

# overview

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NICK DIMOPOULOS is Chief Financial Officer for the Committee for Economic Development of Australia (CEDA). Nick has an extensive background in the areas of financial management, business strategy, economics research and risk management. He has worked in the private and public sectors and has held senior executive positions in the Victorian Treasury, AWB Ltd and BHP and has overseen major research projects, the most recent being *Water and the Australian Economy*, which have contributed to shaping policy settings concerning Australia's future economic development.

## Objectives of this report

Australia's labour market is currently experiencing two great long-term shifts. The first is a pronounced change in the *supply* of labour. The demographically over-represented "baby-boom" generation is growing older. As this generation reaches retirement age, labour force growth will slow – and as a proportion of the population, the labour force will begin to shrink. Without other changes to the economy, per-capita GDP growth will also fall.

The second shift is a change in the nature of *demand* for labour. In the model that dominated the twentieth century, most Australians spent a major part of their careers applying expertise acquired in a relatively short time before or at the start of their working lives. In the model that has begun to emerge in recent years, a higher proportion of working Australians will have stronger incentives to learn new skills and enter new areas of learning throughout their lives.

Australia can respond to both shifts by increasing the labour force participation of mature-age people. But to achieve this, it must ensure mature-age employees can acquire updated and current skills. And Australians, young and old, will benefit more than in the past from an increased ability to learn those skills. So Australia faces a great economic challenge: to enable workers to continue learning through their lifetime – "lifelong learning".

In this collection of essays we examine current policy settings and practices, and identify the changes and responses necessary within governments, the education sector, businesses and individuals to ensure more effective lifelong learning. In this publication we investigate how lifelong learning can be accessed and delivered so that individuals remain appropriately skilled to participate effectively and productively in the workforce, thereby raising levels of labour force participation and economic growth, and individual work satisfaction.

### **Introduction: Redefine our education model**

Earlier work by CEDA and others on inter-generational change has identified increased workforce participation as a critical factor in raising productivity in order to maintain economic growth as the population ages. Effective lifelong learning will be a vital component of strategies to increase the workforce participation of mature-age employees.

Professor Louise Rolland outlines how the age profile of the workforce will change significantly as the population ages. For example, in the late 1980s people aged under 45 years made up 76 per cent of the labour market. By 2000 this had fallen to 69 per cent. By 2016, projections say, people under the age of 45 will make up just 58 per cent of the labour market. This projected shift in labour supply reflects the lack of growth in the supply of young entrants to the labour market, with those aged between 15 and 24 years having declined from 27 per cent of the labour market in the late 1980s to 19 per cent in 2000. Against this background of changing demographics Rolland argues that employers can no longer rely on young people to replenish the skills and knowledge of their workforce.

Mature-age employees are currently under-represented in Australia's workforce, with workforce participation rates dropping markedly over the age of 45, particularly for males. Therefore, strategies to increase mature-age workforce participation will be important in reducing labour shortages and increasing productivity. While the full impact of inter-generational change will take some years to be felt, strategies to ensure that mature-age workforce participation increases need to be planned and implemented now.

A critical challenge is the low level of formal training provided to people aged over 45 years. If people do not have the appropriate skills they will be much less likely to participate productively and effectively in the workforce. Rolland points to ABS 2001 census data that shows that only 3.5 per cent of people aged 45–64 undertook formal study or training, compared with 56 per cent of people aged 15–24 years. Furthermore, analysis has revealed that there is also a dramatic decline in employer investment in training as employees age. People over 45 years of age receive the lowest levels of employer-supported training.

There are multiple reasons for this low investment in education and training for mature-age people. These include entrenched cultural views, the capacity of current

systems to identify, respond and track the development needs of mature-age workers, and incentives for participation. Rolland argues that all partners – government, business, the education sector and individuals – need to play their part in ensuring that lifelong learning is practised more effectively. In particular, government and the education sector need to establish new models to increase the accessibility and effectiveness of lifelong learning. We must start by establishing the right building blocks in schools, and recognise that incremental learning and re-skilling in VET and Higher Education institutions must receive higher priority. We need a system that is designed to support retraining and multiple careers for workers.

