



Overcoming Australia's labour shortage

Thoughts in advance of the Australian Government Jobs and Skills Summit

August 2022



Committee for Sydney

Introduction

Over the long term, higher standards of living come from productivity gains in the economy.

Increasing productivity enables higher wages, lower prices, higher profits and strong economic growth.

Australia, like many countries, has experienced stagnating productivity. Figuring out how to change that trend is essential if we want to get back to rising wages, and all the other benefits.

Australia's productivity has been stagnating

Market sector, productivity growth* – hours worked basis



Productivity refers to how much output is produced by a set of inputs. If output goes up while input stays the same or decreases, there is a productivity gain. We can increase productivity a number of ways, such as:

- Upskilling the workforce
- Developing and using new technologies
- Improving systems and processes.

This statement is focused on the first pathway, increasing the skills of the workforce in Australia.

We see the Jobs and Skills Summit as a key opportunity to help with Australia's short-term labour shortage, while also unlocking long-term growth.

Right now, Australia is essentially at full employment, which means economic growth is limited by labour shortages. It may feel anachronistic in the current moment to talk about 'creating jobs' when everyone can see that the problem is filling the job openings.

In the long run, there will be times in the future when unemployment increases, so it makes sense to keep a focus on keeping unemployment low. And at the same time, we should be looking to increase the productivity of the jobs that exist.

Recommendations

I. Build the skills of Australian workers

Universities

1. Increase the number of Commonwealth supported places
2. Restore funding (per Commonwealth supported student)
3. Repeal 'low completion rate' penalties
4. Increase funding for research.

TAFE

5. Make VET Student Loans easier to access
6. Experiment with micro-credentials
7. Experiment with hybrid models that combine university education and vocational education training.

Governance

8. Create a vision and strategy for Australia's higher education future
9. Investigate the possibility of reforming and simplifying higher education regulation and funding
10. Make all personal education expenses tax deductible.

Research and development

11. Set a target to increase R&D intensity to match the OECD average by 2030
12. Increase investment in basic research.

II. Reform skilled migration

13. Abolish skills shortage occupation lists and replace them with a salary threshold
14. Give every international student who completes a bachelor degree or above in Australia access to a four-year post-study visa
15. Allow international students working in their area of study to work more than 20 hours per week
16. Create a pathway for skilled researchers to immigrate to Australia.

III. Enable greater workforce participation for women

17. Fund universal childcare
18. Increase supply of childcare centres
19. Reform paid parental leave so all Australian parents can have up to 20 weeks leave if they share the time off evenly between each other.

I. Build the skills of Australian workers

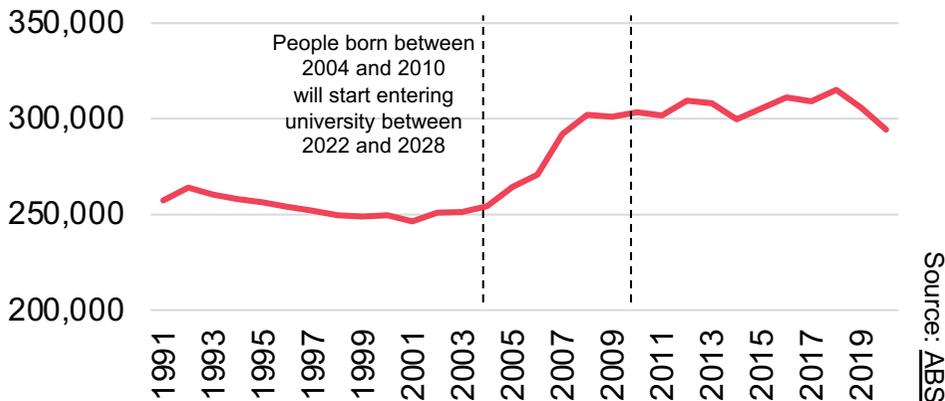
Australia needs more skilled workers, and the most direct way to get them is to educate and train people. We need to ramp up the size and scope of TAFE and the universities, to enable more people to access tertiary education.

In 2020, the then Australian Government introduced the Job-Ready Graduates Package, which aimed to increase the number of Commonwealth supported student places while not increasing the cost to taxpayers of supporting Australians to access higher education.

But those reforms made higher education more expensive for some students to access, cut the real value of funding that higher education providers receive for each Commonwealth-supported student, and entrenched financial disincentives for them to enroll students in fields like engineering, teaching, nursing and other health professions where we face severe skills shortages.

