



1.  
**THE LABOUR  
MARKET MUST  
WORK EVEN  
HARDER THIS YEAR**





# 1. THE LABOUR MARKET MUST WORK EVEN HARDER THIS YEAR



**Liam Dillon**  
Economist, CEDA

**Liam Dillon is an economist at CEDA. Prior to joining CEDA in 2023, Liam worked as a researcher at the Grattan Institute, covering government finance, environmental economics and tax policy. Liam has also worked for the Victorian Parliamentary Budget Office, where he provided independent fiscal, economic and policy advice for Victorian Members of Parliament. Liam holds a Masters of Applied Economics and Econometrics (First Class Honours) from Monash University, and a Bachelor of Laws and a Bachelor of Business (Distinction) from the Queensland University of Technology.**

Among the many surprises that accompanied the COVID-19 pandemic, few predicted the surge in employment that has supported the resilience of the economy ever since. The steep fall in the unemployment rate has been widely celebrated – it held steadily below four per cent throughout 2023. But this has coincided with a new headache – acute labour shortages.

Rather than focusing on the challenges of high unemployment, the Federal Government's Jobs and Skills Summit and subsequent employment white paper, *Working Future*, instead tackled how to address a tight labour market and skills shortages.

Released late last year, the paper maps the Government's ambition for the labour market and focuses on the structural shifts underway in our economy, from an ageing population and accelerated digitalisation to the global energy transition. Central to this is a vision of full employment that creates "an economy where everyone who wants a job is able to find one without having to search for too long".<sup>1</sup>

FIGURE 1

## Defying COVID-era expectations, employment is at an all-time high

Employment to population rate, seasonally adjusted, %



Source: Australian Bureau of Statistics • Created with Datawrapper

But there is a tension between this goal of full employment and the Reserve Bank's consistent messaging that higher unemployment is the cost we bear to get inflation under control. The Government must ensure its employment measures don't work against monetary policy and risk stoking inflation, while making the trade-offs clear.

The objectives in *Working Future* represent the ultimate goal of any labour market – achieving high productivity and wage growth coupled with low unemployment and sustainable inflation. This is easier said than done. To move towards this goal, the Government must act on three key challenges.