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mature-age employees. In particular, employers will need to understand the motivators of older workers to get the best results.

Individuals must also play a role, taking more responsibility for their own lifelong learning. This will require an understanding of the impediments individuals face and incentives that may be necessary. Increased economic literacy will help individuals understand the value of investment in further learning, and the risks of early retirement from the workforce. In particular, there needs to be a cultural shift from the entrenched life-cycle mindset that sees a one-way path from full-time education to full-time work to full-time retirement.

Rolland calls for a fundamental shift that redefines the

current model of our life stages, defined by education in our youth, work in our “prime” age and leisure in our old age, to better combine learning, work and leisure across adult life.

### Recent Australian vocational education and training reforms fall short

In the last two decades there have been two major efforts to reshape the training–work interface. First, during the 1980s the National Training Reform Agenda was established with a national standards framework, national recognition of training, and competency standards across a range of qualifications and occupations. Subsequently, during the 1990s the focus of policy moved to the development of a more flexible and decentralised training market. Dr John Buchanan argues that despite these reforms, the reality of lifelong learning in contemporary Australia is far from ideal. An overview of the lessons, successes and failures from these major programs is instructive when considering further change.

Buchanan examines the reforms to Australian vocational education and training (VET). He outlines how, since the mid-1980s, these have moved through two distinct phases. The first phase moved away from a system of “front-end” training, especially apprentices for the trades, to a system based on competencies open to all at any stage of their working life. Since the early 1990s the second and very different phase has stressed the need

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for a “training market” and establishment of a VET system that is “employer-led”. Buchanan contends that while the reforms have resulted in some improvements, skill shortage problems continue to persist, and many employers find the system overly complex.

Buchanan advocates that if lifelong learning is to become more accessible and better delivered, policy needs to grapple with the broader notion of “workforce development” and take into account how skill ecosystems are changing. In other words, this “workforce development” implies not only the need to improve the access of workers to the kinds of training that they want and that employers

say they need, but also the *development of the jobs in which workers work*. This comprehensive concept of workforce development can ensure that policy supports not just training, but the facilitation of sustainable skill ecosystems.

### Vocational education: Look beyond the entry level

The vocational educational system serves entry-level employees, as well as the continuing training needs of business and employees. However, the VET system still focuses heavily on entry-level training. Different structures, delivery systems and training programs are required for lifelong learning, and for the increased need to re-skill mature-age employees.

Paul Byrne, acting CEO of ANTA, points out that learning strategies for mature-age employees will vary from those that are most effective for entry-level training. Learning styles may differ, shorter modular programs are preferred, and basic computer literacy may need to be upgraded. Learning strategies must be tailored to meet the needs of different learning segments – in 2000 ANTA identified eight. In particular, the needs of employees already in work will differ from those that are unemployed or in obsolescent industry sectors.

It is vital that education and training systems are responsive to changing industry needs. A full understanding of industry’s changing skill requirements is critical to enable training authorities and providers to anticipate trends, and change policy or intervene ahead of time, so as to minimise skill shortages in the future. Approval processes must be responsive and timely.

Challenges will increase for the VET sector to provide programs and qualifications that are relevant for both current and emerging needs, particularly with the accelerating pace of change. Increased workforce participation by mature-age employees will require individuals to go through a number of career changes, and in some cases progress from employment to self-employment. The VET sector needs to respond to these transitional training needs, building on prior knowledge and addressing gaps.

Byrne argues that over the last decade, much has been done to shape a VET system that has the capacity to respond to the changing nature of work and an ageing population. However, more still needs to be done to achieve a streamlined system and to strike the right balance in serving the needs of industry and learners. In recognition of the need for more coordination and collaboration between government, industry and training sectors, the path is being laid for further flexibility in the VET system, while ensuring that all players are working within a national framework. Byrne contends that these changes should provide for greater access to multiple learning pathways, greater recognition of experience and skills already acquired, and a deeper appreciation of the benefits of lifelong learning.

