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Submission on the Employment White Paper

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We welcome the opportunity to make a submission on the Employment White Paper. Our submission summarises Grattan Institute's previous analysis and recommendations in areas of policy relevant to the White Paper including: maintaining full employment and reforming macroeconomic policy, increasing female and older-age workforce participation, reforming skilled migration, increasing the JobSeeker payment, and managing Australia's transition to net zero.

Maintaining full employment and reforming macroeconomic policy

Grattan Institute's 2022 report, *No one left behind: why Australia should lock in full employment*, showed that all workers suffer when unemployment is high, but the most vulnerable workers suffer the most. And the costs of failing to reach full employment – where all Australians who want a job can find a job – increase over time.

Australians who lose their job suffer large falls in their income that persist well after they find another job. Workers who otherwise have good work histories will still have an 11 per cent lower labour income five years after a three-month spell of unemployment. The cumulative effect over five years is equivalent to nearly a year of lost pay. Unemployment also causes worse mental health and is associated with higher rates of suicide.

Low-wealth and low-wage workers are more than twice as likely to lose their jobs when unemployment rises. Younger, less-educated workers and those in routine manual jobs are also hit harder. Sustained low unemployment and low under-employment are among the best ways to improve the lives of the most vulnerable workers.

High unemployment also hurts those who keep their jobs. A larger pool of unemployed workers reduces the bargaining power of all workers. Weak labour markets also cast long shadows. Even temporary bouts of unemployment can cause permanent damage if workers' skills erode. Spells of long-term unemployment can cause workers to give up and walk away from the job market. And weak demand for labour weighs on economic growth because firms have little incentive to expand and make new investments.

The pandemic has reinforced the need for effective macroeconomic stabilisation policies. Australia's economy was sluggish in the years immediately before the COVID recession: inflation had been below-target for more than half a decade, unemployment and under-employment were persistently higher than they could have been, and many Australians hadn't had a pay rise in years.

But Australia has recovered much faster than after previous recessions. The unemployment rate is now at a 50-year low, and the labour market is the strongest it has been for decades. This will benefit Australia's most vulnerable workers the most. We should learn the policy lessons.

Australia's rapid economic recovery from the COVID recession did not occur by accident. It is a macroeconomic success story, the result of unprecedented support from coordinated monetary and fiscal policies to keep households and businesses afloat and stimulate economic activity.

While the short-term priority must be to tackle high and rising inflation – the Reserve Bank of Australia and federal government should work in tandem to address strong demand and do what is possible to boost supply across the economy – Australia should not lose sight of the prize of full employment in the long-term.

The conduct of monetary policy – including the mandate, policy tools, and governance structure – is being assessed by the current independent review of the Reserve Bank of Australia. The federal government should also assess what role fiscal policy should play in macroeconomic management, especially if conventional monetary policy is again constrained by low interest rates in future.

Boosting women's workforce participation

Australia has higher rates of female workforce participation than many OECD countries. But we also have much higher rates of part-time work, with motherhood having a large impact on participation. A typical Australian woman with young children is employed 2-to-3 days a week – much less than women in many other countries.

Removing barriers to women's workforce participation is one of the biggest economic opportunities for the federal government. Australia has a large group of workers who are trained, ready, and eager to work but are sidelined by the prohibitively high cost of childcare, gender-based parental leave, and tax/welfare incentives. It is particularly punishing for the primary carer to work beyond three days in a week.

Making childcare cheaper is the biggest policy lever available to reduce these barriers and support women's long-term economic security. We commend the passage of the Government's Cheaper Child Care Bill, which raises the Child Care Subsidy and enables second-earners to take home more pay from additional hours of work. Treasury estimates that these measures will increase hours worked by women with young children by up to 1.4 million hours per week, equivalent to an extra 37,000 full-time workers in 2023/24. The Government has also committed to a gradual transition to universal low-cost care, which would provide a significant boost to participation. This would be a major transition for the sector and would require progress on issues such as workforce attraction and retention.

A more gender-equal parental leave scheme would also support women's workforce participation by creating more equal sharing of unpaid care. And it would bring significant benefits for fathers and children. We commend the Government's plan to expand paid parental leave to 26 weeks by 2026. It is important that the increased allocation include a substantial boost in the use-it-or-lose-it component for each parent (e.g. six weeks each), with the remaining weeks to be shared between them as they choose.

