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Innovation and Inclusion

Australian Long-Term Unemployment Conference:
Finding Solutions

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Thank you for inviting me to participate in this important conference.

Long-term unemployment is not often thought of as an issue a leader of a business organisation would speak about. But I think it is exactly the sort of issue that the business community should be thinking about and contributing to and I will come back to this in my closing comments.

Long-term unemployment is often thought of as primarily a social problem or a youth problem. But its scope is really much broader than that.

Long-term unemployment can and does affect all age groups and all communities, no matter how ‘hidden’ it might seem.

And it touches on all policy areas; not just the obvious ones like ‘social welfare’, ‘education’ or ‘youth engagement’.

There is growing awareness, for example, that economic disengagement – and especially disengagement from meaningful work – can have serious social, economic and political consequences for everyone, and not just for those who are unfortunate enough to become disengaged.

Economic transition and disruption is coming from many sources at the moment. And as always, the burden of transition does not fall evenly or equally.

As I noted recently in response to the US election outcome, we – as a community - need to re-examine our management of economic transition and the importance of building a more inclusive approach to economic and policy change.

Critically, the US election result shows that you cannot airily wave goodbye to big parts of industry – and to the attractive and secure workplaces they have fostered - without expecting political repercussions.

There are massive changes afoot in our industrial structure; in the way we work; and in the way we do business, and we need to recognise that government and business have responsibilities to bring all of the community along.

Today I would like firstly to look at some dimensions of the issue of long-term employment.

I want then to touch on a few areas of policy that I think are important in addressing long-term unemployment.

In my last section I want to share some thoughts with you about what we should NOT be doing.

I hope that in all of this you will find some issues that you will want to discuss, comment on or question.
Some Dimensions of the Issue

At a statistical level, the news is mixed about Australia’s long-term unemployment situation in recent years. Both the absolute numbers and the rates of long-term unemployed remain a concern, notwithstanding 25 years of continuous GDP growth.

First some good news!

- As of October 2017 the ABS recorded around 709,000 unemployed jobseekers which was down from 768,000 two years ago.

- A fall of 7.7%.

- The national unemployment rate has fallen from a recent peak of 6.3% in December 2014 to 5.6% in October 2016. It continues to trend lower – albeit slowly.

It is interesting to put this in a slightly longer-term context: and here the picture is somewhat mixed.

This Chart traces unemployment back to the turn of the century.

You can see the more recent fall in unemployment at the end of these series which show the numbers of unemployed and the rate of unemployment.

The reduction we have seen in the last couple of years is clearly gradual and unemployment remains above its average since 2000 both in absolute terms and in terms of the rate of unemployment.

The Chart needs to be put in context because much of the period featured the mining boom and was characterised by quite acute skill shortages. Nevertheless,
while unemployment has edged down over the past couple of years, there is still a fair way to go.

This overall picture of unemployment is a good starting point from which to look at long-term unemployment.

I am going to refer to data on people who are unemployed for more than one year and for more than two years.

- In October 2016, 173,000 had been unemployed and seeking work for more than a year, down in absolute terms from 183,000 in March 2015.

- But as a percentage of the total number of people out of work for more than one year rose from 23.9% to 24.5%.

- The same goes for people unemployed for more than 2 years.
  - In October this year, 89,000 had been unemployed and seeking work for more than two years, down only slightly from 91,000 in mid-2015.
  - This was an increase from 11.9% of total unemployment mid-last year to 12.5% in October this year.

In short, there was relatively more success in reducing total unemployment than in reducing long-term unemployment.

As with total unemployment, it is worth looking at this in the somewhat longer-term context.

These charts below look at the numbers of long-term unemployed (on the left) and the proportion of long-term unemployment in total unemployment (on the right).
These U-shaped charts show the extent to which long-term unemployment has risen both in absolute terms and in terms of total unemployment over the past 8 or so years – the period since the Global Crisis, the end of the mining boom and the restructuring associated with this.

Another dimension of the labour market also carries some mixed news.

The bad news here is that the working-age participation rate has declined lately, falling from a recent peak of 77.2% in November 2015 to 76.7% in October 2016.

This might not sound like much of a change, but such a drop in a short space of time suggests that at least part of it is due to ‘discouraged’ job-seekers exiting the labour force, instead of actively looking for work.

To quantify this effect in the short-term: if the participation rate had remained at its peak a year ago 77.2% instead of falling to 76.7% in October 2016, the labour force would have been around 75,000 larger than it actually was in 2016.

That is, up to 75,000 people have become ‘discouraged’ from actively seeking work and have dropped out of the labour market during 2016.

For many reasons, this potentially large but ‘hidden’ group of non-workers is of greater concern than the statistically ‘unemployed’ because they are no longer engaged and active.

Some will have been picked up by our welfare net, but others may be subsisting on their savings, on redundancy packages or testing the generosity of their families and friends.

For completeness I also have a chart looking at participation going back to 2000. The interesting thing here is that the past year represents a partial reversal of the generally rising participation rate for the working-age group.

