour market outcomes. Further, sustainable increases in paid employment require both medium and long-term approaches and are not open to improvements by reference to purely short-term fixes. This can only be achieved by governments, parliaments, employers and the broader community,



including employees and trade unions, working with the private sector to create more jobs and job opportunities.

Our submission identifies issues of two different character; one is the issue of creating work incentives for people to participate in the labour market. This is one major area of policy consideration and it relates to the supply side of the labour force. The other major area where our submission highlights the scope for improvement is in respect of what economists would describe as the demand side—that is, the opportunities that employers see for offering employment to people in the labour market. It is both with respect to incentives to improve the supply of labour and policies that increase the demand for labour that will drive improved outcomes in the labour market.

To put it simply, and to give you an example, at the moment many employers will be frustrated by the fact that they have work to be performed in their business but, for one reason or another, they are not putting on somebody in that business. We have to ask ourselves the question: why is that? There are a number of reasons. It could relate to some of the costs and regulatory aspects associated with employment—and they are factors on what is described as the demand side. It also may relate to the availability of people to work with the right skill set for that business—and that relates to the supply side and the level of skills, job readiness and the like for people who may be capable of working in that business. Unless we deal with both sides of the equation, we will have an imbalanced response to the problems of the labour market and the fact that there is still scope for significant improvement.

To summarise the major points touched on in our submission: on the issue of incentives in the operation of the labour market and improving the supply side, the major issue for consideration by the committee is undoubtedly the interaction of the welfare system with the low operation of the labour market. There are also issues related to the tax system. Our submission makes reference to improvements that have been made following the introduction of the new tax system and the relevant incentives that have been created as a consequence of that.

In addition, our submission makes reference to a number of areas where the welfare system interacts with the labour market and where that can be improved. We refer to the introduction of the working credit as a national government policy, and we indicate that the working credit is one of the policy settings which has the potential to improve outcomes in the labour market and remove some anomalies in the operation of the labour market and the welfare system.

Our submission makes reference to the debate about an earned income tax credit. This is often referred to as the tax credit proposal that the five economists put forward in a submission to the Prime Minister, I think in 1998. Our submission indicates that, whilst that is a matter of proper consideration, there are a number of reservations, and some significant reservations, with the way in which such a proposal would operate in practice, which would militate against its adoption, although there would be, perhaps in some other circumstances where it may be designed differently, some benefit to the labour market. Our submission refers to workplace vocational training and the development of the skill sets, both through the incentives that are structured into the Job Network or the creation of job readiness amongst people seeking employment, as well as the issue of expanding opportunities through the vocational education and training system.

On the other side of the coin are the issues that relate to the demand by employers for labour. Our submission mentions a number of factors that impact on business demand, one of which is the approach of the Reserve Bank to monetary policy—a topical issue today given that the Reserve Bank has this morning increased interest rates by a quarter of a per cent. Our submission then goes on to deal with the issue of workplace relations reforms and areas where employers can increase demand for labour by further reform through the workplace relations system.

In concluding my opening remarks, I would indicate that there are multiple challenges to all parties in increasing participation in paid employment. There are short-term challenges, but there are also long-term challenges. Those long-term challenges are very significant and need to be addressed at an early stage. The government and the community generally are aware of the ageing of the population, which presents a long-term challenge for the Australian labour market and my members and employers generally. It raises a whole range of issues about the attitudes that we have towards people at work and the way in which we can provide both the demand and incentives for people to remain in the work force and be productive to their full capacity throughout their working life.

There are other key issues of both a short and long-term nature that underpin our submission. The issue of increasing participation of working parents in the work force is also important. That raises the whole of the work and family debate, which accounts for a large part of the work of our organisation and relates in part to a number of industrial matters that are currently proceeding through the Australian Industrial Relations Commission. I am happy to brief the committee on that if needed.