Further detail on the need for and nature of these reforms is provided in the Grattan Institute reports, *Cheaper Childcare* (2020) and *Dad Days* (2021).

Increasing older-age workforce participation

Workforce participation among older Australians has risen sharply in recent years. About one in eight Australians aged 65 or older are in the labour force – double the share in 2000. Participation rates for older people are now around the OECD average.

Increasing the superannuation preservation age from 60 to at least 65 would make a big difference to economic growth and budget balances. A preservation age of 60 is hard to justify given the age for eligibility for the Age Pension is rising to 67. Despite recent gains, older Australians are less likely to work than older people in many comparable economies. The age at which people can get superannuation or the Age Pension affects retirement decisions of at least some workers. A gradual phase-in could help people transition their retirement plans to a higher preservation age.

Raising the superannuation preservation age was covered in Grattan Institute's *Game-changers: economic reform priorities for Australia* (2012).

Rethinking skilled migration

A better skilled migration program can help address many of the challenges Australia faces. Skilled migration can spur innovation and lift Australia's productivity. And skilled migrants generate a fiscal dividend because they pay more in taxes than they cost in public services, transfers, and infrastructure investments.

But Australia's migration program is not working as it should. Employer sponsorship is now both more costly and less certain, and firms can sponsor fewer high-wage migrants than in the past. Complex and cumbersome visa rules lead to long delays. Yet exploitation of low-paid temporary migrants abounds. Fewer temporary skilled migrants and students transition to permanent visas, and many that do spend years jumping across visas, all while their skills degrade. We risk squandering many of the benefits skilled migration offers.

To get a better deal, we must rethink the objectives of skilled migration, as argued in our 2021 report, *Rethinking permanent skilled migration after the pandemic*. Permanent skilled migration should not seek to address skills shortages, or be limited solely to particular occupations. Instead, permanent visas should target younger, higher-skilled migrants who will most benefit Australia in the long term. A less prescriptive and more flexible system that attracts the world's best and brightest is the best way to bolster Australia's capabilities.

Permanent employer sponsorship should be available for workers in any occupation who earn more than $85,000 a year. This would better target migrants with valuable skills, simplify the sponsorship process, and offer clear pathways to permanent residency for temporary sponsored workers and recent graduates, while boosting the fiscal dividend from migration.

The composition of Australia’s permanent skilled intake must also change. The Business Investment and Innovation Program (BIIP) should be abolished and the Global Talent program scaled back and evaluated. BIIP visa-holders are older and less-skilled than other skilled migrants, and add little to our capital stock. Abolishing the BIIP and replacing it with more skilled-worker visas could save Australian governments billions in the decades ahead.

Our 2022 report, *Fixing temporary skilled migration: a better deal for Australia*, showed that temporary sponsorship should be available for migrants in any occupation that earn more than $70,000 a year. Targeting higher-wage migrants would fill most genuine skills shortages, limit exploitation, simplify sponsorship for employers, and increase the pool of high-quality applicants for permanent visas. Labour market testing should be abolished, and sponsorship made portable across employers.

Concern that a higher wage threshold for temporary sponsorship will impede Australia’s ability to fill worker needs in low-wage, care-economy jobs is overblown. As our 2022 guidebook, *Migrants in the Australian workforce,* shows, most migrants working in lower-wage jobs in aged care and childcare are not temporary sponsored migrants, but rather permanent migrants, students, or New Zealanders.

Grattan Institute’s submission to the government’s review of Australia’s migration system, to be published in the coming weeks, will examine in more detail the role of less-skilled economic migration in meeting Australia’s workforce needs.

Increasing JobSeeker

Australia's unemployment benefit, the JobSeeker payment, was inadequate before the COVID crisis; the crisis highlighted its inadequacy.

Unlike wages and pensions, unemployment benefits have barely increased in real terms in more than 20 years. Unemployment benefits have fallen dramatically below the poverty line, and the $50 per fortnight increase in April 2021 did little to bridge the gap. The increase takes Australia's rate of unemployment benefit from the worst to the second-worst in the OECD.

