

SKILLS RECOGNITION

2022





ABOUT THIS PUBLICATION



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Andrew Barker joined CEDA in 2022 as a Senior Economist based in Brisbane. He was previously a Senior Economist and Head of Desk in the OECD economics department, focusing on climate, labour market, productivity and housing policy. As a Research Manager at the Productivity Commission he led quantitative work on water, gas and labour markets and contributed to public inquiries on infrastructure access, automotive manufacturing, service exports and the economic effects of migration. Andrew holds a Master of Commerce (economics) and First Class Honours degrees in economics and environmental engineering from the University of Melbourne.

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CEDA's submission to the Employment White Paper focuses on policy reforms to deliver a more dynamic labour market – breaking down barriers to workers moving across jobs and to more people participating fully in work. Looming structural adjustments including digital transformation, the energy transition and an ageing population will require an adaptive and agile labour market to deliver labour and skills where and when they are most needed. In preparation for these transitions, Australia needs to reverse long-term trends of declining dynamism and job mobility, while addressing entrenched barriers in the labour market. To this end, the submission will comprise five individual papers on skills recognition, housing market barriers, occupational gender segregation, training for the long-term unemployed, and the structure of unemployment benefits.

Relevant themes for Employment White Paper: Increasing labour productivity growth and incomes; improving employment opportunities.

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About CEDA

CEDA – the Committee for Economic Development of Australia – is an independent, membership-based think tank.

CEDA's purpose is to improve the lives of Australians by enabling a dynamic economy and vibrant society.

Through independent research and frank debate, we influence policy and collaborate to disrupt for good, and are currently focused on tackling five critical questions:

- How can Australia develop and grow a more dynamic economy?
- How can we build vibrant Australian communities?
- How can Australia develop leading workforces and workplaces?
- How can Australia leverage the benefits of technology?
- How can Australia achieve climate resilience and regain our energy advantage?

CEDA was founded in 1960 by leading economist Sir Douglas Copland. His legacy of applying economic analysis to practical problems to aid the development of Australia continues to drive our work today.

CEDA has more than 620 members representing a broad cross-section of Australian businesses, community organisations, government departments and academic institutions. Through their annual membership, CEDA members support our research both financially and by contributing their expertise, insight and experience.

CEDA's independence and nationally dispersed, diverse membership makes us unique in the Australian policy landscape, and enables us to bring together and harness the insights and ideas of a broad representation of our society and economy.

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SUMMARY



Occupational licensing sets legal requirements to practice an occupation such as teaching, being a plumber, painter or an electrician, restricting entry for people who have developed skills through alternate routes or in other jurisdictions.



Despite a range of mechanisms for developing and recognising skills, mismatches between skills and job requirements have historically been more common in Australia than in other developed countries.



Not fully recognising existing skills exacerbates skill shortages, which are set to continue as the Australian economy confronts digital transformation, the energy transition and an ageing population.



Occupational licensing is widespread in Australia, covering around one in five employees. The stringency of occupational licensing on personal services in NSW and Queensland is comparable with the most restrictive European countries.



Reducing the coverage and stringency of occupational licensing could deliver lower prices, more labour mobility and up to \$5 billion in benefits from higher productivity.

Australia is facing widespread skill shortages, with unemployment falling below four per cent in 2022 and job vacancies exceeding the pool of available workers. Future trends including digital transformation, an ageing population and the energy transition will exacerbate the demand for skilled labour. Known bottlenecks include:



WORKER SHORTAGES

The public infrastructure pipeline announced by governments in recent years has been delayed due to a forecast shortage of more than 100,000 workers.



NEW DOMESTIC GENERATION

Australia will need a sustained lift in labour to install around 33 gigawatts of new domestic generation in just over a decade to be on track for net zero by 2050. This is the equivalent of almost doubling current generation capacity in NSW.



NEW TECH JOBS

The government and the tech sector have a shared commitment of 1.2 million tech jobs by 2030, necessitating 650,000 new roles over the next 8 years.



