

Australia's National Training Wage, Employment Opportunities and Skill Formation

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A PART from delivering very high wage levels, Australia's National Training Wage (NTW), announced in 1994, is flawed in a number of important respects. Training reforms now being put in place in the vocational education and training system will not be fully effective unless and until a sensible training wage system is developed to complement training arrangements.

As long as apprentices and trainees in Australia are regarded as workers and not students, their remuneration will be caught up in normal wage-fixing arrangements and the employment prospects of young people will suffer as a result. The solution is to treat trainees as 'student workers' and pay them allowances (not wages), topped up through government income support measures such as AUSTUDY.

The publication by the Commonwealth in 1994 of *Working Nation: The White Paper on Employment and Growth* demonstrates that government policies have not created an environment conducive to full employment and adequate skill formation. *Working Nation* is no more than a set of measures directed to the immediate urgent problem of high levels of unemployment, with little thought for more fundamental changes designed to serve Australia's long-term needs. Despite some recent cosmetic changes, it relies heavily on an unnecessarily complex regime of wage subsidies and an array of sometimes dubious labour-market training programs. The frequent overall outcome is to convert the long-term unemployed into short-term unemployed by means of a brief period of subsidised work experience, leaving very few in secure long-term employment.

There is no doubt that long-term unemployment should be given the highest policy priority. Nor is there is any argument with an approach that emphasises measures to re-engage the long-term unemployed so that they gain or retain an attachment to the labour force. The danger is that governments will form a doctrinaire attachment to the *Working Nation* approach as an enduring national framework for skill formation. It would be a dreadful mistake to attempt to install a set of anti-cyclical measures as the permanent platform for skills development.

The only sustainable solution is to create permanent jobs in the economy and to ensure that people have the full range of skills to fill those jobs. Getting macroeconomic and microeconomic policies right is an obvious prerequisite for sustained employment growth. The other essential ingredient, missing at the moment, is a set of appropriate training wage arrangements. It is then a matter of ensuring that the

training system is resourced and able to deliver the required training. The foundation for a comprehensive entry-level training system has been laid in the form of the Australian Vocational Training System (AVTS), which is supposed to be implemented progressively during 1995 and 1996. But it will continue to struggle under the inertia of Australia's industrial-relations system unless and until a sensible training wage arrangement is implemented to underpin it.

The Deficiencies of the National Training Wage

Table 1 sets out the details of the NTW. It is structured around three skill-level categories covering all relevant occupations. Within each skill level, wages are determined by a combination of highest year of schooling completed and the length of time since leaving school. This, it is claimed, is a measure of 'competence'; in fact, it is a better predictor of age.

Details of the current NTW were concluded between the Commonwealth government and the ACTU in the context of *Working Nation*; employer involvement came much later. The lack of full consultation at the development stage partly explains why the NTW is seriously flawed and does not provide a suitable basis for an enduring wage system to underpin skill formation in Australia.

The NTW has many serious deficiencies. First, it provides wage increases for most trainees hidden behind a regime of higher employer subsidies. The NTW rates represent for most trainees weekly increases on the previously existing trainee award rates, in the following ranges:

- for those aged 18 years: from a reduction of \$2 to an increase of \$44 for skill level A; increases of \$1–\$47 for skill level B; and increases of \$11–\$40 for skill level C.
- for those aged 20 years: increases of \$18–\$62 for skill level A; increases of \$12–\$50 for skill level B; and from a reduction of \$6 to an increase of \$26 for skill level C.

This represents real wage increases of up to 30 per cent for some individual award rates; the *average* increase on trainee award wage rates overall is estimated at 16 per cent.

Second, NTW rates are not compatible with standard award rates. This affects the competitive position of young people and militates against orderly progression from training wage rates to ordinary rates. The NTW effectively lowers the wage rate for adult workers because of the small wage differential between young entrants and those adult workers prepared to enter a contract of training. This reinforces a growing tendency over recent years for employers to prefer older workers for a range of non-wage reasons.

