

From the desk of Saxon Davidson, Research Fellow

3 July 2023

Committee Secretary
Senate Standing Committees on Community Affairs
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary,

Institute of Public Affairs submission to the Inquiry into Social Services and Other Legislation Amendment (Strengthening the Safety Net) Bill 2023

The purpose of this letter is to share research and analysis conducted by the Institute of Public Affairs (“the IPA”) with the Community Affairs Legislation Committee (“the committee”) as it conducts its inquiry into the Social Services and Other Legislation Amendment (Strengthening the Safety Net) Bill 2023 (“the bill”).

The bill aims to make minor amendments to the *Social Security Act 1991* to help ease cost-of-living pressures for Australians. The bill is unlikely to succeed because it will disincentivise social security recipients from seeking the best form of welfare – a job – while compounding the inflation-inducing economy-wide worker shortage challenge.

The findings contained in this submission are based on wide-ranging analysis published by the IPA regarding issues that are relevant to the bill, including the cost-of-living and Australia’s worker shortage challenges. The relevant research is enclosed with this submission.

Rather than simply tinkering with the edges of social service programs, IPA research reinforces the need to enact wholesale reform of the social security system at large, with a particular focus on the ‘work bonus’. If the federal government allowed students on the youth allowance, age pensioners, and veterans to work without their benefits being reduced, vulnerable Australians would be able to work more without being penalised, while addressing unprecedented worker shortages.

All red tape and tax disincentives on students, pensioners, and veterans from working should be removed

Australia is currently experiencing a worker shortage crisis. According to the most recent data available, there are more than 431,000 job vacancies, and almost one in four businesses are experiencing labour shortages.

Previous IPA analysis has found that recent job vacancy levels are costing Australians \$32 billion in foregone wages, and the federal government \$7 billion in foregone income tax revenue.

IPA research has established that reforming the work bonus system, specifically for Australian pensioners and students on the youth allowance would help reduce the number of job vacancies in Australia.

Currently, a student on the youth allowance can only earn \$240 per week before their benefits start to be reduced by 50 cents on the dollar. This, combined with income tax, means an Australian student potentially faces an effective marginal tax rate of 69 per cent. If the student chooses to work even more and they earn more than \$288 a week, then they face losing 60 cents on the dollar in their benefits, an effective marginal tax rate of 79 per cent. This is why less than half of this cohort work.

Similarly, Australian pensioners and veterans can only earn \$226 per week before they lose 50 cents on the dollar in pension payments, an effective marginal tax rate of 69 per cent. This is why only three per cent of Australian pensioners work.

If these unfair tax and red tape barriers were to be removed, Australia's job vacancy rate would be significantly reduced. Leading surveys have found that 20 per cent of Australian pensioners would rejoin the workforce if the taxation penalties were reduced.

The government must facilitate and incentivise work

The federal government attempted to address worker shortages by passing in November 2022 the *Social Services and Other Legislation Amendment (Workforce incentive) Act 2022*. This law meant pensioners could earn \$226 per week instead of \$150 before losing 50 cents on the dollar. This is equivalent to allowing pensioners and veterans to work only an extra half day a week.

The policy does not go far enough. In the two quarters since the Act came into force, job vacancies have decreased by only three per cent, and the proportion of age pensioners in the workforce has stagnated at three per cent. This further reinforces the urgent need for more serious reform regarding the work bonus.

In these uncertain economic times, it is critical for the federal government to create an environment where businesses can find the workers they need, and Australians can enter the labour market without being penalised by tax and red tape. It would allow more Australians to earn an income during a cost-of-living challenge, help stimulate the economy, and allow the government to earn more income tax which can be reinvested into the community.

I wish to thank the committee for the opportunity to provide this submission. Please do not hesitate to contact me at sdavidson@ipa.org.au for further consultation or discussion.

Kind regards,

Saxon Davidson
Research Fellow

Enclosed:

Australia's Unprecedented Worker Shortage: Causes and Solutions (August 2022).