MORE DEFENCE SPENDING

Defence spending and required workforce is also ramping up. The permanent Australian Defence Force and Defence civilian workforce will be up by 18,500 by 2040, and there is a strong commitment to local defence manufacturing in the \$270 billion of spending forecast in the next decade.



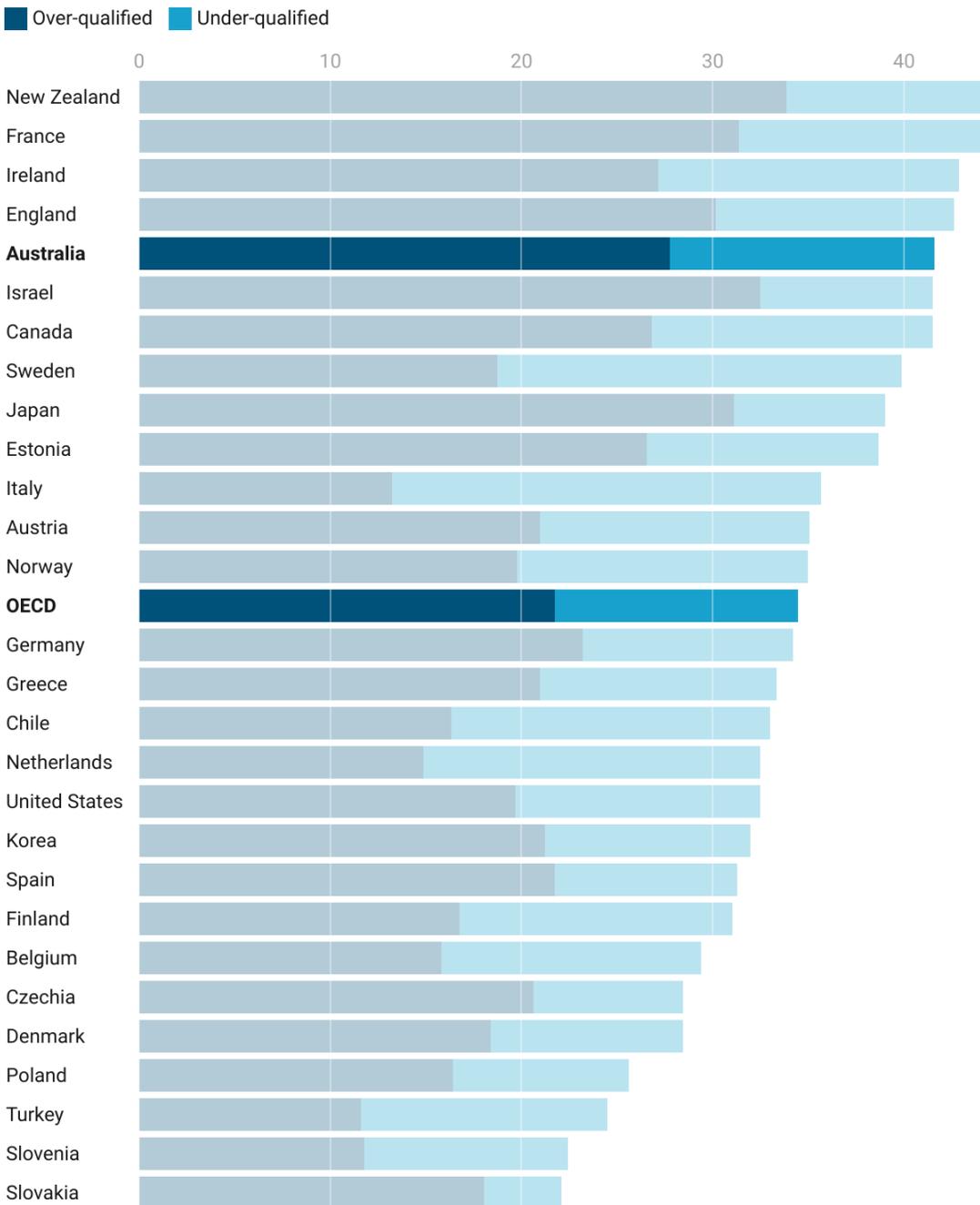
Australia's skills mismatch

Australia has a range of mechanisms for developing and recognising skills, including certificates and degrees that are readily recognised by employers, as well as emerging modes of learning such as short courses and micro-credentials. Australia's migration program is also strongly focused on skills.