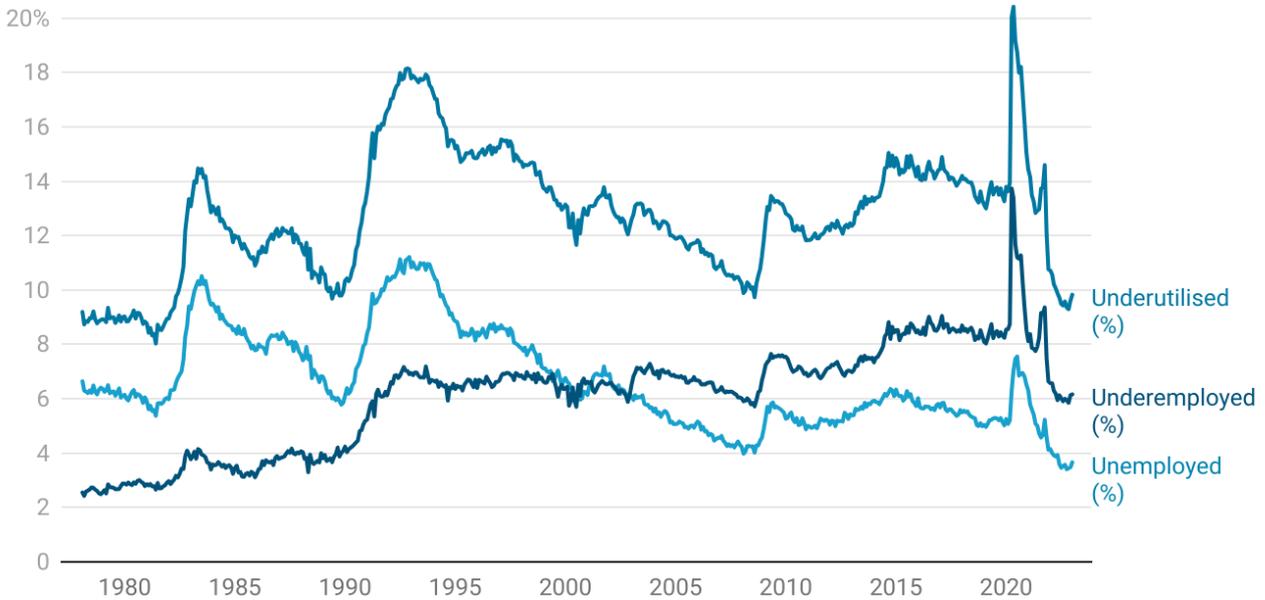
“

The Government must ensure its employment measures don't work against monetary policy and risk stoking inflation, while making the trade-offs clear.

FIGURE 2

## We can do more to tackle underemployment and underutilisation

Seasonally adjusted rates of unemployment, underemployment, and underutilisation, %



Source: Australian Bureau of Statistics • Created with Datawrapper

The proportion of occupations facing skills shortage on the national Skills Priority List grew by five percentage points to

**36%**  
in 2022-23

First, we must improve labour mobility and dynamism by tackling regulatory barriers and focusing on productivity. Second, improved participation and inclusivity among groups who have struggled to engage fully in the workforce must continue to be a priority. Finally, we must address known and persistent skill shortages for structurally significant areas like healthcare, technology and climate change. This means bolstering the supply of workers through a responsive education system and optimising our migration system.

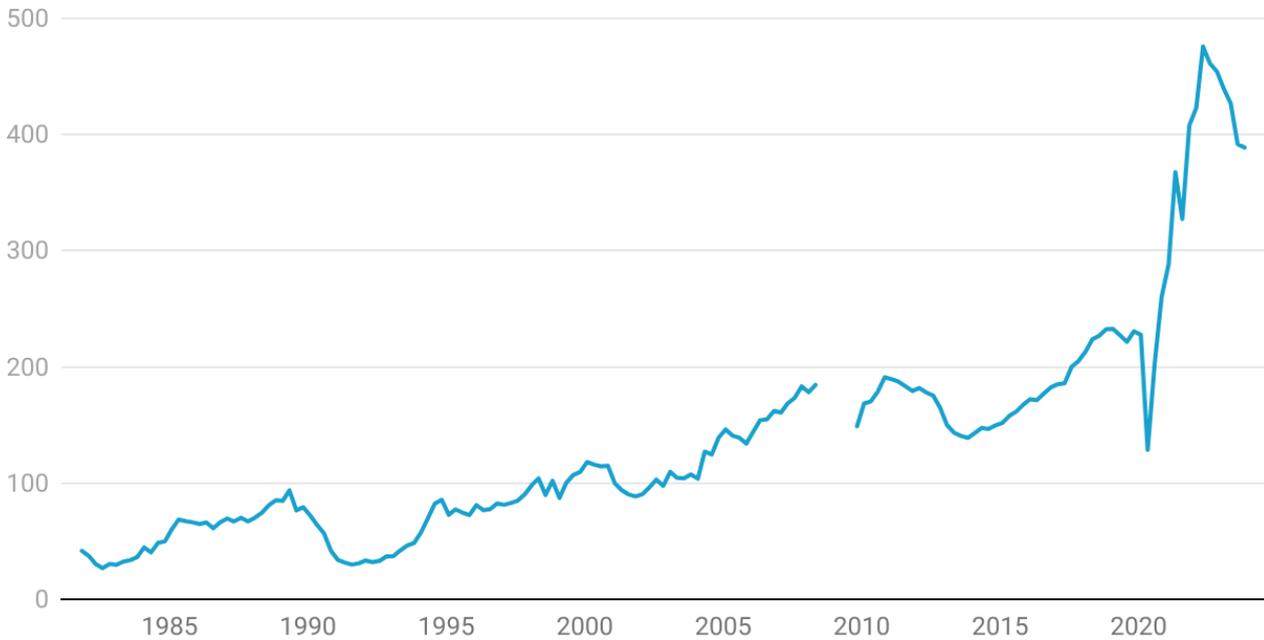
### Increased labour mobility and dynamism can put the right skills in the right places