While the Age Pension is indexed to wages, JobSeeker only increases with inflation. This has 'squeezed' the living standards of people living on unemployment benefits relative to the rest of the population. A typical single person on JobSeeker receives just $45 a day, about 20 per cent of average (male) earnings. Working-age households receiving welfare payments – primarily JobSeeker – are under much more financial stress than those receiving other welfare payments.

Increasing incomes at the very bottom of the distribution would probably improve economic outcomes by helping recipients to look for a job. Even with a $75 increase, JobSeeker would still be only about half (51.4 per cent) of the full-time minimum wage, meaning that an unemployed person would still have a substantial financial incentive to move into full-time work. Increasing JobSeeker would also reduce inequality.

An increase to JobSeeker of $75 a week would have a material impact on the incomes of low-income households, and would bring payments closer to community living standards. At an absolute minimum, JobSeeker should be bench-marked to growth in wages, rather than inflation, to stem the ongoing erosion of living standards for the unemployed.

Regional employment and the energy transition

Global and domestic transitions away from using fossil fuels will have positive and negative impacts on regional employment. There are three challenges for government: managing a construction supercycle, managing the decline of coal and gas, and capitalising on emerging opportunities from a new mining boom.

Building renewable generation and associated transmission to replace retiring coal plants will compete with other construction projects for workers. If poorly managed, this will drive up the costs of all construction and/or push out completion dates. Infrastructure Australia identified this as a risk in 2021, and the risk has now been exacerbated by the Government's commitment to accelerate transmission build through the *Rewiring the Nation* fund.

There are also negative knock-on effects from uncoordinated regional construction booms. Competition for labour drives up wages, which in turn drives up rents and property values, pricing locals out of the housing market.

The other side of the energy transition is the decline of employment in coal mining and, in the longer term, LNG. Under current global policies (which still fall far short of what is needed for net zero), global coal consumption will peak in the next few years, and global gas consumption by the end of the decade.

One upside of the global energy transition is the increased demand for minerals and metals. From steel to lithium, aluminium to copper, Australia is well-placed to benefit from this boom because we have large shares of known global resources, and a well-established mining industry. If Australia maintains a constant global share of critical mineral markets, exports of these could be worth double to the economy in 2050 what coal is now.

However, it is a toss-up whether this next mining boom will equate to increased regional employment. Mining is increasingly mechanised and automated, and workers are increasingly fly-in-fly-out, especially in the remote areas where many of these deposits are found.

There may be greater opportunities for associated employment by moving up the value chain from mining to minerals processing, but the economic fundamentals of each supply chain must be understood before governments start subsidising new industries. We showed in our 2020 report *Start with steel* that labour costs are just as important to these economics as resource access, and it does not always make sense for Australia to attempt to on-shore the whole supply chain. Just because Australia has large lithium reserves does not mean it should be a mass-market battery manufacturer, or build electric cars.

The federal government should do three things to manage the employment risks of the energy transition:

- Use Infrastructure Australia and the Rewiring the Nation fund to force better co-ordination and sequencing of construction.
- Work with state and local governments and affected regions to facilitate community-led economic diversification in coal regions.
- Get a better handle on the economics of mineral supply chains, and identify where Australia's competitive advantage lies.

Further Grattan work

Grattan Institute has produced a number of reports relevant to this White Paper:

- Our 2022 report *No one left behind: Why Australia should lock in full employment*
- Our 2020 report *Cheaper childcare: A practical plan to boost female workforce participation*
- Our 2021 report *Dad days: how more gender-equal parental leave would improve the lives of Australian families*
- Our 2012 report, *Game-changers: economic reform priorities for Australia*
- Our 2021 report *Rethinking permanent skilled migration after the pandemic*
- Our 2022 report *Fixing temporary skilled migration: a better deal for Australia*
- Our 2022 guidebook *Migrants in the Australian workforce: A guidebook for policymakers*
- Our 2021 submission *The JobSeeker rise isn't enough*
- Our 2020 report *Start with steel: a practical plan to support carbon workers and cut emissions*
- Our 2022 report *The next* industrial *revolution: transforming Australia to flourish in a net-zero world*