FIGURE 1

Skills mismatch is high by international comparison

Percentage of mismatched workers



Data are for 2012 or 2015 depending on the timing of the survey for that country - see source for details.

Source: OECD Survey of Adult Skills (PIAAC) • Created with Datawrapper

Skills mismatch for migrants arriving between 2013 and 2018 is estimated to have cost

\$1.25bn

in foregone wages

Despite favourable settings for skill development and deployment, Australia has historically had above-average skills mismatch, predominantly workers who are over-skilled for their current job (See Figure 1 above). Contributing factors include large distances between major population centres, interstate differences in education and vocational training and weak housing supply responsiveness.¹ For example, weak housing supply responsiveness contributes to expensive housing close to job opportunities, reducing the ability of people to move to a job that better matches their skills (see housing paper).

Skills mismatch is further increased by weak labour market integration of immigrants, who have over-education rates substantially higher than among Australian-born workers.² Lack of local experience and networks is a key driver. Skills mismatch for migrants arriving between 2013 and 2018 is estimated to have cost \$1.25 billion in foregone wages.³ CEDA will give further consideration to policy steps to improve the Australia's migration system in a submission to the comprehensive migration system review announced at the Jobs and Skills Summit.

More generally, businesses, vocational and higher education providers need to work together on skills accreditation and advancing new ways of learning that develop work-relevant skills. This would entail some weakening of the demarcation between vocational education and universities, with scope for vocational students to benefit from pathways to advanced degrees and university students from more job-focused learning.

Better use of existing skills can also be driven by hiring decisions based on people's skills rather than their educational credentials or industry-specific experience. Recognising skills enables businesses to hire the best person for the job – perhaps aided by some training in specific areas – rather than the most defensible candidate based on pedigree. International evidence indicates that degree holders in middle-skill positions have higher rates of voluntary turnover and lower levels of engagement, while commanding a material wage premium even though on average their performance is not materially better.⁴ A tight labour market can help push in the direction of prioritising skills over credentials: in the United States between 2017

"Based on CEDA analysis using the OECD's framework for administrative burdens, qualification requirements and mobility restrictions across 15 occupations, the stringency of occupational regulations in Queensland is consistent with restrictive regimes applying in Germany or Canada."

and 2019 employers reduced degree requirements for 46 per cent of middle-skill positions and 31 per cent of high-skill positions.⁵

The remainder of this paper focuses on potential reforms to occupational licensing to improve the recognition of existing skills and relieve skill shortages.

Licensing prevents the best use of skills

Occupational licensing refers to specific legal requirements to practice an occupation, such as minimum qualifications or recent work experience. Occupations subject to licensing in Australia include healthcare, teaching, security services, trades such as plumbing, painting and electricians, and taxi driving.

Two reasons are commonly put forward for occupational licensing:

- To protect consumer and/or public safety; and
- To ensure a sufficient and reliable level of service quality.

There is a lack of recent data, but around one in five people employed in Australia worked in an occupation subject to registration requirements in 2011. This proportion varied from a low of 13 per cent in the ACT to a high of 21 per cent in Queensland.⁶ Internationally this is not unusual: regulated workers are estimated to account for between 15 and 35 per cent of the workforce across EU countries and in the United States.^{7,8} In some areas, occupational licensing coverage continues to increase. For example, the Victorian Government is in the process of introducing a new registration and licensing scheme for building tradespeople, beginning with carpentry then extending to over 20 different trades.⁹

Based on CEDA analysis using the OECD's framework for administrative burdens, qualification requirements and mobility restrictions across 15 occupations, the stringency of occupational regulations in Queensland is consistent with restrictive regimes applying in Germany or Canada (See Figures 2 and 3). Occupational restrictions on professional services in Queensland are around average, but licensing for personal services such as taxi drivers, driving instructors, electricians and plumbers is relatively more restrictive. Queensland is presented here as an example because it

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is the only state not to have joined the national Automatic Mutual Recognition scheme (discussed below). Largely due to lower mobility restrictions under Automatic Mutual Recognition, occupational regulations in NSW are somewhat less stringent than in Queensland, but still relatively high for personal services. Compared with the United Kingdom, for example, licensing is much more restrictive in Queensland and NSW for building trades such as electricians, plumbers and painters.

