

21 June 1999

Mr James Rees

The Enquiry Secretary
House of Representatives Standing Committee
on Employment, Education and Workplace Relations
Suite R1 116 Parliament House
CANBERRA ACT 2600

RE: Inquiry Into Issues Specific to Workers over 45 Years of Age Seeking Employment, or Establishing a Business Following Unemployment.

Dear Mr Rees,

Thank you for the opportunity to make this representation to the House of Representatives Standing Committee on Employment, Education and Workplace Relations.

Australian Business recognises the significant difficulties that this group of job seekers face in their efforts to return to work or to develop a new career path as a self employed business person. **Australian Business** similarly recognises the extreme personal, domestic, social hardship that many people face in adjusting to the changes brought by structural reform.

In our submission, **Australian Business** offers a number of suggestions and observations as to what may be done to assist this specific age group of jobseekers to make the unemployment to employment. There is also a series of statements and objectives that we will continue to advocate as essential for sustained economic growth, growth in employment and the development of a competitive skills base in Australia.

Many of the issues raised in this paper are not specifically limited to the dilemmas faced by the target group. We do not believe that it is the best interests of any stakeholder to attempt to deal with this problem superficially. It is more likely that the solution will be found through the concerted efforts of many apparently disparate quarters.

Please feel free to contact **Australian Business** should you require any additional information or clarification on the issues and suggestions raised in this paper.

Yours sincerely

Paul Orton
Manager, Policy

The Australian Business

Submission

to the

House of Representatives Inquiry into

Issues Specific to Workers

over 45 Years of Age Seeking Employment,

or Establishing a Business Following Unemployment.

Background

Australian Business is an independent business improvement and membership organisation with a history of achievement spanning more than 110 years. As one of Australia's largest business service organisations, it provides information and expert advice on business, management and employer related issues. Through this information and advice, as well as comprehensive policy development, **Australian Business** provides Australian companies with practical and powerful business solutions.

Australian Business has built a leading team of highly qualified and experienced business professionals. Their skills are backed by strategic links with other business organisations across Australia and around the world to offer an unrivalled range of consultancy services.

Australian Business has over 5000 member companies providing employment for over 300,000 people. With eight regional and two affiliate offices within NSW and the ACT, and nationally through Australian ChamberNet, **Australian Business'** coverage is unmatched.

Australian Business offers more than 80 integrated services from the following eight core groups:

- Business Improvement,
- Workplace Relations,
- Occupational Health and Safety,
- Learning and Skills Development,
- International Trade,
- Information & Online Services,
- Labour Market and Recruitment, and
- Health Services.

Australian Business operates a number of programs with coverage over some of the issues to be investigated by this enquiry. These services include the largest private sector New Apprenticeship Centre in New South Wales, the **Australian Business** Employment Network (ABEN) and NSW Government funded 'Mature Workers' program in Newcastle and the Illawarra. **Australian Business** is a member of the Department of Employment, Workplace Relations and Small Business 'Work for the Dole National' Selection Committee.

The 'Mature Workers' program is essentially a funded employment agency that seeks to match jobseekers over 40 years of age with paid employment. The program places skilled, semi skilled and unskilled labour in a large variety of private sector employments including manufacturing, retail, clerical and business services. Over the seven years that **Australian Business** has delivered the 'Mature Workers' program more than 1500 clients have been assisted in returning to the workforce.

In addition to these current programs **Australian Business** was involved in a number of previous labour market programs including JobSkills, New Work Opportunities and the Employment Services Regulating Authority (ESRA) Case Management service. Through our commitment to these programs we provided counselling, career guidance, retraining, placement and post placement support services to more than 1300 long term and mostly mature aged jobseekers returning to work after long term unemployment.

Discussion

As most of the experience and data that **Australian Business** has which falls within the scope of this enquiry is the result of work conducted in the Hunter, Illawarra and North Coast regions of NSW, the examples used in the discussion will centre around these three regions. It is not proposed however that these regions are experiencing a unique set of circumstances and so it is our proposition that the findings, particularly of the effects on the individual mature aged unemployed, could be almost universally applied throughout other regions in Australia.