**CHAIR**—Thank you very much, Mr Anderson. Mr Wilson, do you want to add anything?

**Mr Wilson**—No, I think the opening statement was quite adequate.

**CHAIR**—Let me start off with a most simple question based on what happened today with the Reserve Bank. You state in your submission that the Reserve Bank should articulate its position on the rate of employment in the formulation of monetary policy. Were you surprised that it does not happen now? Why isn't that taking place? Is this based on its charter or direction from government?

**Mr Anderson**—There does not seem to be any structural reason why the Reserve Bank would not develop a policy approach specifically in that regard. It appears to be at the discretion of the Reserve Bank as to the way in which it wishes to apply monetary policy and explain and announce its decisions on monetary policy. It is not that the Reserve Bank does not, in its stated reasons on rates, have regard to employment circumstances, and we are not saying that the Reserve Bank is deficient in that regard. What we are saying is that the Reserve Bank does not have a specific policy approach as to how monetary policy interacts with the labour market.

The difficulty that we find is if the Reserve Bank goes down the path of wanting to restrict the growth of the economy because of its primary concern about the potential of inflation being fuelled and therefore 'slowing the economy down' by lifting rates, that has an impact on the labour market. One of the reasons our labour market has been able to move to a position where we have a 5.8 per cent unemployment rate is that we have a strong-growing economy. If you

take action to slow down the strong-growing economy, you necessarily are going to reduce business activity and that has an impact on demand for labour.

In all of these areas there are policy trade-offs. It is not that the Reserve Bank should not be conscious and very much aware of the danger and damage inflation can have to our economy, but a specific policy approach with respect to inflation does not have the same value if it is not accompanied by a specific policy approach with respect to where the Reserve Bank sees the labour market and unemployment rate. At the moment, we are left guessing on that question. We do not know whether the Reserve Bank is targeting an unemployment rate of below six per cent or five per cent—or exactly where the Reserve Bank wants to see the unemployment rate in Australia.

**Ms VAMVAKINO**—You mentioned Australia's ageing population and the need to look at policies—that is, women returning to work and extending the work period for people. Are those policies enough to address the problem, or are we going to need to look at the possible importation of skilled labour, perhaps through immigration channels? To what extent do you think we are preparing our young people by ensuring they have the appropriate skills to meet those future shortages?

**Mr Anderson**—Let me deal with the immigration issue and then move on to the aged and young people. Unquestionably, we need to have an active program of skilled migration into Australia. The organisation strongly supports that. Policies to increase the level of skilled migration are also necessary. History of the operation of our labour market has shown that, far from skilled migrants taking the jobs of Australians, skilled migration, properly designed, helps grow our economy and increase job opportunities in our economy for all people who live here. We are strongly in support of policy approaches and I think that we would have a deficient labour market if we did not have an active and more structured program of skilled migration.

With respect to ageing, the issue here is not one of putting artificial programs in place to force people to work longer. I think that would be the wrong approach here. Governments and policy makers are right to point to the fact that, with the ageing of the population, we are going to have a range of economic problems if we do not try to increase labour force participation as people mature. We need a range of policy structures that provide the right environment for the individuals concerned to make decisions that they might remain in the work force for longer, and also a framework where employers feel confident about employing people at mature age in their business for longer.

**Ms VAMVAKINO**—There is a problem with over-45s being employed now. We all hear about people who cannot get a job; they are not even getting a look-in if they are 40-plus. It is almost contradictory in a way, isn't it, what is going on out there in relation to what we need to do to address it?

**Mr Anderson**—Yes. There are a number of different trends at work here. I had a read of some of the submissions that were put to the committee by the Department of Employment and Workplace Relations and their labour market officials. They indicated, using ABS data, that over the past decade in Australia we have increased the labour force participation of older people. The difficulty that you allude to is the circumstance where people may be retrenched or taken out of work at a point in their working life where it is difficult to re-enter the work force.

**Ms VAMVAKINO**—That is a waste of experience.

**Mr Anderson**—That is an area where policy makers need to ensure that there are structures in place for reskilling and retraining so that people who are displaced in the labour market at a relatively middle or mature age have the capacity to come back into the labour market. It is not realistic to think that in a dynamic labour market people can move back into the same job that they had previously, but there is great productive capacity remaining in people if they are moved quickly into programs of assistance that will help improve and increase skills.