## **Build a comprehensive national workforce development strategy**

If lifelong learning is to be effective in increasing the workforce participation levels of mature-age employees, and in upgrading skills and productivity, then new resources need to be found. It is important that lifelong learning strategies address not just the quantity of learning, but also the quality.

Business is enthusiastic with the establishment of contemporary and publicly understood “world-class” standards for higher education and VET qualifications. Also, there needs to be further consideration given to the role that business can play in assisting the higher education and VET sectors to achieve the highest quality and standards.

Peter Noonan has put the view that there is a case for increased public and private investment in VET, noting that the combined expenditure by the Commonwealth and state governments has been virtually static since 1997.

Currently, business under-invests in the training of mature-age employees. In this respect, Noonan argues that firms cannot be expected to bear the costs of workforce retraining alone, and firms, as well as individuals, need to be given incentives to participate in lifelong learning initiatives.

However, in the absence of additional funding, priorities need to be set and outcomes need to be more effective. Noonan argues that without a focused and

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coordinated strategy between the Commonwealth and state governments, with the active involvement of industry, opportunities for further learning are not likely to be extended to those with the greatest learning needs who tend to have the lowest levels of participation in formal and work-based learning. Tacit knowledge forms an important component of lifelong learning, but this can only be effectively acquired in informal settings in the workplace, an avenue denied to the unemployed.

From a policy perspective, Noonan makes the case that a comprehensive, national workforce development strategy must replace the current lifelong learning culture that has characterised approaches in Australia over the past decade. The strategy must set clear targets and incorporate key elements, such as increased and ongoing work-based learning, increased community-based learning, recognition of prior learning, and targeted outcomes-based funding to those with the greatest learning needs.

## **Equip workers to learn early**

John Spierings contends that Australia still lacks an integrated national policy to encourage, finance, provide and reward learning across all the stages of life. Policy debate in Australia has tended to focus on the mechanics of educational provision and “input” issues, rather than the larger purposes of education and learning, and the value of knowledge and skills to individual welfare, economic prosperity and the social capital of communities.

OECD data lends support to the argument that individuals should be motivated to seek further education as this leads to a payback in later increased earnings. In the Australian context this data particularly demonstrates the importance of Year 12 completion. However, Spierings points out that this motivator is less persuasive for mature-age employees who have less time to receive a wage increase payback for their learning investment.

Adult literacy is a particularly important pre-condition for the participation of older workers in further skill development, retraining, and personal development through formal learning. While Australia’s continuing improvement in raising secondary school participation is impressive, the proportion of 25–to–34-year-old Australians with below senior secondary qualifications fell from 43 per cent in 1991 to 27 per cent in 2002. In this respect, Spierings argues that we still have some way to go compared to other OECD countries. On this measure, Australia has moved from 25th in 1991 to 23rd of 30 countries in 2002. This demonstrates the relative pace at which countries are raising the foundation level of educational attainment of a significant demographic section of their populations.

To be truly competitive in a globalised economy, Australia needs to look beyond its rich lode of commodities to further develop the depth and ingenuity of its human skills, particularly by ensuring that a greater proportion of young people achieve a threshold Year 12 or equivalent qualification. Access Economics estimates that by moving the current Year 12 or equivalent completion rate from around 80 per cent of 15–24-year-olds to 90 per cent, this would have a substantial impact on economic growth. It would add about 1.1 per cent to GDP by 2040 by improving productivity and having a positive effect on labour-force participation. Access Economics says that to

gain a comparable GDP impact, Australia would need to increase its annual migration intake by an additional 5000 or 178,200 migrants over the period to 2040. Alternatively, achieving the same GDP impact would require increasing workforce participation of older workers by 6.6 per cent.

### Changes required by the higher education sector

The higher education sector must establish contemporary and publicly understood “world-class” standards for qualifications, with delivery that is efficient and able to compete effectively in the international arena. The sector must ensure the relevance of course curriculum to business, reflecting both current and emerging needs.

Professional and management qualifications achieved early in a career will not guarantee that mature-age employees have current and updated knowledge and competencies throughout their working lives. The higher education sector should play a role in providing the lifelong learning needs of professionals and managers.