Worker Shortage and Immigration Poll (April 2023).

Western Australia is Worst Affected by Crippling Worker Shortage (June 2023)

AUSTRALIA'S UNPRECEDENTED WORKER SHORTAGE: CAUSES AND SOLUTIONS



**Staff
Wanted**

Contents

Executive Summary	2
Introduction	3
The Pension System	6
Financing The Work Bonus Plan	7
Further Reform Opportunities	8

Executive Summary

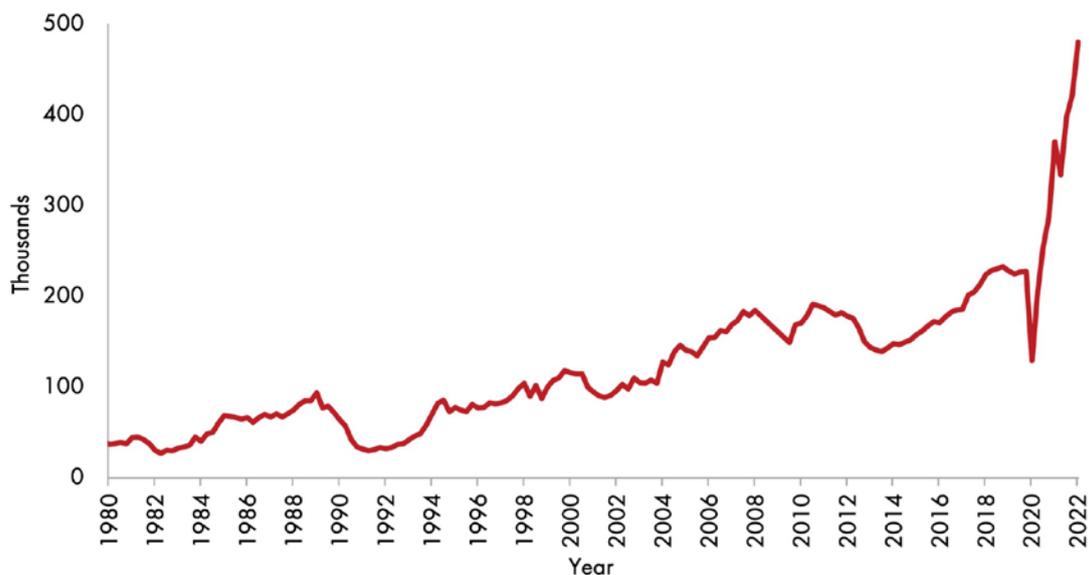
- Australia is currently facing an unprecedented, country-wide shortage of workers, with advertised job vacancies having increased by 270 per cent over the two years from May 2020 to May 2022 (most recently available data). Urgent government action is needed to resolve this shortage.
- More than one quarter of businesses across Australia have reported experiencing labour shortages.
- There are a range of costs associated with labour shortages, including forgone investment, output, and economic growth.
- One cost which has been overlooked is the forgone direct income tax revenue associated with labour shortages.
- Preliminary research by the Institute of Public Affairs estimates that the current level of worker shortages has resulted in \$32.2 billion forgone worth of wages and is costing the federal government \$6.62 billion each year in forgone income tax revenue, which is the equivalent to approximately 3 per cent of personal income tax raised in 2021-22.
- There are a number of policies available to governments to address worker shortages, one of which is to reduce the financial disincentive facing Australian pensioners returning to work.
- On 4 August, Senator Dean Smith introduce a private members bill into the senate, *Social Services Legislation Amendment (Enhancing Pensioner and Veteran Workforce Participation) 2022* which proposes to double the Work Bonus available to age pensioners from \$300 to \$600 per fortnight
- The scheme was estimated to have a direct annual fiscal cost of approximately \$145 million. However, the scheme could pay for itself:
 - Currently only 3 per cent (75,000) of the 2.55 million Age Pension recipients are in paid work.
 - Only 3,713 out of the 1,701,256 Australians currently receiving the maximum age pension would need to enter the workforce on the average weekly salary for the policy to pay for itself in terms of the direct fiscal benefits. This equates to a 0.21% increase in workforce participation.

