

SPEECH

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Acknowledgements

Thank you very much Narelle for your kind introduction.

I acknowledge the traditional owners of the land on which we meet today—the Gadigal people of the Eora nation—and in the spirit of reconciliation pay my respects to elders past and present.

I also acknowledge Terry Moran, Secretary of the Department of Prime Minister and Cabinet, colleagues and friends.

I have been asked to talk about how our department of education, employment and workplace relations contributes to Australia's productivity.

In her first major speech after winning Government in 2007, Julia Gillard described herself as 'the minister for productivity'.

She created our Department of Education, Employment and Workplace Relations to focus on the contribution people make to productivity. That is, the skills they bring to their productive labour.

Julia Gillard was also clear that our work should particularly help disadvantaged people. Hence DEEWR's vision: creating a productive and inclusive Australia.

This dual focus on productivity and inclusion is especially relevant to our patchwork economy today. We must match Australians' skills to industry's needs while not leaving groups of people or regions behind.

DEEWR's contribution to productivity includes giving kids the best start in life through high quality childcare, top teachers in our schools, good vocational education and training, great universities, getting unemployed people jobs and creating fair workplaces. These all help people achieve their productive potential.

Our work in DEEWR touches the lives of every Australian in a positive way; and is vitally important to Australia's future.

We administer \$43 billion a year through 5,500 staff in 49 locations in Australia and 10 overseas. We answer to two cabinet ministers, Senator Chris Evans who will address us this afternoon and Peter Garrett, two non-Cabinet ministers and a parliamentary secretary.

The department already has many runs on the board towards achieving Julia Gillard's original vision about productivity.

For example, when the global financial crisis hit, we created new ways of re-skilling newly retrenched workers. We set up flexible local approaches in hard hit regions. The Government funded innovative social enterprises. Industry took up training places enthusiastically. Governments and industry pulled together.

Also to respond to the global recession, we implemented the biggest school modernisation program in Australia's history. A Catholic education authority told us that Building the Education Revolution represented 36 years worth of schools capital investment telescoped into one year.

We are putting in place first ever national child care standards; helping make sure every child can go to pre-school; and creating a better educated childcare workforce.

In schools every senior secondary student will soon have a computer. Trade Training Centres are opening. And the new Australian Curriculum will see students learning from a single, world-class curriculum.

The MySchool website is a huge hit with parents because for the first time anyone can see how their kid's school is performing on the basics, compared to statistically similar schools.

In higher education, you are removing barriers, to help wipe out disadvantage and help more Australians go to university.

Training and university infrastructure has had a big injection of capital.

More people are being trained, faster, in ways more responsive to industry. States have been encouraged undertake innovative reforms in training through strong Commonwealth incentives. Apprentices will be better supported. More adults will achieve basic literacy and numeracy.

Employment services have been reformed to focus on helping disadvantaged job seekers. Job Services Australia providers have already made over half a million job placements.

We've introduced new Disability Employment Services, getting 40% more people into jobs than previously.

In workplace relations, the new Fair Work framework has been implemented successfully. We are harmonising occupational health and safety laws. For the first time there is a single workplace relations system for the private sector. There are 122 Modern Awards rather than 3,715. These workplace relations reforms are estimated to deliver to the economy \$4.8 billion over the next decade.

The potential pay-offs of other reforms are huge too.

In 2009, DEEWR commissioned KPMG Econtech to tell us how some of our work might contribute to productivity. Their modelling was based on the difference to current projections that achieving certain targets could make.

Econtech estimated that the early childhood reforms I mentioned, for example, could generate up to a 1.5 percentage point increase in the labour force participation rate and a 1.2% increase in productivity by 2040. That would mean an average boost to the economy of around \$9.9 billion every year.

Econtech also estimated that the Government's reform goals in vocational education and training could add, on average, \$29.3 billion to GDP every year from 2010 to 2040.

And in higher education they estimated that increasing the proportion of 25 to 34 year olds with a degree to 40% by 2025—could add \$21 billion on average to GDP each year from 2010 to 2040. This equals around 75,000 extra jobs, each year, compared to what would otherwise happen.

Even though all these reforms will increase productivity, I would contend that more needs to be done for Australia's productivity to return to its historically highest levels. And I will contend that tertiary education holds the key.

Our economic landscape features a growing but ageing population.

With the ageing of the population, and a continuation of the productivity trends of the past 30 years, growth in real GDP per person is projected to slow over the next 40 years.

Therefore, the key to prosperity is growth in productivity. It is one of the main drivers of our standard of living. High productivity allows people to enjoy higher incomes and more freedom over work and family choices.

In decade average terms, annual labour productivity growth picked up in the 1990s to 2.2% before slowing to around 1.3% in the 2000s.

If productivity growth returned to 2% per year, the economy would be over 15% larger by 2049–50. GDP per person would be around \$16,000 higher.

We know there is scope for some Australians to be more productive.

Australia has capacity that is being under-used. As Reserve Bank of Australia Assistant Governor Phillip Rowe has said, 'one of the least productive things that a society can do is to leave large numbers of people sitting at home who actually want to work'.

Many Australians are excluded from the workforce through for example: poverty, disability, leaving school early, age discrimination or postcode.

Regional disparities in labour force participation widened during the global recession. The region with the lowest participation rate, Wide Bay-Burnett in Queensland, has a rate that is 14 percentage points lower than the Australian average. It is also 26 percentage points

lower than the region with the highest participation rate, which is Inner Melbourne.