**Ms VAMVAKINO**—Yes, you can reskill someone, but there seems to be a problem with employers in terms of wanting to employ older people, even though they have been retrained. I come across it a lot in my electorate—I know of people. We can make the policies and do the training, but what about the employers employing people and recognising them as being very good workers—who have been retrained and are worthy of putting back into the work force?

**CHAIR**—There is the issue of employer perception—employer bias. While employers are willing to go to the expense of providing some of their budget for training of graduates and school leavers through their organisation, they seem to be reluctant or have this fixation that they cannot or will not do it for the mature aged. As you know, we had an inquiry into mature age employment, but that perception is still strong.

**Mr Anderson**—I was going to come to that very issue. The other side of the coin in terms of the skilling is also the demand side: what are employers doing? I agree that there are attitudinal issues that have to be addressed within the employer community. I make the point that, because we know that the level of participation of mature people in the work force has increased, employers are doing better than they were previously in that respect, but they are still not doing well enough. Employers are part of the community as a whole. The approaches and attitudes that you find in employers that may present some barriers to people coming into or remaining in the work force for longer are reflective of some of the approaches in our community generally towards ageing and the aged. I think in that sense employers do not stand out as having some attitudes and approaches that may not need to be addressed on a broader community basis.

Having said that, there are things that need to be done to help employers drive more positive attitudes to the employment of mature age people. Within our own organisation we are spending a lot of time on identifying to industry the importance of employing people throughout their full productive working life and investing in their skills for that period.

**Ms HALL**—I was going to ask you whether, as a chamber, you are actively promoting the employment of mature age workers, plus a lifelong learning approach and continual skilling of the work force of your members.

**Mr Anderson**—We are promoting both sides of the coin.

**Ms HALL**—Do you have some programs in place?

**Mr Anderson**—The individual members in organisations have programs and training in place and services for employers to assist them. What we do not do or support is some process of affirmative action, I suppose is one way of describing it, because you get into the real dilemma

where—as I come to answer the last part of the member’s question about youth employment—you have pressures on employers at the youth end as well. If you have a program that is specifically designed to employ at the mature age end and you only have a certain number of people that you can employ, then, by definition, you are disadvantaging people in other age groups, and yet there are very good social reasons why we need to do more at the youth end as well.

From an employer’s point of view, what we need is a labour market where we have the right incentives to employ people at both of the polar ends of the labour market. These are the ends where there is disadvantage and adverse consequences for our society as a whole if we do not improve the operation of the labour market.

We have had a number of debates with the government and through a Senate committee on the issue of age discrimination laws. We have taken a view that we do not think a proposal to introduce age discrimination laws is going to be very helpful because, from an employer’s point of view, if you create a circumstance where there is greater risk of being sued for employing somebody in a high age group, which an age discrimination law allows to happen, then you may build a disincentive for employers to employ at the mature age end. One of the examples in the age discrimination law, for example, is that it will be discriminatory for an employer to have a performance indicator in their business that treats people differently according to their age. It would mean that a performance measure that says you shall—to use a basic, old-fashioned clerical measure—key in at 80 words a minute, for example, on your keyboard would be subject to legal challenge and rendered unlawful if medical or other evidence showed that as a person gets older they may not be able to key at that rate.

The age discrimination law has a very laudable and sensible purpose, as we have just discussed, to improve levels of employment of aged people and prevent discrimination, but there are regulatory mechanisms like that which, to an employer, could be said to create some risks of employing people in higher age groups. For example, as an employer, why would I employ somebody 55 years of age who may not be in the best of health when my performance measure or standard policies that apply in my business could, if I have a falling out with that person, expose me to legal challenge in an equal opportunity or discrimination tribunal.