The challenges and opportunities facing long term unemployed (LTU) in regional NSW are common to other LTU elsewhere in Australia. To be able to compete in the current market they are required to have more skills and attributes than they have been required to possess at any other time of their job search history. Changing labour needs have always been an influence in the labour market but the pace of change has accelerated. This acceleration has eliminated the 'breathing space' in the change process, which is now characterised by sudden rather than gradual shifts.

The suddenness of the change has meant that skills formation has not been able to evolve gradually and to keep pace with the needs of industry. This has led to widespread mismatches between demand for labour and the skills present in the unemployed labour pool. People are willing to work and employers are willing to hire, but the mismatch of skills in relation to demand will ensure that the two needs are not met.

Changing skills needs of employers is a constant in the current labour market. The survival and growth of employment is hinged on the competitiveness of product, customer service, the capability of management and staff and their skills in developing product that meets their market. To survive they must be structured to compete in the global world economy. Regional economies must be based on products and services that fully match the needs of their local market. These products and services must also be of a quality that makes them attractive and competitive to other domestic and global markets, have export potential or are import replacements.

The National Institute of Economic and Industry Research predicts that within three years world class regional economies that are not resource dependent will

have a product mix where as much as 30 % of the gross domestic product will be:

- information technology and associated services,
- high value added medical, educational and training services,
- advanced manufacturing technologies, and
- related business services.

Australian labour markets have seen the sunset on much of the traditional skills sets that exist in the growing pool of underemployed, unemployed and redeployed labour. This situation is made even more harrowing for the large pool of unskilled and low skilled 'factory fodder' workers who trade their labour rather than expertise as demand the this type of labour is fast disappearing.

Unfortunately the processes we have to ensure the development of new sets of skills cannot keep pace with the demand. The sunrise industries have arrived (after a very short twilight) and their demand for the skills that will keep them competitive is outstripping supply. Structural changes such as the closure of a steelworks, the closure of mining operations or a power production facility can occur in a cycle that is shorter than the time taken to retrain and redeploy their current labour force. Change is occurring whilst the systems we have to create the skills to meet new demands are stumbling in the dark.

To illustrate the rate of change, in 1993 at a presentation given in Sydney, the Director of the German equivalent of the TAFE system stated that within five years (1998) only 30 % of the skills then currently at use in the workplace would be in demand. Therefore it was necessary in his view, that each person be required to take on as much as 20% new knowledge every year, merely to remain competitive in the labour market. Our training system that accords 15 to 25 hours per week for 24 weeks per year x three years as a fulltime work load at tertiary level, cannot hope to keep pace with the changing labour market. Similarly the notion that an apprenticeship can be as little as 290 hrs of formal training but requires four years to complete before qualification cannot be seen a competitive best practice.

How many displaced/redundant workers are there?

An illustration of the suddenness of structural change and the displacement that it creates in the labour market is the winding back of BHP operations in the Illawarra. In less than half a generation BHP Flat Products at Port Kembla have gone from a mid 1980's workforce of 24,500 people (excluding sub-contractors) to 7520 at the end of 1996 and 6633 in May 1999. An additional 1000 workers have been made redundant at BHP subsidiaries including the Stainless Steel Division. At the same time BHP collieries have reduced their work force from 4500 to 1170 people, the median age of whom is 46 years.

In the Hunter region unemployment figures for Newcastle are currently 9.3% with the rest of the Hunter recording 9.5%. Hunter Valley Research Foundation

has advised that in July 1998 there was a total of 25,000 (15,600 male and 9,400 female) were unemployed in the Hunter Region. The Labour Force Monitor for the region shows a current unemployment rate for people over the age of 45 years being an average of 18% for men and 10% for women over the 18-month to end Jan 1998. It is estimated that the current rate for males over 45 is 20% and for females over 45 to be 13%.

The ***Australian Business*** 'Mature Workers' program in the Hunter currently has more than 300 jobseekers on its register and the lowest vacancy rate it has had for five years (This high case load is administered by one person with a \$67,000 budget and finds employment outcomes for less than \$400 per head).

What happens to displaced workers ?

Anecdotal experience and testimony indicates that the end destination for the displaced workforce can be roughly divided in thirds. A third find employment or self employment, a third move to where employment is more likely and a third remain locked out of the workforce due to their uncompetitive skills sets.