Skills shortages in some key occupations are now so large they risk frustrating our national strategic objectives. The proportion of occupations facing skills shortage on the national Skills Priority List grew by five percentage points to 36 per cent in 2022-23,<sup>2</sup> and has expanded by 17 percentage points since 2020-21.<sup>3</sup> Many of the occupations in shortage have had an inadequate supply of workers for more than two years.<sup>4</sup>

FIGURE 3

## Despite recent softening, demand for workers remains high

Job vacancies, seasonally adjusted, 000s



Source: Australian Bureau of Statistics • Created with Datawrapper

Enhancing mobility and dynamism in our labour market are critical steps to relieve these shortages, and should be addressed by refining occupational licensing settings and leveraging new technologies like artificial intelligence.

As CEDA research has shown, occupational licensing is widespread in Australia, covering one in five employees.<sup>5</sup> Stringent conditions that go beyond what is needed to protect safety and rules that don't recognise skills and experience gained interstate limit both the supply and mobility of workers, exacerbating shortages and driving up prices.

*Working Future* recognises this problem, and the Government says it is “improving cross-jurisdictional worker mobility through digitalisation of occupational licensing”.<sup>6</sup> While digitalisation can enhance productivity, it is no substitute for dismantling overly restrictive regulation in a time of acute labour shortages.