FIGURE 2

Occupational restrictions on personal services

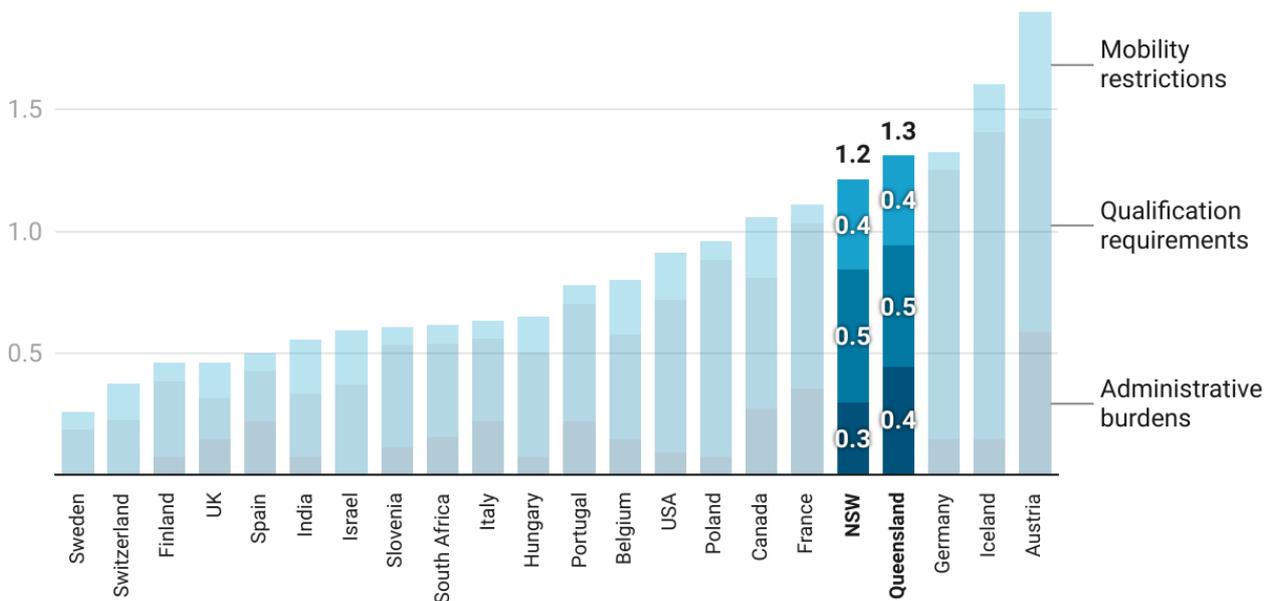
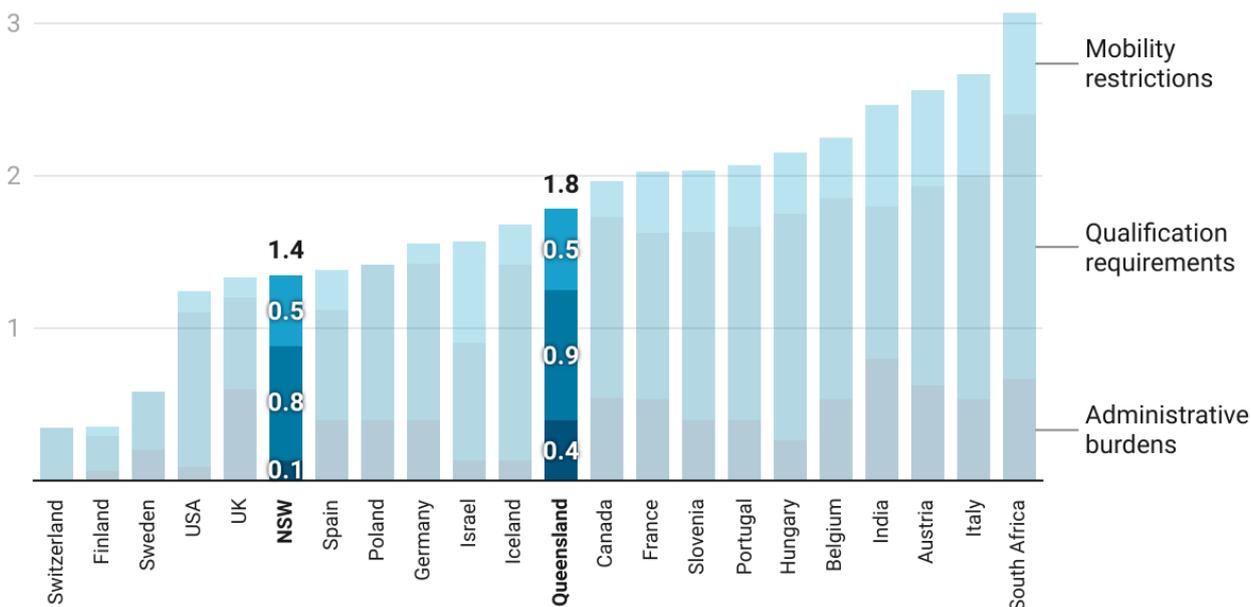