The third that find work or self employment are generally those who would always be in demand due to their competitive skill sets, attitudes, abilities, networks and resources. These are people who would normally be more mobile in the labour market and who could be characterised as 'job hoppers' moving from employer to employer (quite often within an organisation as well) seeking advancement, better remuneration, more challenge and more recognition. Some of these people are able to call upon resources and either purchase themselves an existing business (buy themselves and their family a job) or able to start up an enterprise and prosper. Even if these people cannot find full time work they have the ability to combine casual and intermittent short term full time contracts into a living wage. Often a substantial asset base and the possibility that their partner is working exclude these people from accessing the Commonwealth funded New Enterprise Incentive Scheme or NIES. This is unfortunate as many of them would be greatly assisted by the training and income support the program offers.

Those that choose to relocate often do so because they have harboured a desire to move at some time in the past and never did so, have been away before and wish to return or they see greater opportunity and stability for themselves and their families. These people tend to be more able to move because they are younger and as such have less restraints on moving (ie no children at secondary school, an elderly parent requiring care or a mortgage etc)and more time to re establish and/or develop a second career.

The last third stay put because they either have or feel they have no chance of successfully re establishment or they lack the drive and resources needed to be able to restart. This group of people is semi skilled or unskilled and are less competitive in the local labour market than the first group. It is this group that suffers the most personally and financially from any down turn in the demand

for labour, and they are the least able in terms of resources, capacity and access problems to be able to do much to help themselves.

This third group of people are often not able to develop self employment options themselves due to a lack of capital and business operation knowledge. Yet, conversely these people are eligible for NEIS participation and are encouraged to become self employed. Whilst acknowledging that some NEIS businesses can become very successful and viable, most struggle and then cease trading within a short time after the subsidised rent and social security payments cease. The major reason for the cessation of most of these fledgling businesses is the lack of capital. No amount of training or mentoring can make up for this fundamental weakness.

Who are the mature aged unemployed?

In the Hunter, North Coast and Illawarra regions the problems facing mature aged unemployed workers (>44 years of age) is shared by the next younger age group, the 35 to 44 year olds. **Australian Business** recognises that this age demographic should be included when considering options for the 'mature aged' unemployed.

The interval between 35 to 44 years of age group is an important time for individuals and young families to be putting into place the fundamentals that will create for them a measure of financial security. Quite apart from the personal damage that prolonged unemployment can have on the individual and or their family, the inability to 'get ahead' financially in this period will leave an indelible mark on their capacity to provide for themselves and their families over the following 30 – 40 years.

Many of these displaced unemployed mature aged workers entered the workforce at a time when there was far different economic and business environment than what exists today. When they entered the workforce the labour market was dominated by traditional employer and employee relationships, full time permanent work, jobs of little variation, jobs requiring only incremental upgrading of personal skills, the assurance of long job term security and retirement by *choice* at the age of 55 to 65.

The rapid rate of structural change to the environment of single industry dependant economies has caught these people entirely by surprise and unprepared. They did not plan (or need to plan at the time) for a mid life career change. They did not need to create sufficient reserves to provide for prolonged periods of unemployment and/or 'early compulsory' retirement, to make provision for the payment of a home loan and to provide for the schooling needs of their children when the weekly wage stopped. Even if they did see the need to plan they were often unable to make sufficient provision due to their low income earning capacity

The Impact on Business

The plight of long term unemployed people is normally seen to be a social, community, health and personal problem. There are however two important impacts that this demographic has on the business community.

Firstly, despite high levels of unemployment there remains significant and growing shortages of skilled labour in many regions and localities throughout Australia. The shortages are appearing in metal trades, automotive trades, hospitality, building and construction and information technology. The shortage of skilled labour is leading to higher costs of production. In turn these higher production costs can lead to the movement overseas particularly in the manufacturing sector. Another issue is that expansion plans have been put on hold due to a scarcity of labour. A recent Australian Chamber of Commerce and Industry study into skill shortages estimated that over the next ten years \$1.6 billion of investment in Northern Australia will not occur due to a shortage of skilled labour.