We have to be very careful about how we introduce regulatory approaches to deal with the aged employment end. I am concerned that, in the desire to do some good things on the aged employment end, we might be dealing with the regulatory approaches before we deal with attitudinal approaches. I think we need to deal with attitudinal and skilling approaches first; they are the areas where you can make big gains with less risk. If we saw this as regulatory, then we potentially bring in some of the risks that are associated with increasing regulation.

**Ms HALL**—I am interested in an area that you have not mentioned in your submission—that is, the area of over-employment, where people are working extended hours of overtime, 70 or 80 hours per week. Quite often they will be less skilled jobs. I think it is the two ends: it is the less skilled jobs and the executive. I know in France they have introduced legislation—and I do not think the OECD is so supportive of that legislation—that restricts working hours. I am interested to hear what the chamber’s thoughts are on the fact that we have this high level of overemployment. I might add that, whilst the OECD did not support the legislation that has been

introduced in France, they were horrified at the hours that a number of people are working in Australia.

**Mr Anderson**—It is a very topical issue—one that we have been very involved in through the inquiry that was conducted by the Australian Industrial Relations Commission into working hours through 2001-02. This is an area where generalisations do a disservice to the debate. It is not correct to say that Australians are working extraordinarily long hours. What the Industrial Relations Commission found was that there are discrete areas in our labour market where very long hours are worked. They tend to be professionals and executives and, for that matter, also the self-employed, and pockets of the wage and salary work force.

**Ms HALL**—And lower skilled. I am finding in my electorate I can probably quote 10 examples of people who are working 70 to 80 hours a week.

**Mr Anderson**—I have not seen enough evidence to support the proposition that it is the lower skilled. The evidence that I have seen is that in some of the blue collar trades, such as in construction, long hours are worked, and those long hours are worked for a range of reasons, partly to maximise income through the working of overtime.

**Ms HALL**—Yes, I agree with that.

**Mr Anderson**—And in some areas of the health sector, such as in some areas of nursing and the like where long hours are worked as well, and in some parts of the hospital sector. I do not accept the general proposition that we should be capping working hours. The French experience is not a good path to go down. The unemployment rate in France is now 9.7 per cent. We would be very unwise to do the things that the French have done to their labour market. Capping hours in France has not led to the unemployed getting more of the available working hours; it has led to or been part of a period when unemployment has increased to 9.7 per cent.

**Ms HALL**—But it is not measured in the same way that our unemployment level is measured.

**Mr Anderson**—No, it's not. I do not know the answer to that specifically, but the comparisons of unemployment rates that are produced through the OECD, and for that matter the ILO, confirm that the French unemployment rate now is substantially higher than the Australian unemployment rate.

**CHAIR**—The important thing you are saying, though, is that it has not gone down with the introduction of capping.

**Mr Anderson**—It has not gone down; it is going up. In France now they are having a serious public policy debate about their labour market because what they have done has not worked. Fortunately, in Germany—and I was there in the middle of the year and I did speak to the German employers who are involved in this debate—their government did not adopt the French cap and they are now very pleased they did not adopt the French cap because they feel they have some capacity to improve the operation of their labour market. The French do not unless they get rid of their cap. So capping hours is not the answer. If you cap hours, you will build in business costs, and when you build in business costs you increase the unemployment rate and you also cap overtime earnings.

**Ms HALL**—That was the big issue in France.

**Mr Anderson**—As I said right at the start in answer to the question, it is very easy to generalise in this area. It is important to try not to generalise because, whilst it is true that there are some long hours worked, some of the drivers of those long hours are the individuals concerned seeking to maximise their incomes.

**CHAIR**—One of the things that you believe is a driver to making inroads into the level of unemployment is lower labour costs. You say in your submission:

... lower labour costs will enable business to employ more workers and make substantial in-roads into the current level of unemployment.

We hear that regularly—that is often trotted out—yet in the last 10 years we have seen a dramatic reduction of unemployment and real wages growing. Do you put it all down to growth and regulatory reform or is that a generalisation that really does not hold totally true?

