"you value what you pay for"

ENHANCING EMPLOYERS' CONTRIBUTIONS TO SKILL FORMATION AND USE

a discussion paper for the Dusseldorp Skills Forum

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OVERVIEW

AUSTRALIAN EMPLOYERS RISK DROPPING THE BALL

This Discussion Paper, prepared by the Australian Centre for Industrial Relations Research and Training (ACIRRT) for the Dusseldorp Skills Forum, is intended to stimulate public discussion and debate about the contribution of stakeholders to the development of a highly skilled and innovative labour force and economy in Australia. It focuses in particular on the role of a major group of stakeholders: Australian employers.

It concludes that there is a major weakness in the funding base for skill development arising from a declining investment in the training effort by a key stakeholder group, Australian employers.

The evidence is substantial:

– Australia is spending less on education and knowledge than comparable countries
– Employers are reducing their stake in and financial commitment to training with the rise of non-standard forms of employment such as casual work
– Individuals are being forced to take greater responsibility for their own development.

If not addressed, the situation has major implications for the national interest: current productivity growth levels are unsustainable and ongoing growth requires increasing the skill levels of the workforce. According to OECD data Australian employers have been amongst the worst in the world in creating high skilled white collar jobs.

KEY ISSUES

The paper examines the current state of the training agenda, analyses these trends and then considers a range of policy responses.

1. Current Trends

The authors outline a range of concerns with the current VET regime:

– there is little evidence of a strong training culture within Australian workplaces

– the New Apprenticeship system's focus on workplace-based training has led to a decline of the traditional four-year apprenticeships

– employer funded training has declined in Australia since the mid-90s, both in terms of hours spent in training and dollars spent.

– this has led to a shift of the training burden from government and employers to individuals.

Australia *Is Lagging Behind:* Australia lags behind comparative nations on a range of OECD indicators of successful development of a Knowledge Economy during the 1990s:

– Australia ranked 16th out of 21 nations in terms of annual average growth in high-skilled jobs.

– Australia's low-skilled base is growing faster than any OECD country except Ireland and Austria.

– Australia's investment in knowledge as a proportion of GDP is deteriorating, while most OECD nations are increasing.

– Australia's funding for education as a proportion of GDP is also falling. In 1997 it ranked 25th out of 29 OECD nations in terms of direct public expenditure on education.

Employers *are Spending Less:* The shift in the Australian labour market from permanent full-time work to tenuous employment has undermined the training drive:

– expenditure per employee is trending down from $191.25 in 1993 to $185.49 in 1996.

– average hours spent on training has fallen from 5.7 hours per employee in 1990 to 4.9 hours in 1996.

– more employers are spending less than 2.5 per cent of their payroll on training now than a decade ago. A staggering 31 per cent of employers are not sure what their financial commitment to training is.

– the vast bulk of training is unstructured, ad hoc, 'on-the-job' – 71.6 per cent of all training in 1997.

– tertiary-educated, high-skilled workers are more likely to receive training than low-skilled workers

– employees in non-standard employment are less likely to receive training – only 50.5 per cent of casuals receive training.

The Rise of **D-I-Y Training**: The decline in government and employer support has placed an increasing onus on workers managing their own training.

- participation in post-compulsory education increased by 28 per cent between 1989 and 1999 to its highest ever level.
- 90 per cent of wage earners aged between 20 and 24 participate in some form of training
- however the participation rate of mature workers (aged between 45 and 54) in VET and higher education has risen rapidly, due to retrenchments and restructuring.
- unemployed or people marginally attached to the labour market are going to greater lengths than ever before to improve their vocational and employability skills.

2. Analysis of the Trends

- Restructuring has spawned the spread of precarious employment, with nearly half the workforce now employed on a 'non-standard' basis. This trend is increasing across the economy.
- This shift has fundamentally changed the priorities of employers, with lower levels of training for casuals – and where training exists, it is overwhelmingly induction training.
- The growth in non-standard work has accentuated the trend of shifting costs of training from employers to individual workers.
- Policy makers need to move beyond the 'individual' and 'enterprise' and look instead to 'skill eco-system' – clusters of competencies relevant to a specific industry or region shaped by interlocking networks of firms, markets and institutions.
- Development and management of such eco-systems becomes the key challenge for policy makers.

3. Policy Responses

The authors canvass the merits of national and international training initiatives.

The Training Guarantee Levy (TGL) – The TGL was introduced in 1990 by the Hawke Government, requiring all employers with a payroll over $200,000 to spend one per cent of payroll on 'employment-related' training, increasing to 1.5 per cent after July 1992. Where employers did not spend this amount, the money went into a central fund to cover the administration of the program. Small business and charitable institutions were exempted. The scheme was suspended in 1994, prior to the release of an official evaluation, and abandoned in 1996.

While the accepted wisdom is that the scheme was unpopular with employers, susceptible to rorting and largely ineffectual, there is evidence of some success, based on the official evaluation:

- 57 per cent of employers reported their training expenditure increased under the program.
- average training expenditure in the private sector increased by 55 per cent
- the TGL sheltered training expenditure from the impact of recession.
- 47 per cent of employers reported the TGL had increased the status of training.

– employer opposition to the program decreased during the life of the program and the most common complaint was the administrative burden.

Despite these benefits, the TGL failed to live up to its promise because:

– employers 'hit the wall', running out of training ideas for structured training
– smaller employers in particular had limited ideas as to identifying training needs
– some employers feared increased poaching of staff who had developed further skills as a result of an investment in training
– employers were not prepared to back training by re-engineering jobs to deploy new skills.

INTERNATIONAL EXAMPLES

The report canvasses a number of international examples where governments and employers have worked together to improve the skill formation capacity of enterprises. Tax rebates and statutory contribution schemes exist in a number of countries in Asia including the Philippines, Taiwan and Singapore. Outstanding examples from Europe include:

– **France**
  1.5 per cent levy to all firms with more than 10 workers; employers can claim against the fund for accredited training programs; individual; workers can also access the fund to take training leave. The funds are administered by employer-union organizations on both regional and industrial lines.
– **Spain**
  The French model extended to allow for employee contributions as well for extra personal training leave.
– **United Kingdom**
  Individual Learning Accounts introduced in 1998. Government supplements individual contributions. Although this program has recently been suspended due to allegations of abuse, it has demonstrated a huge unmet appetite for lifelong learning.
– **Sweden**
  Individual learning accounts where workers pay training money and can claim back as tax deduction. Employers can also pay in and claim 10 per cent as deduction from payroll tax.
– **Denmark**
  Government and employers jointly fund a scheme to cover wage and travel costs of workers undergoing training. Recently extended to allow individual employee contribution. Supplemented by programs of parental leave and sabbaticals, where state pays grant equal to unemployment benefits.

CONCLUSION

Australia's training regime needs to be reformed to increase employer commitment and national productivity.

We must do better than simply reviving the Training Guarantee Levy, but the successes and failures of this program should inform future choices.

A skills levy, or similar mandatory system of employer contribution to training, would contribute to a new 'high skills dynamic' based on the simple free market idea 'you value what you pay for'. France and Denmark have developed successful training systems based in part on industry levies.

The levy should be supplemented by a system of individual learning accounts.

Training should be coordinated by collaborative institutions comprising employers, training providers, brokers (public and private) and employee representatives.

These institutions would be responsible for developing skills eco-systems on both a regional and industry basis.