It is unknown at time of writing what percentage of mature aged unemployed are currently skilled to fill these jobs. Complicating the issue is that often the jobs and the jobseekers are not geographically co located. Even within a metropolitan area well serviced by public transport such as Sydney, it is difficult to attract labour to where jobs are over distances as small as 20 kilometres. It would appear from studies such as the ACCI study mentioned above that mature aged workers in particular are extremely reluctant to relocate for work.

What is known however is that mature workers have a number of attributes that make them seemingly good candidates for employers to consider. A report by the New Jersey Senior Community Service Employment program indicates that mature aged jobseekers are:

- less likely to take time off than younger age groups,
- offer greater job stability and continued acceptance from employers once hired,
- generally have higher performance ratings in a shorter time than those hired before age 30,
- they tend to have a more positive attitude to work than younger persons, and
- have more life experience they have the ability to learn new skills.

Despite evidence of the value of a mature aged worker there is marked reluctance amongst employers to hire from this group of jobseekers. A mechanism to encourage employers to more closely consider the employment of a mature aged jobseeker must be introduced. Selected and targeted labour market programs such as the now defunct **JobStart** wage subsidy is suggested.

The second influence that high levels of mature aged unemployed people have on business is that the level of demand for goods and services declines. As

mentioned previously a person has higher consumption needs and spending patterns in the period 30 to 50 than at almost any other time of their lives. It is at this age that people choose to buy houses, furniture, whitegoods, consumer items, spend more on personal consumption and entertainment/recreation.

Many sectors of business are dependent on discretionary spending. For every \$100,000 spent in main street retail shops 1.7 full time jobs are created, a similar amount in a large chain store results in 0.7 employment outcomes.

The presence of large numbers of LTU mature aged workers in any one regional economy has flow ons to every level of business operation in the region. Without wishing to go into too much detail on economic modelling and multiplier effects the simple fact is that more people working in higher paid positions creates better business conditions.

Issues Facing These People.

In a tight labour market such as exists in mid 1999, many LTU mature workers are faced with a seemingly impossible cluster of hurdles between them and full time meaningful and adequately paid employment. These hurdles include:

- A lack of transferable skills,
- A mismatch of their skills with those in demand,
- Personal demoralisation caused by the seemingly intractable problems of unemployment including a lack of self esteem,
- Personal and anecdotal experience that convinces them that age is the factor that limits their employment chances, and
- The high levels of unemployment and competition for employment.

These disadvantages are contributing to long average periods of unemployment in mature aged jobseekers. In the Illawarra the 40+ aged jobseeker can expect up to a 75-90 week period of unemployment before successfully returning to work. In May 1999 the period is slightly longer than it was in May 1998. This is an indication that current assistance is failing to stem the growing difficulties faced by mature aged unemployed people.

A significant difficulty that many recently retrenched mature workers encounter is the restrictions placed on accessing social security payments. Most of the people made redundant are not permitted to access **Centrelink** funds until their redundancy payment, which could include long service, leave, holiday pay etc is or has been exhausted.

In the Hunter, mature aged unemployed people may face up to 18 months before they can access social security funding and coincidentally the **JobNetwork** that has replaced the Commonwealth Employment Services (CES). This is a double blow, as previously the CES was able to assist job seekers not in receipt of unemployment benefits to find work.

Locked out of the social security net, the mature age unemployed are forced to spend the redundancy payment on living expenses metered out over a period

that is determined by **Centrelink**. A newly unemployed person cannot for instance choose to spend their redundancy on a lump sum off the house mortgage or other loan arrangements. This often results in a gradual but irreversible slide into insolvency or a forced sale and disposal of assets. The last third group referred to previously are the ones that suffer most from this decision, which can be assumed to be designed to encourage job search activities.

However the following 1993 Canadian study indicates that this form of 'encouragement' is unsuccessful:

- Job search activity does not appear to be responsive to declining wealth in the course of a spell of unemployment,
- Job search intensity is not related to whether or not the person is eligible to receive social security,
- Once a person is in receipt of social security the job search activity increases markedly, and
- Job search activity is typically concave. After a slow start the job search activity rises to a peak at 15 months and then drops steadily to its start point after a further 9 – 12 months.