**Mr Anderson**—We are not advocating a reduction in people's wages. That is not the context in which we refer to reducing labour costs. The growth in labour costs needs to increase proportionate to our growth in labour productivity. You cannot have a strongly functioning labour market if the labour costs that employers bear are increasing at a rate that is in excess of the productivity growth of that business. Fortunately, over the past 10 years in Australia, and even a little more into the late eighties, we certainly lifted our national productivity and we did that partly as a consequence of some of the labour market reforms that were introduced in the latter years of the Hawke government and the early years of the Keating government and then throughout the period of the Howard government. That has helped to grow our productivity and, as a result of that, we have been able to move to a lower level of unemployment to increase the number of people in employment in Australia to historically high levels and also to provide increases in real incomes.

The difficulty we have is that there is a constant pressure on employers to increase labour costs by forces outside of the business. It is not that employers do not want to provide wage increases or better employment conditions for the workers. We negotiate and provide wage increases to people on almost a daily basis in our businesses. What we are concerned about are things such as the case that is being heard by the Australian Industrial Relations Commission where the ACTU has claims in the commission to very significantly increase the redundancy costs of employers, for example. To give you an example, the current average payment on termination on redundancy by a small business is about \$1,500 to the individual concerned. Using exactly the same characteristics of the employee in the business, if the claim were granted it would be \$6,500 by that one business to the individual concerned. That is a claim that is right at the doorstep of employers. In fact, the week before last the commission reserved its decision. It is those external labour costs over which employers have no control because they are imposed that are the real concerns for us. They do not bear any relationship to the productive operation of that business. They are costs that are mandated by law that must be complied with.

**CHAIR**—I can see that from the point of view of redundancy, but there are some other labour costs that have been mooted recently in regard to the balance between work and family, such as perhaps some corporate health plans or in-house child-care facilities. While they are labour

costs, don't they also have a direct benefit to the employees and to the potential for them to attract supply?

**Mr Anderson**—There is an element of truth in the question, but there is also an extent to which, as a general rule, it would not be correct. Take one of the work and family areas of debate—paid maternity leave. Some employers provide paid maternity leave. Unquestionably, it is a cost to them. Those who provide it have identified in their business particular advantages, particular commercial reasons, why it is provided. That would be the profile of their work force, the investment that they have made into the skills of those individuals concerned and the need for that business to try to have the individuals concerned return to the labour market, return to that business, after parenting.

You cannot translate the circumstances of those businesses—for example, a bank, which is often one of those that provide that—to the circumstances of employers generally. You cannot say that, because one business has a particular benefit as a result of a work and family initiative, that benefit is going to apply equally to all others. It is not going to apply equally to all others. It may apply in lesser form; it may not apply at all. If you impose these types of obligations on employers on a one-size-fits-all basis, on an across-the-economy basis, you are going to increase labour costs in a way that is detrimental to the operation of the labour market.

It is true there are some benefits to employers in their taking steps to attract and maintain the participation of a working parent in their labour market. We have seen that ourselves as an organisation because, as the ACTU is making certain claims in the Industrial Relations Commission in respect to work and family, we too have made a range of claims that is not about driving labour costs down but about introducing part-time employment into industries and workplaces where it is currently against the law to have part-time employment and about allowing for more flexibility in the taking of leave, breaks or when hours start and finish. So we are looking for some changes in the employment regulations through awards in those areas. There are some benefits that accrue by employers taking some of these initiatives. Some of those benefits have a cost but actually have a greater advantage, but applying them across the economy will not be legitimate.

**Ms HALL**—If I can get back to what we were talking about before and coming at it from a different angle, what action do you think needs to be taken to address the issue of chronic skill shortages in various areas?