**Participation Rate (of 15-65 year olds) Jan 2000 to Oct 2016 (%)**
While the past year is not so good, the story since 2000 is clearly more positive – increased participation has been a source of workforce growth since 2000.

A part of this – particularly in the period before 2010 may well have been an increased number of people going straight from school to work instead of pursuing higher education – a reflection of the opportunities brought by the mining boom.

If I can change tack a bit and look at some non-ABS information about Newstart and Youth Allowance recipients.

The number of people receiving a Newstart allowance (whether or not they are actively jobseeking) has fallen during 2016, from a recent peak of 780,000 early in the year to 760,000 by September (the same number as two years ago).

An additional 95,000 people received Youth Allowance other than for full-time education in September 2016, down from 105,000 people two years earlier.

The DSS estimates that about 55% of Newstart allowance recipients in 2016 are actively seeking work, 28% are undertaking training and 10% are undertaking voluntary or part-time work. Around 20% are incapacitated or otherwise excused from active jobseeking.

Although the total number of Newstart allowance recipients has drifted down this year, the number of long-term Newstart allowance recipients (12 months or more) has remained stubbornly high, at around 550,000 people, and up from around 500,000 two years ago.

An additional 53,000 people had received Youth Allowance (other than for full-time education) for longer than 12 months in September 2016, up slightly from 50,000 two years earlier.

The DSS estimates that around half of the long-term Newstart group are seeking work and one third are undertaking training. For Youth Allowance recipients, around 70% are seeking work and 41% are in training, with many doing both.

That leaves about 20% of long-term Newstart recipients who are incapacitated or otherwise exempt from active jobseeking, plus 10% of long-term Youth Allowance recipients who are not active.

It is this group – currently numbering around 100,000 long-term Newstart recipients and 5,000 long-term Youth Allowance recipients - who are not actively participating in employment, education or training (called “NEETs”) that are hardest to reach through conventional training and employment programs.

But who are they? And what can we do for them?

These issues are not unique to Australia as can be seen in the next Chart which looks at NEETs across the OECD.
The OECD estimates that in Australia, about 12% of 15-29-year-olds are neither employed nor in education or training compared with the OECD average of 14.6%.

About 4% have not completed high school compared with the OECD average of 5.3% in this low-skill group.

The UK, New Zealand, Canada and the US all have higher rates of NEETs than Australia, but tend to have fewer very low-skilled NEETs.

Germany, Japan and a handful of smaller European countries, including Austria, the Netherlands, Sweden and Switzerland, do better than Australia on both counts.

This NEET group is of particular concern to policy-makers world-wide, because their non-participation puts them at great risk of being left permanently behind in the labour market.

This risk is especially high for low-skilled NEETs (those who have not finished upper secondary schooling).

Further, many in this group live in households without any employed adults, suggesting that they are also at risk of household poverty. Effective policies are
needed to reconnect members of this group with the labour market and improve their career prospects.

The small improvements that have been made are welcome of course and it is positive to be doing better than the average in the OECD, but there is much further to go and the outlook tells us we cannot be complacent.

What more can be done?

Department of Employment projections indicate that, based on current trends, over the next few years to 2020:

- close to one million new jobs (989,700 or 8.3%) jobs are likely to be added to the Australian economy and
- about half of this future jobs growth is likely to come from just three large services industries: professional services, education and healthcare.

This implies both workforce growth and further industrial restructuring. It illustrates the scale of both the challenges and the opportunities before us.

The key question is how the process of change can be managed and improved.

I want to look briefly at some areas of action in which we could do better both for the younger NEETs and for the broader workforce.

This is not the full range of areas in need of action but they are the four I want to give a plug to today.

- fix our broken VET, traineeship and apprenticeship systems,
- Assisting ‘restructured’ employees,
- take more seriously the need for training of the existing workforce, and
- ensure our workforce relations system assists rather than hinders job creation and job matching.

VET, Traineeships and Apprenticeships

The current state of Australia’s VET system is of great concern to the business community at present. Australia’s vocational education and training system was once the envy of the world. State and federal governments worked in partnership with industry to ensure the system delivered the skill outcomes sought by employers. The system as a whole was led by industry.

But in recent years, employers and industry groups have become concerned that the VET system is deteriorating and that recent attempts at reform have failed to impact on some core issues. VET needs to deliver a pipeline of skilled workers. It needs to act as a pathway for young people to enter the workforce and it needs to help workers upgrade their skills or change jobs.
The first issue that needs to be addressed is the erosion over the past decade of industry’s role in the VET sector. It is time to return the VET sector to more of a partnership between industry and government.

The next issue that needs urgent attention is apprenticeships and traineeships, a cornerstone of industry-led skills development. Apprenticeships do better than higher education when it comes to employment outcomes: more than 90 per cent of trades apprentices find work after completion.

In 2012, 446,000 Australians were undertaking an apprenticeship. By March 2016, this number had dropped to 286,500, the lowest for over a decade.

This decline has coincided with unacceptably high youth unemployment and skills shortages in many fields. For example, 61 per cent of trades and technician occupations are now experiencing shortages. Clearly the apprenticeships system is no longer working as it should.