Table 1
National training wage award rates (\$/week)

		Highest year of schooling completed		
		Year 10	Year 11	Year 12
Skill level A (e.g. clerical; finance, property, and business services)	School leaver	125.00 (a) 146.00 (b)	155.00 (b) 175.00 (c)	215.00
	Plus 1 year	175.00	215.00	250.00
	Plus 2 years	215.00	250.00	290.00
	Plus 3 years	250.00	290.00	333.00
	Plus 4 years	290.00	333.00	
	Plus 5 or more years	333.00		
Skill level B (e.g. wholesale and retail; transport and storage; manufacturing)	School leaver	125.00 (a) 146.00 (b)	155.00 (b) 175.00 (c)	205.00
	Plus 1 year	175.00	205.00	235.00
	Plus 2 years	205.00	235.00	275.00
	Plus 3 years	235.00	275.00	315.00
	Plus 4 years	275.00	315.00	
	Plus 5 or more years	315.00		
Skill level C (e.g. community services and health; pastoral; vehicle repair)	School leaver	125.00 (a) 146.00 (b)	155.00 (b) 175.00 (c)	190.00
	Plus 1 year	175.00	190.00	215.00
	Plus 2 years	190.00	215.00	240.00
	Plus 3 years	215.00	240.00	270.00
	Plus 4 years	240.00	270.00	
	Plus 5 or more years	270.00		

Notes: (a) 50% of time on average spent in approved training. (b) 33% of time on average spent in approved training. (c) 25% of time on average spent in approved training. All other categories spend 20% of time on average in approved training.

Source: 'ACTU Endorses National Training Wage', press release issued by Simon Crean, MP, 9 May 1994.

The fact that NTW rates are not connected in competency or dollar terms with the skilled tradesperson's rate (or equivalent) can have a number of undesirable consequences. In some award areas, graduating trainees actually receive a pay cut on moving to the relevant full-time award rate on completion of the traineeship. Others simply get no reward for successfully completing training when they move to the standard pay scale. Another problem is that the wage gap between trainees and fully qualified workers does not accurately reflect the productivity gap, so creating 'buyer resistance' on the part of prospective employers. Australian training award rates, expressed as a proportion of the fully competent employee's wage, are typically double the level applying in comparable European countries. Finally, in most cases NTW rates are significantly higher than the first two levels of apprenticeship rates (see Table 2), a factor which is going to create great difficulties in integrating

the trades area into a universal entry-level (AVTS) wage arrangement. Such difficulties are usually resolved with a highest-common-denominator approach, implying a wage rise for apprentices which, in turn, will impact on employer demand for young would-be workers.

Third, employer subsidies are locked into an unnecessarily high level. Institutionalising an across-the-board wage hike for young people at a time of high unemployment is astounding in itself. But another undesirable outcome of the NTW is to entrench a regime of employer subsidies that is unsustainable in the longer term. The wage increases conferred by the NTW were not possible without raising compensatory employer subsidies. Subsidies are now so high that a new provision was introduced in October 1995 to ensure that they do not exceed the wages paid to a trainee. No thought seems to have been given to what happens when the labour market picks up. Australian experience suggests that anti-cyclical measures are politically difficult to withdraw — which implies that a high-wage/high-subsidy regime is here to stay.

Fourth, increased subsidies do not cancel out the impact of increased wages. Wages are a very real factor for employers, conditioning their hiring decisions. Subsidies, in contrast, have a phantasmagorical quality; they come in discrete lumps throughout a contract of training and stop altogether if the trainee ceases employment. Even if the dollar increases in wages and subsidies cancel out, the immediate impact of the higher wage level will always act to deter employers from hiring.

Fifth, school leavers are left disenfranchised. Wage rates went up for *all* young people when the NTW took effect: subsidies increased only for the long-term unemployed. The overall effect is to severely impair the competitive position of school leavers, leaving unemployed school leavers in a holding pattern waiting to become long-term unemployed in order to access the higher subsidies and case-management arrangements.

Sixth, the NTW is not competency-based. The NTW is based on the elapsed number of years since leaving school, weighted by a crude classification of occupations into white collar, blue collar and the rest: the so-called 'skill level'. Trainees are allocated to a wage level without any regard to their post-school work or education/experience. Based as it is around existing wage relativities, this introduces an unnecessary rigidity. The NTW is in effect based on age and therefore represents no improvement on the old system, nor does it have anything to do with assessed competency levels of workers in the workplace.

Seventh, the NTW does not apply to apprentices. The fact that the NTW does not cover the trades area of employment significantly weakens the AVTS in two ways: it leaves the labour market struggling with two wage arrangements within what is supposed to be a single training system; and it serves to perpetuate a distinction between apprentices and trainees that is unsound and unhelpful in every way.