FIGURE 3

Occupational restrictions on professional services



A higher indicator value represents stricter occupational entry restrictions

Source: OECD; CEDA estimates for NSW and Queensland • Created with Datawrapper

BOX 1

The OECD indicator of Occupational Entry Regulations

Von Rueden and Bambalaite present a composite indicator of the coverage and stringency of occupational entry restrictions across 18 OECD countries (not including Australia).¹⁰ The indicator distinguishes between occupational licensing, licensing only for supervisors and certification (where activities are not restricted but voluntary certification is needed to use a legally protected title such as 'architect'). Regulatory barriers in 15 key occupations are assessed along three dimensions:

- Administrative burdens: procedural hurdles set on obtaining authorisation to practice, including territorial restrictions and any registration requirements in professional associations;
- Qualification requirements: the number of pathways to obtain the qualification, the duration of mandatory study and any mandatory practice or state exam requirements; and
- Mobility restrictions: barriers to labour mobility between countries based on the presence and transparency of mutual recognition and obligation to take local exams before practising.

"Most international research on this topic has failed to demonstrate quality improvements from stricter regulatory entry barriers, or a reduction in the quality of goods and services following an easing of such barriers."

The benefits from licensing depend on its capacity to protect safety by ensuring the quality of goods or services supplied. However, most international research on this topic has failed to demonstrate quality improvements from stricter regulatory entry barriers, or a reduction in the quality of goods and services following an easing of such barriers.^{11,12,13} There are more likely to be benefits from licensing where consumers are particularly ill-informed about the quality of what they are purchasing, such as for specialised medical services. Public safety benefits can be more relevant where poor quality can create risks for members of the public who were not involved in the original dealings, such as a poorly constructed building. However, widespread occupational licensing in the building sector has not prevented problems from non-compliant cladding, water ingress leading to mould and structural compromise, structurally unsound roof construction and poorly constructed fire resisting elements.¹⁴

The costs of licensing come from higher barriers to entry to these occupations. As the Harper competition review noted, competitive impacts of licensing have not been adequately considered.¹⁵ Less competition leads to higher prices and lower employment in regulated professions.^{16,17} Occupational licensing can also restrict the ability of people to move to new jobs, where people licensed to work in one state are not automatically recognised to work in the same occupation elsewhere. In the US, regulations have been shown to stifle mobility between states,^{18,19} with one estimate suggesting interstate migration rates for workers in the most licensed occupations are almost 15 per cent lower than for those in the least licensed occupations.²⁰

OECD analysis shows that reducing occupational restrictions in Germany to match those in Sweden could increase the contribution of labour reallocation to employment growth by 10 per cent and boost the productivity of the average firm

"Occupational licensing can also restrict the ability of people to move to new jobs, where people licensed to work in one state are not automatically recognised to work in the same occupation elsewhere."