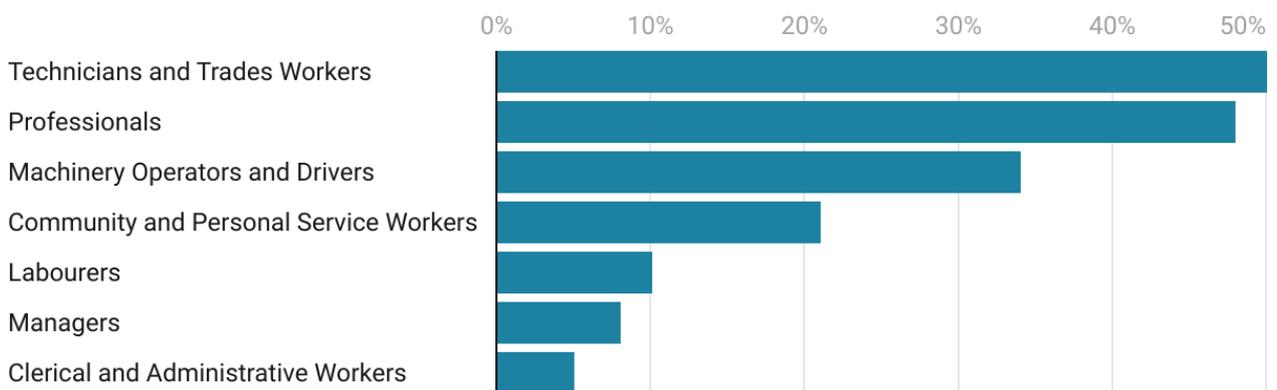




FIGURE 4

## Major industry groups face high levels of worker shortage

Proportion of occupations in ANZSCO major group facing shortage, 2023, %



Source: Jobs and Skills Australia • Created with Datawrapper

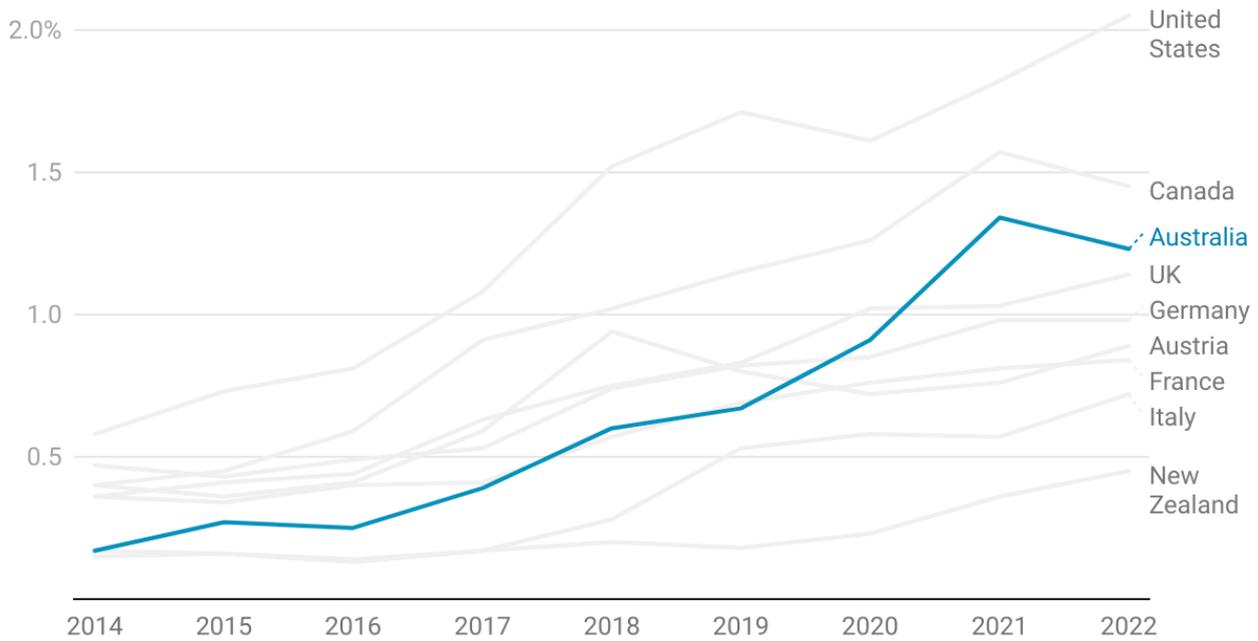
The Automatic Mutual Recognition scheme introduced in 2021, which automatically recognises the skills of tradespeople between several states, is a good step to reduce mobility barriers for licensed workers. But with Queensland (the largest recipient of interstate migration) still not participating in the scheme, its benefits are not being fully realised.<sup>7,8</sup>

Reducing the coverage and rigidity of licensing could deliver lower prices, enhanced labour mobility between states and up to \$5 billion in benefits from higher productivity.<sup>9</sup>

FIGURE 5

## Australia has seen strong growth in AI-related job listings

Proportion of AI Job Postings, 2014-22, %



Source: Stanford University • Created with Datawrapper

### We should leverage artificial intelligence to boost labour market outcomes

This year, advances in artificial intelligence (AI) and its adoption will increasingly reverberate through the labour market. While well-worn concerns about new technology replacing workers have already been voiced, emerging international evidence suggests that AI tools in the short-term will primarily be used to complement rather than replace employees.

A study by the United States' National Bureau of Economic Research found that when a digital AI assistant was selectively made available to customer service agents, those with access to the assistant notched a 14 per cent increase in productivity.<sup>10</sup> Importantly, these gains were more than doubled for inexperienced and low-skilled workers, highlighting the potential for AI to accelerate integration of new workers and compensate for skills shortages in the workforce.

In addition to boosting productivity, AI may also help strengthen inclusivity and reduce barriers to participation.

Personalised reskilling and training programs supported by AI for long-term unemployed workers may help address the deterioration of skills due to long spells out of the workforce. They may also create new avenues for learning among disadvantaged groups who have historically struggled to afford individualised education and training.<sup>11</sup>

Despite having a low barrier to entry, the broader use of AI still requires a base level of digital skills, which up to one-third of adults lack.<sup>12</sup> This, and uncertainty around the direct applications of AI, supports the need for an ongoing focus on foundation skills.

These skills need to be prioritised both at the school level and among the current workforce. Supplementing the skills of current workers may be achieved through micro-credential offerings

at vocational institutions, with course materials that are supported by the findings of Jobs and Skills Australia's (JSA) upcoming Foundation Skills Study.

Importantly, initiatives should be targeted to ensure that relevant skills are cultivated across the income distribution to avoid the benefits of AI being disproportionately concentrated among wealthier workers.

### From insights to action on inclusivity

*Working Future* rightly emphasised the need for Australia's workforce to become more inclusive. But we need to act with greater urgency to address the entrenched structural barriers that continue to prevent so many from accessing work.