Demand for university places will increase due to a baby boom

Total persons born per year – Australia



The Australian Government needs a major review and reform of the way it supports universities. But giving attention, and increased funding, to the vocational education and training sector is just as important.

Recommendations:

Universities

1. Increase the number of Commonwealth-supported places

To begin with, this can be in priority areas or for priority populations. But the ultimate goal, articulated in the Bradley Review among other places, is to uncap the number of Commonwealth-supported places so that everyone in Australia who has the ability and desire to attend university is able to do so.

2. Restore funding (per Commonwealth-supported student)

In 2020, as part of the Job Ready Graduates Package, the rate of funding per Commonwealth-supported student changed for each subject area. Funding increased for subjects like agriculture and medicine, and decreased significantly for subjects like communications, and society and culture. These changes need to be reviewed urgently to ensure higher education funding increases, rather than inhibits, access to higher-level qualifications in each subject area. As part of the Job Ready Graduates Review, government determine the real cost of teaching (including capital and operational costs) so adequate per student funding can be set for all higher education providers.

Universities (cont.)

3. Repeal 'low completion rate' penalties

In January 2022, the then Australian Government introduced a 'Low Completion Rate' measure, which means students will lose their Commonwealth-supported place if they fail more than half their units. This measure should be repealed because of the risk it poses to student mental wellbeing and the disproportionate impact the measure is likely to have on students from disadvantaged backgrounds, who are more likely to fail due to circumstances often outside of their control, such as having to care for family members.

4. Increase funding for research

For years, the Australian Government has not fully funded teaching or research, leaving universities to depend on other revenue streams – notably international students. Funding for research has not kept pace with the indirect costs associated with research – for example, to cover the full costs of its research, the University of Sydney spends an estimated \$750 million each year, or \$1.50 for every \$1 of research income it earns from governments, industry or philanthropy to deliver research projects. To increase the capacity of the sector, government should boost funding for research – a critical enabler of the development of new ideas and new industries.



TAFE

5. Make VET Student Loans easier to access

Our goal should be to remove barriers to Australians upskilling themselves. VET Student Loans should be as easy to access as HELP loans, and students shouldn't have to pay a gap.

6. Experiment with micro-credentials

TAFE should offer some shorter courses for people looking to rapidly retrain and return to the workforce. This could be done through a 'micro-credentials' model like at the Institute of Applied Technology Digital, and the upcoming IAT Construction. There is still a need for longer-term, in-depth courses of study, but shorter courses can offer an important supplement for continual learning and upskilling.

7. Experiment with hybrid models that combine university education and vocational education training

Previous attempts to combine tertiary education and vocational education and training have had mixed success. Different funding and regulatory models, as well as differences in assessment and curriculum have made it hard to combine the two. Despite complexities, hybrid models should be pursued to establish greater educational opportunities. Distinctions between VET and university education have become less clear in certain subjects, as the VET sector responds to the market, producing more highly skilled workers. As the quality and brand perception of TAFE offerings improves, hybrid models should work even better.



Governance

8. Create a vision and strategy for Australia's higher education future

Revisit the Bradley Review and develop a new strategy for higher education. Jobs and Skills Australia (a soon to be legislated statutory body) and Labor's promised 'university accord' should make recommendations to the Minister about short and long-term reforms that will be needed.

9. Investigate the possibility of reforming and simplifying higher education regulation and funding

Universities are currently regulated and funded by federal government, whereas TAFE is predominantly regulated and funded by state governments. This causes inconsistencies and division across the tertiary education sector. To create an integrated, consistent tertiary education sector, both universities and TAFE should have a more similar model of funding and regulation.

10. Make all personal education expenses tax deductible

Currently, you can only claim tax deductions on personal education expenses if the subject area relates to your current work. This makes it hard for people to make a career change or a lateral career move. In 2020, the federal Treasury put forward a proposal to make any personal education expenses tax deductible as part of their [Education and training expense deductions for individuals](#) discussion paper. We suggest this is adopted to encourage and enable life-long education.

Research and development

11. Set a target to increase R&D intensity to match the OECD average by 2030

R&D intensity refers to the gross domestic expenditure on R&D as a percentage of GDP. In 2019, Australia's R&D intensity was 1.8%, while the OECD average sat at 2.5%. Gross domestic expenditure on R&D comes from three sectors: government, higher education (which also includes Commonwealth funding), and business. Setting a target to increase R&D intensity should focus strategies to increase funding from these sectors.