Australia could gain up to
\$5 billion

each year from reform that reduces occupational restrictions to match best-performing countries.

by 1.6 per cent.²¹ The similar level of occupational restrictions in Queensland to Germany (and in NSW too for personal services) implies similar scope for gains in Australia, albeit there is variation in the stringency of restrictions across states. Applying this same productivity improvement to the roughly 15 per cent of Australia's economy subject to occupational licensing, the nation could gain up to \$5 billion each year from reform to match best-performing countries. Unlocking the full scale of benefits would involve removing mobility restrictions across all occupations and matching Sweden by removing licensing of taxi drivers, driving instructors and building trades (electricians, plumbers and painters). More modest reform could still yield billions of dollars in productivity benefits.

Licensing also has important distributional consequences: a large population of workers has fewer labour market opportunities, while a concentrated minority has an incentive to oppose reform to reduce licensing. Wages have been found to be as much as 10-15 per cent higher for those in licensed professions, after controlling for the characteristics of people who are licensed and unlicensed.²²

Constraints on movement into regulated occupations mean that higher wages in these occupations come at the cost of lower wages in unlicensed professions. Licensing presents a particular barrier to suitable employment for migrants whose skills have been built internationally. This problem is exacerbated in occupations such as nurses and electricians, where migrants can satisfy skills assessment for Australia's migration program but still fail to meet licensing requirements.²³ Further, by relying primarily on historical pathways to build skills, notably apprenticeships designed around the needs of young male school leavers, licensing can also create barriers to new modes of learning that could build skills among other cohorts, such as older workers and women.²⁴

There are better ways to protect consumers

Alternative approaches that do not involve the same occupational barriers to entry include shifting the focus of regulation from inputs to outputs, by setting quality standards for the goods and services provided, rather than setting standards for the professionals providing them. For

example, under the Australian Consumer Law, a supplier must provide services with due care and skill, which are fit for purpose, within a reasonable time. And while hairdressers are subject to occupational licensing in New South Wales, elsewhere in Australia they do not need specific credentials but must comply with infection prevention and control requirements.

More effective regulation of building construction requires closer regulatory oversight, including on-site inspections of building works.²⁵ Professional indemnity insurance is also important to support accountability for building work. Registration may continue to play a role, but should be done in a nationally consistent way that removes licensing of low-risk trades such as painting and decorating.

In the absence of occupational licensing, service providers can still signal the quality of their products through alternatives including warranties or guarantees, independent certification, development of a good reputation or membership of a professional organisation. New business models based on digital platforms that reduce transaction costs and information asymmetries have spread rapidly in recent years, making information about the quality of services more easily accessible, potentially reducing the need for regulating service provision.²⁶

Recent changes do not fix the problem

The Automatic Mutual Recognition of Occupational Registrations scheme, which came into effect on 1 July 2021, has improved the recognition of occupational licensing across Australian states. The scheme removes the need for people to apply and pay for an additional registration or licence when working in another state or territory. Not all occupations are covered, however, and Queensland does not yet participate, which is of particular concern given the extent of licensing restrictions in that state and its role as the biggest net recipient of interstate migrants.

A further limitation of mutual recognition is that workers must still be licensed in one jurisdiction. It may even act as a barrier to more substantive licensing reform if that means workers from the reforming state can no longer work in other states.

Australia could enjoy greater long-term benefits from Automatic Mutual Recognition by assessing whether licensing is still required in occupations not subject to licensing in one or more jurisdictions.

RECOMMENDATION



STANDARDISE LICENSING REQUIREMENTS NATIONALLY

Extend Automatic Mutual Recognition of Occupational Registration to all states. Reduce exclusions and develop a process to remove licensing requirements in occupations not subject to restrictions in other states.

RECOMMENDATION



REVIEW LICENSING REGULATIONS

Review licensing regulations, considering whether they meet stated objectives, international experience and recent technological developments such as online reviews that allow consumers to assess quality more easily.

RECOMMENDATION



QUALITY STANDARDS

Reduce occupational licensing and shift regulation where necessary towards quality standards for goods and services within consumer law.

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