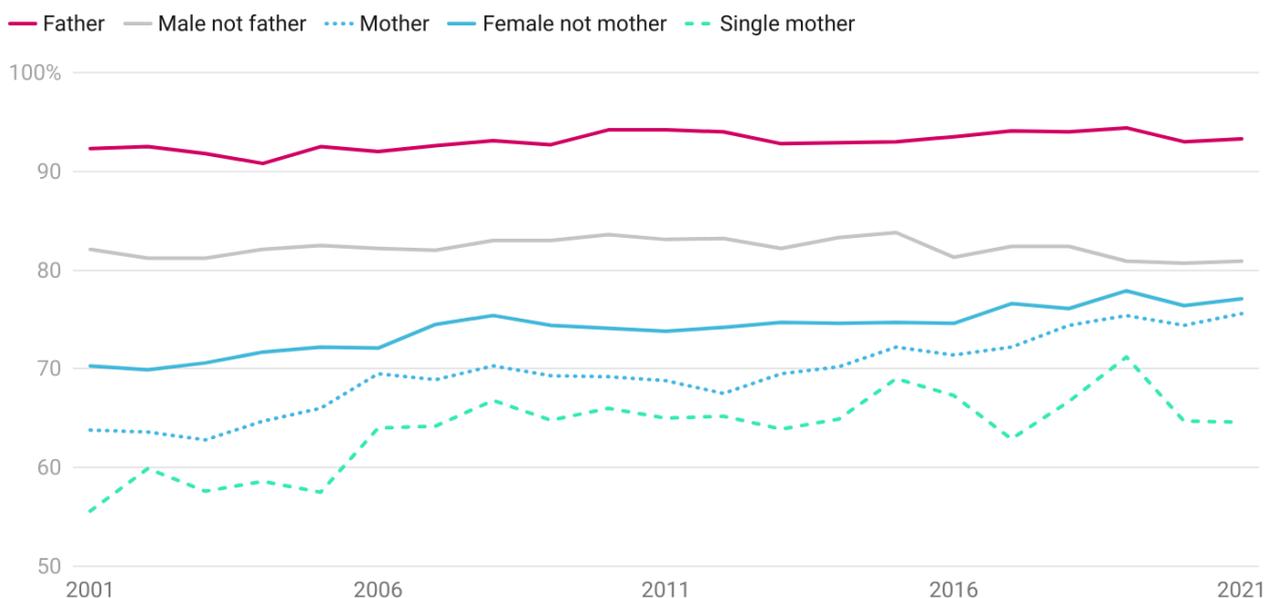
While increased funding for the ABS to examine labour market data should support rigorous policy evaluation and workforce planning, existing research already lays bare the scale of the challenge we face for workforce inclusion.

These challenges are acutely felt by Australian women, whose workforce participation remains disproportionately low because of their caring responsibilities.