Source: Center (sic) for Research on Economic Fluctuations and Employment, Montreal 1993

Another often unforeseen hazard for mature unemployed people is that, if their partner is working the *JobNetwork* organisations are not able to offer the job seeker free assistance. This is because the Commonwealth does not fund the *JobNetwork* provider to assist them.

What can be done?

There is no single solution to the difficulties faced by mature aged unemployed in their transition to become either employed or self employed. There are however several key issues that must be addressed and these include:

- A better vocational education and training system that responds to the whole of life learning needs of employers and individuals,
- An incentive regime that encourages the individual and the employer to make the investment of time and resources necessary to develop a lifelong learning culture,
- Social security reform and the introduction of support services that encourage an unemployed person to seek employment or self employment options prior to and/or immediately after becoming unemployed,
- Improvements to the candidate selection processes for the NEIS scheme to allow for mature aged unemployed people with assets to participate,
- The investigation of the payment of six months social security 'up front' to assist those NEIS participants without capital to 'kick start' their business,
- A reintroduction of the JobStart subsidy program for mature aged jobseekers. (A 1997 DEETYA report titled, *The Net Impact of Labour*

Market Programs, reinforces the suggestion that this program was successful and very cost effective),

- Continued growth economic growth of > 4.5% per annum to create new employment opportunities,
- A reinstatement of the recently suspended program that allowed employers of existing workers to access Commonwealth incentives for the provision of skills development training (this may lead to less redundancies in the first place and more job opportunities for the recently retrenched),
- The encouragement of training products that will achieve the highest residual return for the public dollar spent. The following industries are emerging as the leading employment opportunities for the future: environmental services, telecommunication equipment and knowledge, software based business and human services, multi media, biotechnology, medical technology and pharmaceuticals, advanced manufacturing, composite materials, high value food products, leisure and recreation, education and training, high value consumer goods including fashion and other niche products (incl food, alcohol), and culture and entertainment including sport.

(Primary source: National Institute of Economic and Industry Research Oct 1997)

Conclusions

Employers and individuals cannot continue to rely on government assistance to facilitate the transformation and to protect them whilst developing new skill sets. However the role of the public sector should be to create an environment that encourages investment and growth in skills development. It is then up to the private sector to take the best advantage of the opportunities that are presented by the favourable environment.

Australian Business will continue to lobby the government to ensure that the economic environment encourages development and investment in vocational education and training. Accordingly, **Australian Business** will continue to work with government to ensure:

- the infrastructure for vocational education and training is in place,
- that economic and industry policies encourage employer and the individual employee investment in training, and
- That access to vocational education and training is available to Australians.

The role of education and training in the development of skills and innovation cannot be overstated. **Australian Business** will continue to assist regional

development by working with the State and Federal government to create the following key business environmental indicators:

- A growth rate of at least 4.5 % per annum driven by clear economic, financial, trade and industrial policies
- Incentives to work that break the nexus caused by the current Social Security and Taxation systems which penalise low income earners for returning to work,
- Reforms to the wages system including moderation of wage inflation, wage decision decentralisation, linkages between wage and productivity increases, wage flexibility, a review of minimum conditions that discourage employment, minimisation of non wage labour costs and a review of job security provisions,
- Targeted labour market programs that are simple and direct and temporary,
- A truly responsive VET system that allows for private sector competition,
- A secondary school system that skills students for the requirements for employment and the employers needs,
- Greater cooperation between Local, State and Federal governments in addressing the issues surrounding unemployment,
- Development of strategies for particularly disadvantaged members of the labour market, and
- A strong unequivocal indication to business that the fundamentals necessary for business startups and growth are the first priority of government.

The Next Steps

Australian Business is committed to the following actions in support of regional development:

- Continued calls for Federal and State Governments to develop and articulate comprehensive employment policies, strategies and resourcing/funding commitments,
- Continued pressure on Governments for reform to aspects of the employment, education, training and economic sectors,
- Ensuring that employment, training and education delivery matches employers needs at a local level,
- Encouragement and support for those in the business community who are willing to innovate and grow,
- Resist changes that will downgrade the variety and access to quality education and training,
- Support initiatives that promote 'High Road versus Low Road' enterprise development, investment and training, and
- the development of virtual and actual infrastructure that will bring improved and effective vocational education and training products to all Australians.