12. Increase investment in basic research

Basic research refers to research that attempts to expand knowledge in a field of study, and applied research refers to research that creates practical solutions for certain problems. Currently, Australia invests more in applied research than basic research, which limits our innovative capabilities. More investment in basic research will help to deliver new ideas, technologies, and processes that could be commercialised – helping to grow productivity.

For further reading see:

- [Unleashing Sydney's Innovation Economy](#)
- [Aspirations for 2022](#)
- [Priorities for the next Australian Government](#).

II. Reform skilled migration and immigration

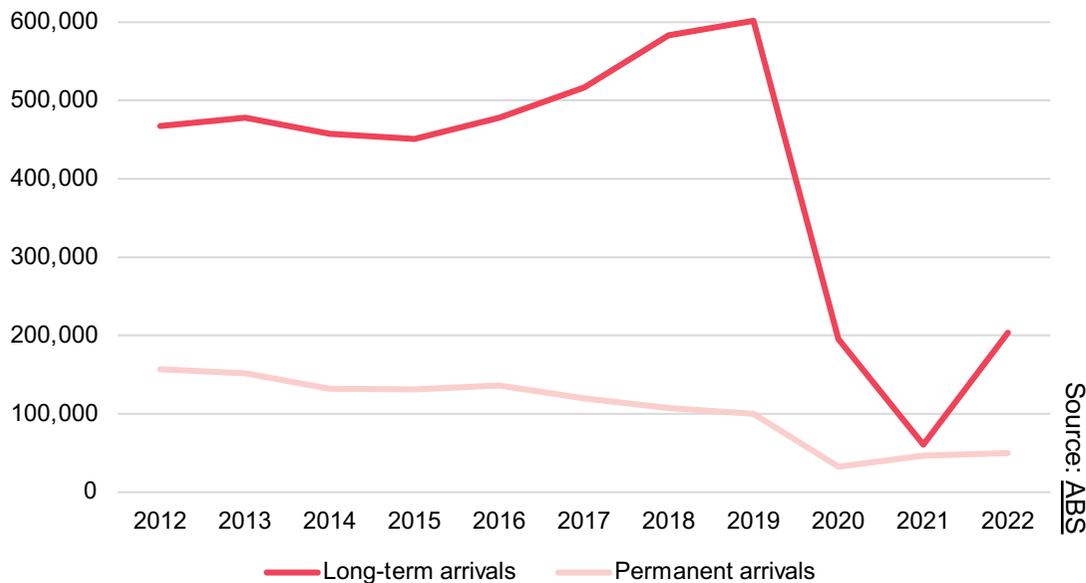
Australia benefits enormously from being a destination for immigration, welcoming ambitious and talented people from all over the world.

During Covid-19, immigration collapsed and the country experienced negative net migration for the first time. But in the long-term, we believe Australia remains a highly attractive destination.

The real policy question is who to let in and how to make it easy for them to come here.

Arrivals to Australia dropped almost to zero during Covid-19

Overseas arrivals Australia by category of movement



It's time for Australia to move past the debate about whether migrants and immigrants take jobs from people already here. We know migrants and immigrants create jobs and pay taxes – benefitting everyone in Australia.

Skilled workers, whether born here or overseas, will typically move into growing sectors of the economy where there are labour shortages. The NSW Treasury predicts a shortfall of more than 300,000 workers in NSW over 2025-26, in part due to low migration.

Migrants and immigrants therefore contribute enormously to our economic productivity, which is good for everyone. They bring not only economic richness, but also cultural richness that serves as the foundation of Australian society.

We cannot uncap migration and immigration because we can't expand our cities infinitely. But through good planning and forward-looking investments in infrastructure, we can significantly raise the cap to accept a larger number of people.

But Australia's visa, migration and immigration system needs some serious re-tooling. It is cumbersome, takes too long, and is not easily accessible to potential migrants and immigrants. It also does not always work as intended – providing openings to the highest skilled migrants.