Government needs to strongly commit to a national approach to VET. The states and territories need not lose control of their apprenticeship systems but instead all governments should work with industry to identify a path forward. If we get this right it will re-energise apprenticeships and traineeships.

**Assisting “restructured employees”**

Another issue is the older people who become unemployed and at risk of long-term unemployment. This is especially the case for those coming out of industry closures or restructuring.

We need to invest more cleverly and more innovatively in re-purposing their skills. We need to respond in a manner that respects, recognises and builds on their experience as workers, managers and business owners, instead of scrapping this experience.

This is not a small group. Over the last two years alone, an average of about 155,000 people every three months have been retrenched.

And around 53,000 of retrenched people in each period were aged over 45 years.¹

So, while the need to engage youth is clearly pressing, we cannot afford to leave behind this large and growing older at-risk group either.

**Upskilling the existing workforce**

I think that upskilling the existing workforce is another area that we can and should pay much more attention to.

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First, workplace-based training is an important way to lift people’s work experience, their income-earning potential and their self-esteem.

It is also a component in raising the productivity of their workplace and its chances of longevity.

And finally it is a form of insurance against the sorts of transition costs that come with industrial restructuring. The better skilled people are, the better are their chances of finding alternative employment. It is clearly good for them and their families and it reduces the social costs of economic disruption.

And there are very important opportunities for more emphasis on workplace learning. And it doesn’t have to be rocket science. There is a fair bit of experience, including in Australia, to say that workplaces are a great place to introduce programs to equip existing employees with the “foundation” skills of language, literacy and numeracy.

And of course workplace learning can assist in building higher-level skills too.

Workplace Relations

And the last area I want to mention in this section – without going into details - is in ensuring that our workplace relations arrangements assist rather than hinder.

- They should not inadvertently lock people out of the labour market, through inappropriate gateways or pricing signals.

- We need to ensure that our workplace arrangements do not stand in the way of improvements in the productivity of individual enterprises. Of course we need to ensure we have strong and effective protections against exploitation.

- And we also need to ensure that businesses are able to adapt to the changing world around them both in meeting its challenges and being able to take advantage of new opportunities.

What we should NOT be doing.

In wrapping up, I would like to say a few words about what we should NOT be doing in the face of long-term unemployment and in face of the sorts of economic disruption that is often associated with it.

The first thing we should not be doing is ignoring it. It is an important issue for those directly affected and it is an important issue for the broader community – including the business community. At the very least it is a waste of people’s potential to make a positive contribution.

The context for the main point I want to make here is a flavour in the current domestic economic and political debate and - even more so looking around the world – at the sorts of political reactions we are seeing to economic disruption and the way it is being managed (or not managed).
Clearly large numbers of people - across the developed world at least - are reacting against free trade and globalisation as well as against big business and what is seen as its excessive and narrow-minded influence.

We have been through a period of very significant upheaval – due to the rise of China and other emerging economies and due to technological and other changes. And this upheaval is continuing.

And in many countries – I am thinking of the richer, developed countries – there has been an experience of low income growth for many and rising income inequality.

While we in Australia we have not had the same outcomes – or at least not to anywhere near the same extent - clearly we are not unaffected by these upheavals.

Across the OECD countries, significant numbers of people are saying “throw up the walls”, keep out imports, refugees, migrants and investment.

I think reacting defensively in this way would be a big mistake.

I do however appreciate the pressures being experienced and I agree that economic transitions have not been managed at all well.

In contemporary politics there is a clear protest about how poorly the economic transitions of the past couple of decades have been managed.

This seems to be an important part of the Brexit vote; the vote for Mr Trump (and perhaps more importantly the lack of support for Mrs Clinton); the rise of nationalist movements in Europe; and even a share of the 40 per cent of the domestic electorate who did not vote for the two main parties at our last federal election.

A significant proportion of these electorates do not think the system is working for them and they have lost faith in it. And clearly they have a point. They are not sharing in the benefits: their incomes have either fallen or not grown and income inequality has worsened.

But it would be a mistake to react to this by closing ourselves off to trade, international investment and migration.

It would be a mistake not only because it would cut off the opportunities for the hundreds of millions of people in emerging economies who are looking to climb out of real poverty and are seeking to get within reach of the sorts of living standards we have the good fortune to enjoy.

It would also be a mistake because it would scale down our own opportunities to lift our standards of living.

The solution is not to shut up shop. I would have thought the experience of the interwar years of the last century would have taught us that. But I can understand how those lessons have been forgotten or at least overshadowed by the contemporary tide of dissatisfaction.
I think we would do much better by looking at and improving the way we manage our way through these upheavals so that we do not leave so many people behind. This is a much bigger issue elsewhere in the world. But it is also an issue in Australia.

And in Australia the issue of long-term unemployment is a very important dimension of this.

We have so much to gain as an open economy and the benefits of being open are easily large enough to allow us to allocate more resources to addressing long-term unemployment as well as other dimensions of upheaval.

I have listed some of the areas that we could act on to lift our game in addressing long-term unemployment and our exposure to it.

Thank you.