FIGURE 6

## Parenthood still deepens participation gaps between men and women

Labour force participation rate by sex and parenthood status, age 20-64, %



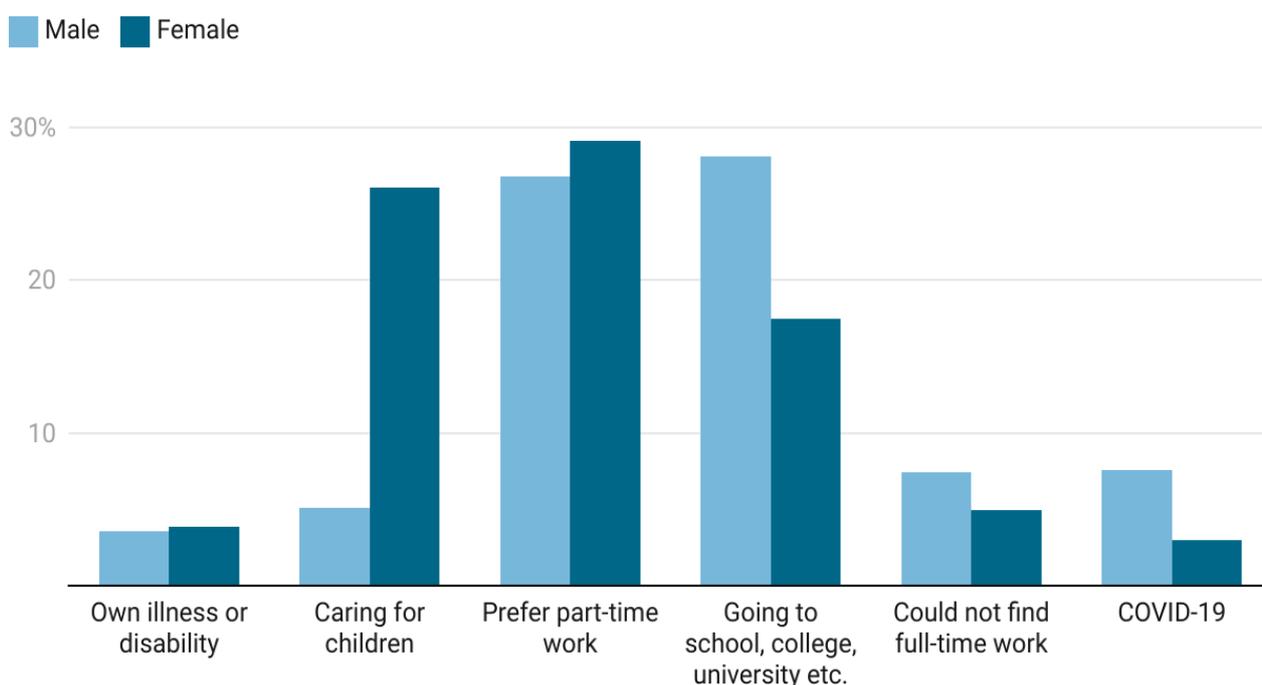
Source: OECD • Created with Datawrapper

The rate of single mothers participating in the labour force has flatlined since 2006 at 65 per cent – the participation rate for fathers, meanwhile, is over 90 per cent.<sup>13</sup> The uneven burden of care brings with it real financial consequences felt in both the years following childbirth and through to retirement.<sup>14,15</sup>

FIGURE 7

## Caring responsibilities push women towards part-time work

Main reason for working part-time hours, 2021, %



Source: OECD • Created with Datawrapper

The white paper recognises the role that strong paid parental-leave settings and affordable childcare can play in facilitating participation for women in work. However, for those unable to pursue the careers they want due to a lack of childcare options, the Government’s vague promise to “chart a course” to universal affordable childcare as a “future reform direction” will ring hollow.<sup>16</sup> Policies to improve access to childcare and support participation should be a priority for the Government this year, not later.

### Comprehensive strategies to address skills shortages are needed

While worker shortages have been felt across the economy, they are concentrated in areas of strategic significance – healthcare, technology and the energy transition. We urgently need to boost the supply of workers in these areas through a high-performing education sector and fit-for-purpose migration system.

More than 80 per cent of professional health occupations faced worker shortages in 2022-23,<sup>17</sup> and a lack of skills contributed to an 18 percentage point drop in fill rates for vacancies (just

“

Broadening access to tertiary institutions, particularly for groups facing entrenched disadvantage, will help break down structural barriers to education that can have lifelong impacts on earnings and employment.

44 per cent) since 2022.<sup>18</sup> CEDA research has repeatedly highlighted the dire shortages in the aged-care sector and the impact it is having on the ability to deliver the appropriate quality and quantity of care required.

Similarly, JSA's recent Clean Energy Capacity Study warned the current pipeline of electricians and other trade workers integral to the energy transition is inadequate. The study projects that an additional 85,000 electricians will be needed by 2050, with 32,000 of these required over the next seven years.<sup>19</sup>

The critical role that training and education will play in delivering the workers needed in these sectors means proper execution, monitoring and evaluation of supporting policies will be crucial. The lacklustre performance of the Morrison Government's Job-Ready Graduates program is a recent reminder of how well-intentioned initiatives can fail to hit the mark.<sup>20</sup>

### **Strengthening training and education**

The National Skills Agreement, which commenced in January, and the related Universities Accord final report, delivered to the Government late last year, are some of the key measures to invigorate our skills pipeline.