At the same time though, there are many positive signs in our economy. Our unemployment rate has a 'four' in front of it and is predicted to keep falling. Compare this to the United States where 9% unemployment rates are turning some communities into jobless ghost towns.

Timely and targeted stimulus helped Australia avoid recession during the global financial crisis. Real GDP is now once again growing at around its trend rate leaving aside the impact of recent natural disasters.

The positive outlook on our terms of trade is good news for future growth in the economy. Australia is facing an unprecedented opportunity to boost our economic prosperity.

But relying on high income growth from the resources boom is not enough. We need to plan for the future.

The easy pickings from the mining boom risk us neglecting productivity-enhancing reforms and technologies.

The radical economic reforms of the 1990s lifted productivity by opening up the economy.

The reform challenge now is more incremental, but no less important.

Reform must include investing in skills and higher level qualifications so that industry can access labour at the right time, with the right skills.

In terms of the right skills, we know there is increased demand for inter-personal and knowledge skills. For example, in retail, education and financial services, all of which are growing strongly.

Access Economics says our economy will need 2.4 million more workers with qualifications at Certificate III and above by 2015, increasing to 5.2 million by 2025.

With a strong economy and changing skill needs, it is crucial for the education system to minimise capacity constraints on the nation's growth.

In terms of skills, the Government is accelerating the pace of reform and building on reforms it has already achieved.

The Government's new national VET regulator, the Australian Skills Quality Authority, will mirror the arrangements in higher education, supporting higher quality training provision and increasing confidence in our training system.

The introduction of VET FEE HELP for higher level VET qualifications has provided a significant injection of funding.

We are now working directly with industry as co-funders of training in key sectors. The new \$558 million Workforce Development Fund is an entirely new funding vehicle for the Commonwealth, which will help match supply better to demand.

There will soon be a new round of negotiations with states and territories to push for more training, more and faster completions, more competition, more transparency, more efficiency, more equity and more quality.

Many state and territory governments are already undertaking innovative reforms to their systems.

Victoria, for example, is well along on the path of reform and stands as a strong advocate of a market-based approach.

South Australia, in its *Skills for All White Paper*, sets out a strategy that would see all people over 16 years of age on a VET pathway eligible to receive a government-funded training subsidy.

Taken as a whole these reforms will get more people into training, up-skill existing workers and deliver the training and higher skills industry needs.

In terms of higher education reform, Minister Chris Evans has pushed ahead, including substantial additional money in this recent Budget to deliver the uncapping of places from 2012.

In 2011, total funding for higher education teaching and learning reached \$9.6 billion—that's an increase of around 30% since 2007.

This backs in, among others, the three iconic reforms:

- Uncapping places
- Incentives for equity and
- Increased indexation.

In my view the higher education reforms are both more fundamental and more subtle than many people realised at first.

In the language of economists, the reforms will improve the allocative efficiency of the higher education system. Resources will flow 'to their best use' to produce the skills Australia needs.

While the reforms will harness the power of the market to achieve productivity gains, there are safeguards to help maintain quality.

In particular of course, the new approach will be underpinned by the new Tertiary Education Quality and Standards Agency.

In terms of links with industry, which is the theme of this conference, the reforms provide strong incentives for universities to partner with industry, other universities, VET providers and schools.

Of course, such collaboration is not new; but we are seeing an increase in these relationships.

We think this is at least partly a response to the new policy settings, as well as specific programs such as successive rounds of funding from the Education Investment Fund and the current Structural Adjustment Fund.

A good example is the Engineering Pavilion Complex at Curtin University that was funded through the Education Investment Fund with a grant of \$20.5 million. The Pavilion will offer engineering students hands-on experience of the very latest technologies, including sustainable technologies.

Industry partners such as Rio Tinto, Thiess and Woodside have contributed more than \$2 million to the project in recognition of the growing need for more engineers in Western Australia. Curtin University has contributed \$10 million of its own funds.

Another example of universities partnering with industry is the Primary Industry Centre for Science Education designed to attract school students into agricultural sciences. Known affectionately as PICSE [*pronounced 'pixie'*], the program is a collaboration between universities, regional communities and local primary industries which

involves industry placements for school students and teachers, science camps and awards.

Just last week in Canberra, we heard from several inspiring young people about how PICSE had helped spark their interest to study and one day work in agricultural science. Key to this is industry's role in exposing young people to the fantastic opportunities of work in their sector.

Of course, these are just a couple of examples of university-industry partnerships—there are many, many more.

Personally, I am an advocate for a much more joined up tertiary sector, for the sake, as much as anything, of the learner. I am delighted that current reforms, especially incentives towards equity, are producing new links between universities, TAFEs, schools, business and local communities and I urge you to deepen these relationships.

In closing, what has been invaluable to the department and the Government has been the way in which we've been able to engage with the sector to progress these reforms.

The knowledge, experience and innovation of the tertiary sector have been central to designing and implementing these reforms.

It is my strong view, and a view shared across the department, that joint solutions—solving problems *with* you—leads to better outcomes.

It's the approach we have tried to take with TEQSA—which I think provides us with an a good example of the benefits of collaboration.

Close engagement will continue to be critical to the success of the Government's tertiary education reform agenda.

I've spoken today of the merit in an approach where the Government provides the framework, then devolves decision-making to the sector. But I do add this qualifier—that the success of such an approach relies on getting the initial policy settings right.

To this end, I look forward to continuing to work closely with you all to get the groundwork right in our joint quest to ensure that the Australian economy reaps the benefits of more productive citizens and a more productive tertiary sector.

Thank you.