**Mr Anderson**—I think the most important area here is for the labour market programs that are established through the vocational education system to be flexible enough to respond quickly to the areas where skill shortages appear. What you need to be able to do is to identify the skills shortage quickly—and in some circumstances it can be foreseen—and to put in place mechanisms and programs to address it both at an employer level and at a general education and training level. There are areas where skill shortages occur in our economy. It is one of the anomalies in the operation of our labour market where employers will sometimes say, 'I want someone to work for me, but I do not have enough people applying for the job.' There was an example in Melbourne two months ago where, on one day, an employer who operated a traditional motor electrical automotive workshop wanted to engage an apprentice automotive electrician. That employer had one job applicant for the two weeks they advertised. On that same



day a new chain of fruit juice shops in Melbourne sought expressions of interest for work and they had 200 people lining up outside the doors.

**Ms HALL**—Exactly.

**Mr Anderson**—So 200 people were prepared to work in a shop on a casual and part-time basis, yet there was only one person who wanted a full-time job as an automotive electrician. These are the anomalies in our labour market. In part, they may be as a result of skill shortages but they may also be, in part, as a result of the attitudes of people who want work and the type of work they want.

**Ms HALL**—I think the motor mechanic is a classic example. If you talk to young year 10 students when they are leaving school, I would say over 50 per cent want to be motor mechanics. You look for jobs, apprenticeships, training in that area and you see they are very restricted. It has been an area where for over 25 years, I would say—and that was the time I was associated with employment—there has been this shortage of motor mechanics. It links in to the fact we have had this long-term shortage yet still the skill level and training have not been addressed. That goes across both sides of this parliament. On the other hand, you have had that long-term oversupply at the other end where there is not the same level of requirement for skills. What I am trying to push for are your ideas for addressing that and how, through your chamber, you can promote the development of skills in areas where there are shortages.

**CHAIR**—I would have thought that would be a classic example, using your demand-supply issue, where the demand is there but the supply will not come to the door. Why won't they come to the door is a question.

**Ms HALL**—Yes, it is a classic.

**CHAIR**—The people like those in the eastern suburbs of Melbourne is a classic example where there have been a number of surveys where getting kids into your traditional blue-collar apprenticeships—and there is an abundance of apprenticeships there—is a struggle.

**Mr Anderson**—There is much work to be done in the whole area of the interaction between work and the schooling system. A lot of attitudes to work are developed at an early age. We have done a considerable amount of work with the relevant training authorities at program, operational and policy levels, and we have also done survey work with employers that we have commissioned to try to get a read on the levels of job readiness that employers need for young people coming out of school—what are the basic skills that are needed?—because if we can filter that information into the schools in curricula, into the type of work interfaces and school based apprenticeships and the like then we have some opportunity to engender the right attitudes of people towards work at an early age.

**Ms HALL**—You would see a greater level of communication between employers, the education system and the students and linking apprenticeship training and employers being involved in that more within the school system so that you have continuity and it is a seamless approach?

**Mr Anderson**—Absolutely correct. There needs to be better coordination and communication. You are dealing with multiple levels of government, which is one of the difficulties because you have state governments delivering programs and federal governments setting framework policies and schools operating curriculum with degrees of independence and reasonable autonomy. You have employers who need multiple different circumstances needing to interrelate with those programs, and also you have the expectations of parents and what they expect from their children affecting outcomes as well. So there are lots of different levels at which the communication and coordination need to happen, and it is not an easy area. One other aspect that goes beyond communication and coordination is to make sure that the regulatory arrangements are in place to allow these things to happen.

**Ms HALL**—Yes, a good point.

**Mr Anderson**—I will give you another example. In the building industry, the national building and construction award, which is the basic law that sets out the rights and obligations of people working in that industry, does not allow for school based apprenticeships. There is a case being conducted currently in the Industrial Relations Commission to establish the framework for school based apprenticeships. Until that occurs it will not be possible for an employer under that award to employ a school based apprentice. Even if the demand and training are there, it cannot occur. The regulatory infrastructure needs to be created, and I think it is a heavy obligation on us as employers to make sure that happens through the Industrial Relations Commission. It requires the cooperation of trade unions as well through the Industrial Relations Commission and, overwhelmingly, the trade union movement has been very cooperative in this area of vocational education and training and we have worked closely with the ACTU to establish the national training wage award, for example. There are some pockets of resistance in the trade union movement to some of these measures. In the example I gave you on the school based apprenticeships in the construction industry, unfortunately the CFMEU opposed that application and it has had to proceed to arbitration. But, leaving that aside, we have an obligation to establish that regulatory infrastructure and, as far as we possibly can, we are taking steps to do so.