Introduction

Australia is currently facing an unprecedented, country-wide shortage of workers. This is undermining economic output and growth by limiting the ability of businesses to meet their production, and as a result there are flow-on effects on wages and government revenue.

Addressing this worker shortage should be a high priority for state and federal governments. Australia’s international borders have been re-opened since the beginning of 2022, yet worker shortages are still increasing, with the Australian Bureau of Statistics reporting 480,100 job vacancies in the May 2022 quarter. More than a quarter of businesses across the country report being affected by this issue.¹

Chart 1: Job vacancies across Australia



The three industries which are affected most by worker shortages are:

- Health Care and Social Assistance (69,000 worker shortage)²
- Accommodation and food services (52,000 worker shortage)³
- Professional, Scientific, and technical services (43,000 worker shortage)⁴

1 Australian Bureau of Statistics, “Job Vacancies, Australia, May 2022,” June 2022, <https://www.abs.gov.au/statistics/labour/jobs/job-vacancies-australia/may-2022>.

2 Australian Bureau of Statistics, “Job Vacancies, Australia, May 2022,” June 2022, <https://www.abs.gov.au/statistics/labour/jobs/job-vacancies-australia/may-2022>.

3 Ibid

4 Ibid

Table 1: Three Industries Most Affected By Worker Shortage

Industry	Job Vacancies: May 2020 (000's) ⁵	Job Vacancies: May 2022 (000's)	% Increase
Health Care and Social Assistance	19.7	68.9	250%
Accommodation and Food Services	5.0	51.9	938%
Professional, Scientific and Technical Services	13.1	42.9	227%

Further increasing migration is not an adequate solution. According to data reported in the *Australian Financial Review*, of the almost 60,000 permanent visa applications the government is fast-tracking to address the worker shortage, only 438 are health professionals, and just 32 are registered aged care nurses.⁶ At a time where an estimated one quarter of aged care shifts are going unfilled,⁷ there is a clear need for a more effective solution. Rather than taking the short-sighted option of simply further increasing migration, governments should immediately change policy settings to allow for greater workforce participation. One of the most obvious solutions lies in changing the current rules surrounding the ability of pensioners to work if they choose to. Currently, pensioners can earn only \$300 per fortnight before their pension payments are reduced. This is the equivalent to working only six hours a week on the current minimum wage. Senator Dean Smith recently introduced a plan to the senate to double the Work Bonus available to age pensioners to \$600 per fortnight.⁸

This is a step in the right direction, and the federal government should immediately adopt the expanded Work Bonus to allow pensioners to re-join the workforce or increase their hours of work if they so choose.

According to the most recent data available from the Department of Social Services, in March 2022, there were 75,706 Age Pension recipients who had earnings from employment. This is just 3% of the 2.55 million Age Pension recipients.⁹

In other words, 97% of Age Pension recipients in Australia do not work.

Australia's policy settings surrounding working pensioners provide significant disincentives for work. Once pensioners earn more than \$480 per fortnight, their pension is withdrawn at a rate of 50 cents in the dollar. This is an effective marginal tax rate (EMTR) of 50%, and increases rapidly as income tax thresholds kick in. Pensioners who want to work more face disincentives, and their EMTR can quickly move to 69% and above.

5 Ibid

6 David Marin-Guzman, "Of 60,000 visa applicants in the queue, 32 are aged care nurses," *Australian Financial Review*, 24 July 2022, <https://www.afr.com/work-and-careers/workplace/of-60-000-visa-applicants-in-the-queue-32-are-aged-care-nurses-20220724-p5b419>.