Pat McCarthy contends that while higher education in Australia has a track record of meeting the articulated needs of its young people and employer markets, it has not been successful in cultivating broader community acceptance that higher education should be a key contributor of lifelong learning. The higher education sector continues to respond to the needs of employers by mod-

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ifying courses and programs, but it has failed to successfully penetrate the mass market for lifelong learning. McCarthy provides a range of explanations, including the difficulties faced by industry in accurately articulating their requirements, and also inflexibilities in higher educational institutions. However, he identifies the greatest problem as the lack of knowledge about the resistance by individuals to higher education provided by lifelong learning.

The higher education sector has begun to experiment with different lifelong learning modes, such as modular-based curriculum, integration of non-traditional industry content with academic progress, new assessment practices and e-learning. However, McCarthy argues that a more holistic approach is necessary to effectively meet lifelong learning needs.

### The role of school education

The school system provides the vital building blocks to ensure that the young are equipped for lifelong learning. School retention rates are therefore of the highest

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priority, as is the provision of essential generic capabilities. While the focus on raising mature-age participation in the workforce is important, encouraging participation across the entire population compounds the benefits. Completing Year 12, or its equivalent, is the best long-term remedy against unemployment, and is the best predictor for enabling individuals to successfully navigate the many transitions they make during their life. These include transitions from school to work, from job to job, from career to career, from unemployment to employment, from single person to parent, and from full-time work to semi-retirement.

Our schools must create the capacities for lifelong learning, adaptability and innovation. Education systems should develop a multitude of skills, including *academic* (revolving around literacy, numeracy, language, mathematics and so on), *employability* (revolving around communications, problem-solving, personal management, teamwork, computer, financial and economic literacy skills, and so on) and *occupation-specific skills*, to prepare people to participate fully and meaningfully in a rapidly changing economy.

Education and training systems must distinguish between cognitive, technical and behavioural capabilities, with the former two capabilities mainly developed by the education and VET system, and the latter through on the job training.

Adrian Beavis and Geoff Masters of ACER argue that the Australian world of work now requires, on average, higher levels of skill than it did ten or so years ago. From a policy perspective, since this trend is likely to continue, this reinforces the need for a lifelong learning orientation for all new entrants to the world of work. It is the view of the authors that the role of education in preparing for lifelong learning, beyond the basics of providing literacy and numeracy, is to provide students with the information and learning opportunities that will lead them to destinations in the world of work which best fit their interests and abilities. They argue that if people fit their jobs they are then more likely to be lifelong learners. The available evidence suggests that schools are already providing this learning and information.

### **International comparisons**

In a number of overseas countries, particularly in Western Europe, the changes in the balance of supply and demand for labour will impact sooner than in Australia, and they will be more severe. Philip Taylor, of The University of Cambridge, describes a number of innovative European initiatives. Yet he concludes that European countries have not met targets for the employment of older workers or created a training system that responds to them. Instead, these countries have continued to focus on the learning and training needs of younger people. This resembles the experience in Australia to date. Taylor calls for a sharper focus on the learning needs of older people if governments are serious about extending the working lives of older workers.

### **Special section: Economic and financial literacy**

There are some generic skills, including economic and financial literacy skills, that are essential for managing the many work-related transitions, including employment, self-employment and retirement decisions. These

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generic skills are becoming more important for our  
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to insufficient knowledge about their future economic  
needs following retirement. Access to economic literacy  
education is essential.

An ANZ study on financial literacy in 2003 estimated that only 37 per cent of people had actually worked out how much they needed to save for retirement. The study calls for a number of measures to lift financial literacy in Australia. A key measure is the establishment of good basic economic and financial knowledge and skills in children, achieved by incorporating financial literacy into the existing school curriculum. This measure would address findings that the lowest level of financial literacy was most likely to be found in those aged between 16 and 20 years.

In its chapter, the Securities Institute of Australia points out that most literacy studies have found a positive correlation between financial planning and the achievement of specific goals. In the Institute's view, responsibility in coming years will rest with both government and financial industry practitioners to raise the understanding of retirement income needs.