The Universities Accord – just the third review of higher education in nearly four decades – provides a sweeping analysis of the system's capacity to meet current and future skills needs. The Government has committed to act on the accord's interim priority steps, including establishing 20 regional study hubs, as well as extending demand-driven funding for all First Nations students.<sup>21</sup>

These measures are an important first step to address the accessibility challenge of higher education as completion rates and demand for university places decline, with first bachelor-degree completions at their lowest level since 2014.<sup>22</sup> Broadening access to tertiary institutions, particularly for groups facing entrenched disadvantage, will help break down structural barriers to education that can have lifelong impacts on earnings and employment.

Stronger links between universities and industry can also ensure training is relevant and foster increased innovation and commercialisation of research, an area where Australia lags behind.<sup>23</sup> Combined and well-executed, these two factors can boost labour force productivity and wages for workers who are better equipped for the jobs of the future.

The National Skills Agreement allocates \$3.7 billion over five years to strengthen vocational education and will deliver 300,000 fee-free TAFE places in 2024.<sup>24</sup>

The first TAFE Centres of Excellence are also expected to open this year, and are designed to provide national co-ordination and leadership in the delivery of skills, vocational education and training in critical areas such as the net-zero transition, the care sector and digital skills.<sup>25</sup>

Changes to vocational education need to be underscored by flexibility and agility across its offerings. Short programs in particular can enable training options to meet rapidly changing industry needs, support reskilling for workers dislocated by technological or economic shifts, and encourage accessibility.

Unfortunately, improved training and education will only take us so far in increasing the supply of workers. JSA's 2023 labour-market report found 40 per cent of occupation groups in shortage faced a long training gap – that is, worker deficits for these groups were exacerbated by applicants needing a Certificate IV, apprenticeship or bachelor's degree, which can take anywhere between six months to four years to complete.<sup>26</sup>

### **The role of migration**

The lag between training and workers entering employment means we cannot downplay the importance of migration in meeting our labour market needs in the short term. With a migration intake that historically delivered a third of our skill needs and attracts younger-skewing, innovative workers who can help meet shortages and spur productivity, we must make the most of our immigration system.

Last year's migration strategy from the Federal Government outlined the future of the Australian migration system and set a clear and much-needed direction. As always, implementation will be key to success, and CEDA maintains there is still a need for an essential skills visa focused on workers in the care sector – an area the Government has flagged as still under consideration for future reform. With the care sector crying out for workers, this should be progressed in 2024.

We must also ensure we make the most of the migrants already here. As outlined in CEDA's upcoming *Making Better Use of Migrants' Skills* report, nearly a quarter of permanent skilled migrants in Australia work in roles below their skill level.<sup>27</sup> Given the immediacy of our skills challenge, improving employment outcomes for these migrants through steps like improved English language training and better recognition of foreign qualifications must be a focus for policy action this year.

## **What's next for the workforce?**

Given the long-term nature of the shifts at hand, the Government suggests success will likely be measured over years, not months. But for the three million people estimated by the white paper to be ready for more work, we can and must act with greater urgency.

We must get the right skills in the right places by boosting labour-market mobility and inclusivity, as well as strengthening the supply of workers through robust education and migration systems.

Since the Jobs and Skills Summit, warning bells have repeatedly been sounded on the need to make the most of our human capital. With labour shortages persisting it's clear we still have work to do.