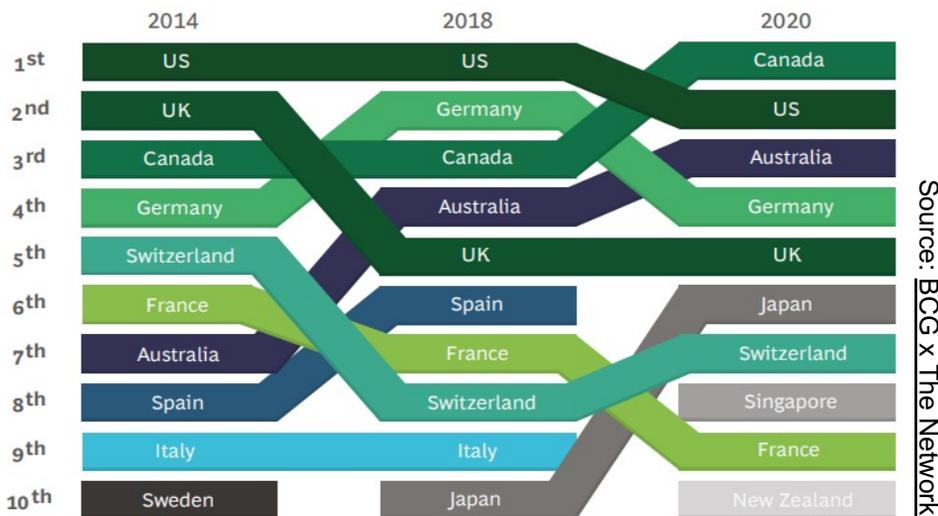
In addition, international competition for skilled migration and immigration is getting stronger.

Australia can learn from Canada’s positioning as the premier destination for skilled migrants and immigrants. Canada’s Global Skills Strategy, established in 2017, allows firms to have a position preapproved and issues visas for preapproved employees and their families within two weeks.

Sydney is Australia’s leading destination for immigrants, and one of the most globally connected cities in the world. We are proud of this fact, and we are ready to do what it takes to have a planning system that can accommodate people who want to come here.

Australia is in third place behind Canada and the US as the top destination for skilled migration

Ranked percentage of people who would move to each country for work



Recommendations:

13. Abolish skills shortage occupation lists and replace with a salary threshold

Occupation lists unintentionally limit the diversity of skills migrants bring to Australia. These lists get out of date quickly, needing constant updating. While certain skills are chronically in short supply, many of the jobs in advanced innovative sectors are too new and changing too rapidly to ever make it onto a government list. We recommend implementing a wage-threshold instead.

14. Give every international student who completes a bachelor degree or above in Australia access to a four-year post-study visa

A four-year post-study visa would attract more students to study here and stay a while, contributing to our workforce. Students who maintain work over this period should have a clear pathway to permanent residency.

15. Allow international students working in their area of study to work more than 20 hours per week

If an engineering student can get a job working in engineering, we should encourage that and recognise that it is quite different from work in restaurants or bars. Making this distinction will go some way to protect students from exploitation and increase the diversity of students studying in Australia. This will help fill the labour shortage while ensuring students are serious about their education, and not just in Australia to work.

16. Create a pathway for skilled researchers to immigrate to Australia

When Australian universities try to hire a professor after a global recruitment, the current system makes them spend additional time on 'labour market testing' in Australia and other bureaucratic hurdles. Australia should create a streamlined pathway for immigration for skilled researchers, including a pathway to permanent residency.

For further reading see:

- [Unleashing Sydney's Innovation Economy](#)
- [Surviving lockdown, getting everyone vaccinated, reopening and powering Sydney's economy back](#)
- [Aspirations for 2022](#)
- [Priorities for the next Australian Government.](#)



III. Enable greater workforce participation for women

Increasing women's participation in the workforce presents a significant opportunity to boost Australia's economic productivity and prosperity.

At the same time, it will increase women's financial independence and improve their prospects of career progression – particularly for those who have children.

Women typically have lower rates of employment and higher rates of underemployment than men.

Choosing to have and raise children has a disproportionate impact on the workforce participation of women compared to men.

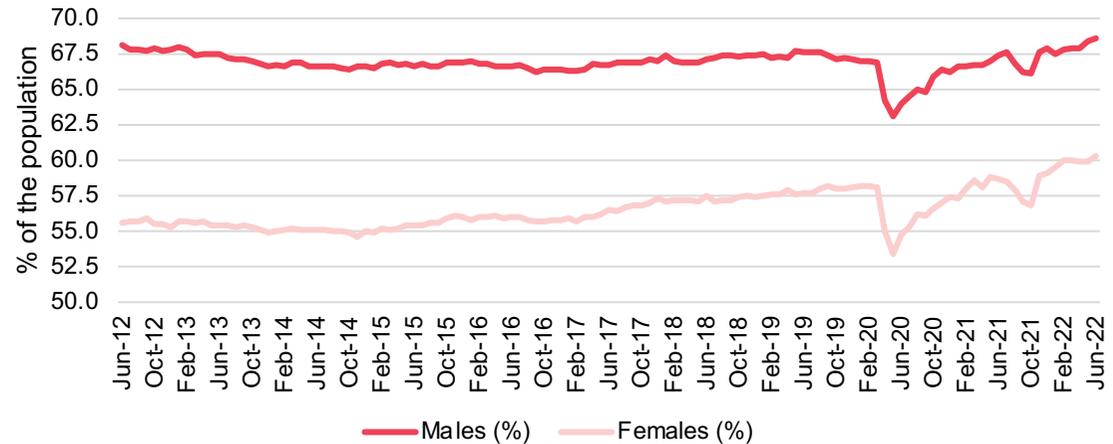
Ingrained and systematic gender inequalities mean women take more time off work after having a child and do more unpaid domestic labour than men.