Eighth, the NTW fails to meet the essential criteria set out in DEET's *Summary Industrial Relations Principles and Wage Guidelines for the Australian Vocational Certificate Training System* agreed in 1993 by Commonwealth and State Ministers. In particular it does not 'establish appropriate relativities which take ac-

count of work value/skill evaluation'; reflect the need for some workers 'to mature in work orientation and experience' before moving up a competency-based pay scale; 'render trainees competitive in the labour market'; result in 'competency-based classification structures through which trainees advance to the classification applicable to the fully competent employee'; or meet 'the constraint that it should not change overall average trainee labour costs'.

The Way Forward

A national training wage system needs to be negotiated that overcomes all of the above problems. The issue has remained unresolved for years, mainly because of union intransigence, but also because employers have failed to negotiate a suitable wages framework based on competency and time spent on the job in productive employment. If the dollar outcomes of such a training wage arrangement are judged to be too low, it is open to governments to put in place safety net arrangements outside the industrial award.

Under present arrangements, a university student's combined income from AUSTUDY and paid employment can exceed the take-home pay of a trainee. Governments should be able in principle to supplement trainee wages if only to provide equity across different sectors of the community.

One approach, utilised in Europe, would be to regard AVTS participants as students and not workers. This would open the way to paying them allowances, set below existing training wage rates, and providing access to means-tested student assistance arrangements. Negotiating allowances rather than wages should enable the industry parties to set aside the usual wage-fixing baggage and so avoid setting precedents that could flow on to standard wage arrangements.

Table 2

National training wage award rates, selected apprenticeship awards and AUSTUDY (\$/week)

National training wage ^(a)			Apprenticeship ^(b)				AUSTUDY ^(c)	
Skill level A	Skill level B	Skill level C	Year 1	Year 2	Year 3	Year 4	Standard	Independent
215-333	205-315	190-270	178-234	234-276	319-340	374-404	195.90	237.80

Notes: (a) Based on Year 12 school leaver rates. (b) Based on selected hospitality, metals, building & construction and vehicle award rates. (c) Based on maximum AUSTUDY rates for students aged 18 years and over: \$80.90 a week standard rate, \$122.80 a week independent rate, plus the maximum allowable income of \$115.00 a week in each case.

Sources: As for Table 1; unpublished summary data from DEET; *AUSTUDY '95: A Guide to Student Finances*, published by DEET and the National Union of Students (n.d.).

Effectively, there could be a two-part system of remuneration for young people. Those entering training positions could receive employer-paid allowances in combination with government funded income support, subject to a means test; while those entering non-training, part-time or casual positions could receive wages determined under industrial-relations principles. By establishing appropriate relativities between the dollar outcomes for the two groups, this system creates the necessary incentives for employers to offer training positions. Simplified subsidies could be retained for the severely disadvantaged, such as people with a disability or those unemployed for three years or more.

Table 2 does no more than indicate, based on current relativities, that there seems to be some scope to convert wages to allowances, at least in the early years of training. Some modifications to AUSTUDY arrangements are likely to be required, such as conferring 'independent' status on all trainees. If the changes required of AUSTUDY prove to be too great, some parallel scheme could be established to deal exclusively with trainees. There would be some losers (like those on the higher NTW wage rates) and a greater number of winners (existing apprenticeship areas). But the big potential gain would be in the expansion of total entry-level training positions.

Conclusion

A comprehensive national training wage/allowance arrangement is fundamental to improving employment opportunities for youth and for underpinning long-term skill formation in Australia. This must involve a complementary review of government support arrangements. Such a review should not be confined to the level and conditions of assistance but should also assess whether measures like employer subsidies remain the most efficient means of achieving policy objectives. It may be more efficient, for example, to convert employer subsidies into student assistance if effective wage rates can be reduced.

It is too easy to say that wages and conditions of employment are matters to be settled between the industry parties. On the contrary, a national training wage is far too important an issue to be resolved in a narrow industrial-relations context; the poor record of the industry parties attests to this. This is even more the case if any attempt is to be made to convert wages to allowances. Governments (especially the Commonwealth) should put industry on notice that selected government program assistance will not be available beyond a specified date to any industry sector that has not become party to an appropriate (yet to be developed) national training wage system or alternative arrangement.