## References

- 1 Australian Government. (2023). *Working Future: The Australian Government's White Paper on Jobs and Opportunities*. <https://treasury.gov.au/sites/default/files/2023-10/p2023-447996-working-future.pdf>
- 2 Jobs and Skills Australia (2023). *Towards a National Jobs and Skills Roadmap. Annual Jobs and Skills Report 2023*. <https://www.jobsandskills.gov.au/publications/towards-national-jobs-and-skills-roadmap#:~:text=This%20inaugural%20Jobs%20and%20Skills,the%20coming%20year%20and%20beyond.>
- 3 Ibid.
- 4 Ibid.
- 5 CEDA. (2022). *Employment White Paper Submission*. <https://www.ceda.com.au/ResearchAndPolicies/Research/Workforce-Skills/Employment-white-paper-submission>.
- 6 Australian Government. (2023). *Working Future: The Australian Government's White Paper on Jobs and Opportunities*. <https://treasury.gov.au/sites/default/files/2023-10/p2023-447996-working-future.pdf>
- 7 Centre for Population. (2023). *National, state and territory population*. <https://population.gov.au/data-and-forecasts/key-data-releases/national-state-and-territory-population-june-2023>
- 8 Department of Employment and Workplace Relations. (2023). *Mutual recognition*. <https://www.dewr.gov.au/skills-support-individuals/mutual-recognition>
- 9 CEDA. (2022). *Employment White Paper Submission*. <https://www.ceda.com.au/ResearchAndPolicies/Research/Workforce-Skills/Employment-white-paper-submission>.
- 10 National Bureau of Economic Research. (2023). *Working Paper 31161. Generative AI at Work*. <https://www.nber.org/papers/w31161>
- 11 OECD. (2023). *OECD Employment Outlook 2023: Artificial intelligence and the Labour Market*. [https://www.oecd-ilibrary.org/employment/oecd-employment-outlook-2023\\_08785bba-en](https://www.oecd-ilibrary.org/employment/oecd-employment-outlook-2023_08785bba-en)
- 12 Ibid.
- 13 OECD. (2023). *OECD Economic Surveys: Australia 2023*. [https://read.oecd-ilibrary.org/economics/oecd-economic-surveys-australia-2023\\_1794a7c9-en#page75](https://read.oecd-ilibrary.org/economics/oecd-economic-surveys-australia-2023_1794a7c9-en#page75)
- 14 Bahar, E., Bradshaw, N., Deutscher, N. and Montaigne, M. (2022). *Children and the gender earnings gap*. <https://treasury.gov.au/sites/default/files/2022-11/p2022-325290-children.pdf>
- 15 Birch, E. and Preston, A. (2021). Women, COVID-19 and Superannuation. *Australian Journal of Labour Economics*, 24(2). Available at: <https://research.curtin.edu.au/businesslaw/wp-content/uploads/sites/5/2021/10/AJLE-Vol-24-No-2-2021.pdf#page=73>
- 16 Australian Government. (2023). *Working Future: The Australian Government's White Paper on Jobs and Opportunities*. <https://treasury.gov.au/sites/default/files/2023-10/p2023-447996-working-future.pdf>
- 17 Jobs and Skills Australia (2023). *Towards a National Jobs and Skills Roadmap. Annual Jobs and Skills Report 2023*. <https://www.jobsandskills.gov.au/publications/towards-national-jobs-and-skills-roadmap#:~:text=This%20inaugural%20Jobs%20and%20Skills,the%20coming%20year%20and%20beyond.>
- 18 Ibid.
- 19 Jobs and Skills Australia. (2023). *Clean Energy Capacity Study*. <https://www.jobsandskills.gov.au/studies/clean-energy-capacity-study>
- 20 Norton, A. (2020). *3 flaws in Job-Ready Graduates package will add to the turmoil in Australian higher education*. <https://theconversation.com/3-flaws-in-job-ready-graduates-package-will-add-to-the-turmoil-in-australian-higher-education-147740>
- 21 Clare, J. (2023). *Australian Universities Accord Interim Report and immediate actions*. <https://ministers.education.gov.au/clare/australian-universities-accord-interim-report-and-immediate-actions>
- 22 Department of Education. (2023). *Australian Universities Accord Interim Report*. <https://www.education.gov.au/australian-universities-accord/resources/accord-interim-report>

- 23 Industry, Innovation and Science Australia. (2023). *Barriers to collaboration and commercialisation*. <https://www.industry.gov.au/sites/default/files/2023-11/barriers-to-collaboration-and-commercialisation-iisa.pdf>
- 24 Department of Employment and Workplace Relations. (2023). *National Skills Agreement*. <https://www.dewr.gov.au/skills-reform/national-skills-agreement>
- 25 Ibid.
- 26 Jobs and Skills Australia (2023). *Towards a National Jobs and Skills Roadmap. Annual Jobs and Skills Report 2023*. <https://www.jobsandskills.gov.au/publications/towards-national-jobs-and-skills-roadmap#:~:text=This%20inaugural%20Jobs%20and%20Skills,the%20coming%20year%20and%20beyond.>
- 27 CEDA. (2024). *Making Better Use of Migrants' Skills*.