To help shift these inequalities, policy needs to encourage and enable shared responsibility in parenthood and create equal opportunity for parents to return to work.

Providing universal childcare and shared parental leave will enable more women to re-enter the workforce or increase their hours of work.

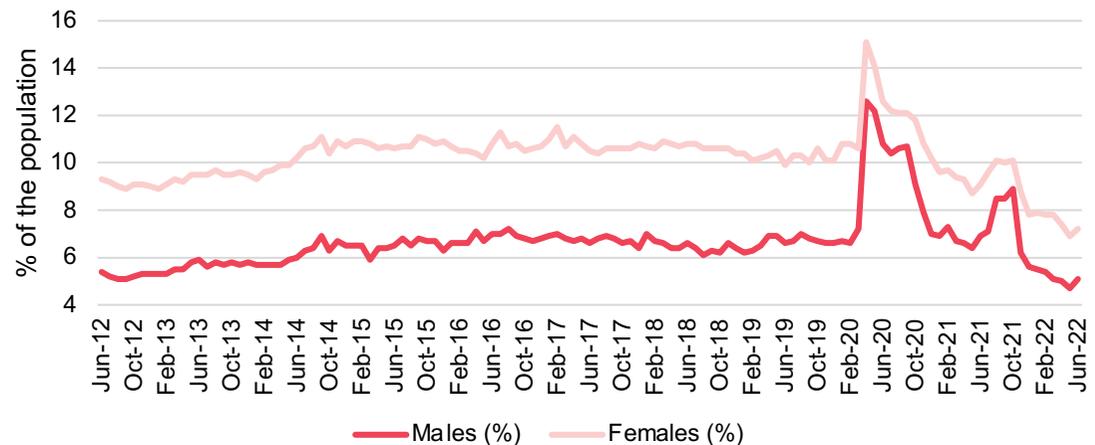
These measures will help solve Australia's labour shortage, boost economic productivity, and address gendered inequality.

Australia has fewer women than men in the workforce
Proportion of employed males and females in Australia



Source: ABS

Australian women are more likely to be underemployed than men
Proportion of underemployed males and females in Australia



Source: ABS

Recommendations:

17. Fund universal childcare

If everyone has access to free or cheap childcare, both parents will have equal opportunity to return to work after having a child. This will help boost economic productivity and reduce labour shortages. Prime Minister Albanese has already announced higher childcare subsidies that will:

- Lift the maximum childcare subsidy rate to 90 per cent for families for the first child in care
- Increase childcare subsidy rates for every family with one child in care earning less than \$530,000 in household income
- Keep higher childcare subsidy rates for the second and additional children in care
- Extend the increased subsidy to outside school hours care.

These are promising first steps to providing universal childcare. We recommend government sets out a strategy and plan to work towards this.

While universal childcare requires significant investment, it will generate much greater economic productivity. A \$5 billion annual investment to lift the maximum childcare subsidy rate to 95% of families is expected to deliver an \$11 billion annual boost to GDP.



18. Increase supply of childcare centres

Universal childcare will increase demand for childcare, making it essential to increase supply. Already, there is a shortfall of 6,500 early childhood educators and a lack of childcare centres. The Australian Government should lift the wage of early childhood educators and fund states to build more childcare centres to meet an increase in demand. The NSW Government has already committed to building more childcare centres, these efforts should be supported by federal government.

19. Reform paid parental leave so all Australian parents can have up to 20 weeks leave if they share the time off evenly between each other

The NSW Government recently announced it would offer two weeks extra paid parental leave for NSW Government employees who more equally share parental leave. The Australian Government should follow this lead and offer the same benefit to all Australians.

We have called for these reforms over the last few years in our papers:

- [Bridging the gap in women's participation in Sydney](#)
- [Priorities for the next Australian Government](#)
- [Grattan Institute: Cheaper Childcare.](#)





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