**CHAIR**—We are rapidly running out of time. There is one aspect of your submission that has not been explored at all, either in your verbal presentation or in your answers, and that is you wrote a quality submission on the earned marginal tax rates and the effect that that has on the willingness to front up for work. You explored the interaction of welfare with work and you talked about income test stacking and working credits as well as the earned income tax credits. In the time we have, can you spend some time explaining that to us and the chamber's thoughts—in five easy words.

**Mr Anderson**—We have seen some changes to the tax system through the reform of indirect taxation in Australia and the general lowering of income tax rates, which has been positive. Lower levels of taxation within a well-functioning tax system do provide the basis for economic growth and for increased participation in the labour markets. If you can take home more of what you earn, then you are more likely to want to earn it. So lower levels of taxation are generally positive for the operation of the labour market. The more difficult issue comes into how the tax and welfare systems interrelate for low-income earners.

**CHAIR**—The tapering off situation.

**Mr Anderson**—And the tapering. We have suggested in our submission that there are a number of reforms that could be made in this area, particularly in respect of the issue of the tapering of benefits. We are talking about the circumstances where multiple benefits received by an income earner are simultaneously withdrawn once they enter into the labour market. That is referred to, as I understand, by economists as ‘income test stacking’. Once your income reaches a particular level, then these benefits are lost. If you have entered into the labour market and you are earning income at a particular rate, and that rate is the rate at which the benefits are generally lost, then you lose them all then and there, creating a very high effective marginal tax rate. A policy measure that could be taken is to try to minimise that negative effect on the individual. If you minimise the negative effect on the individual, then there is incentive for them to enter the workplace, and that can be done by tapering the rates at which they lose these benefits.

**CHAIR**—This is still at the lower income end of the range; otherwise, they will be in a privileged position compared to other employees in that organisation.

**Mr Anderson**—That is correct. The very question you have asked, Mr Chairman, goes to the heart of the policy trade-offs here. If you do not means test benefits, then benefits apply throughout the whole of the working age population. That would be a dreadful approach because we do not want welfare to be going to people who are not in need. The purpose of the welfare system is to provide to those in need. Middle-class and high-income welfare generally is not right in social terms and certainly not good in economic terms. What you need to do, though, even if you taper benefits so that they do not move out all in one hit, is to recognise that that can lead to some people receiving benefits for longer where they may be moving up the income scale. You do tend to move poverty traps, and that is the difficulty with the earned income tax credit system. You tend to move poverty traps from lower incomes and push them up. As our submission indicates, the research seems to suggest that the adverse impact is generally with respect to the participation by a secondary income earner in a family, not the primary income earner.

**CHAIR**—The Working Credits scheme, of course, the government introduced only came into effect in September this year, so it is still too early to see what effect that has, but in your judgment what are you expecting?

**Mr Anderson**—It is too early to see what effect it has. It has the potential to be a net positive, but it is fairly modest. Whilst it may be quite a large amount of money—\$506 million over four years—the actual benefits to individuals will be relatively small, and because it is relatively small it may not provide enough incentive to get people into the work force who could be in the work force. It is the type of policy structure that is supported, but it may be too modest to have the full effect that you want it to have.

**CHAIR**—Thank you very much for the evidence that you have given today. I do thank you for your time. Your presentation has been very thorough. I would like to have teased out some of those welfare issues a bit more, but I might do that in another format.

Resolved (on motion by **Ms Hall**):

That this committee authorises publication of the transcript of the evidence given before it at public hearing this day.

**Committee adjourned at 12.33 p.m.**