7 Sarah Martin, "Absolutely a crisis: almost a quarter of Australia's aged care shifts unfilled each week," *The Guardian*, 3 February 2022, <https://www.theguardian.com/australia-news/2022/feb/03/absolutely-a-crisis-almost-a-quarter-of-australias-aged-care-shifts-unfilled-each-week>; ACIL Allen, "Implications of Labour Shortages in the Aged Care Sector, Final Report," December 2021, https://acilallen.com.au/uploads/projects/445/ACILAllen_ImplicationsLabourShortagesWA_2022.pdf.

8 Social Services Legislation Amendment (Enhancing Pensioner and Veteran Workforce Participation) Bill 2022, August 2022 https://parlinfo.aph.gov.au/parlInfo/download/legislation/bills/s1347_first-senate/toc_pdf/22S0620.pdf;fileType=application%2Fpdf

9 Department of Social Services, "DSS Payment Demographic Data," March 2022, <https://data.gov.au/data/dataset/dss-payment-demographic-data>.

To provide international context, in New Zealand pensioners do not face high EMTRs if they choose to work. They simply pay income tax on those earnings. As a result, according to data from the OECD, the labour force participation rate in New Zealand is 24.8%. Similarly, the comparable participation rate is 35.3% in South Korea and 25.5% in Japan.¹⁰

The direct fiscal cost for FY22-23 of doubling the Work Bonus is estimated to be \$145 million.¹¹

However, this fiscal cost will be more than offset through higher tax revenues which result from having more Australians working and earning a wage.

Previous IPA research found that Australia's total worker shortage sees \$32 billion in forgone wages each year.¹²

The forgone wages are causing a reduction to direct income tax revenue to the federal government of \$127.2 million per week, or \$6.62 billion per year.

This estimate is based on the current level of worker shortages (proxied by advertised job vacancies), and the associated forgone wages and therefore forgone income tax revenue.

Specifically, the calculation is based on the following methodology, with all data obtained from the Australian Bureau of Statistics:

- The number of job vacancies per industry is multiplied by the average wage rate for that industry, to derive the total forgone wages from the job vacancies.
- The forgone wages by industry are then multiplied by the average personal income tax rate to estimate the total forgone income tax from the current level of worker shortages.
- Job vacancy data was taken from the ABS' *Job Vacancies, Australia* dataset.¹³ Average wages data were taken from the ABS' *Average Weekly Earnings, Australia* dataset.¹⁴ Foregone personal income tax revenue was calculated based on average per worker weekly earnings in each industry using the Australian Taxation Office's weekly tax table.¹⁵

In addition to the income tax revenue would be other revenue gains, for example through payroll tax, GST, and second-round effects associated with the higher consumer spending resulting from more people being employed.

10 OECD, "Labour force participation rate," OECD Data, <https://data.oecd.org/emp/labour-force-participation-rate.htm>.

11 Peter Dutton, "Older Australians Should Keep More of What They Earn," (2022) <https://www.peterdutton.com.au/older-australians/>

12 Daniel Wild, "Australia's Worker Shortage See's \$32 Billion In Wages Lost", Institute of Public Affairs, August 2022, <https://ipa.org.au/publications-ipa/media-releases/australias-worker-shortage-sees-32-billion-in-wages-lost>

13 Australian Bureau of Statistics, "Job Vacancies, Australia, May 2022," June 2022, <https://www.abs.gov.au/statistics/labour/jobs/job-vacancies-australia/may-2022>.

14 Australian Bureau of Statistics, "Average Weekly Earnings, Australia, November 2021," February 2022, <https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/average-weekly-earnings-australia/nov-2021>.

15 Australian Taxation Office, "Weekly tax table", <https://www.ato.gov.au/rates/weekly-tax-table/>.

The Pension System

Under the current system, a pensioner can receive a maximum of \$493.80 a week on the age pension. If an age pensioner earned the average weekly salary of \$1,328.90¹⁶ a week as per the ABS, they would:

- Receive no pension, as half of the pensioner's income after the \$245 work bonus and income test free threshold is taken off the \$1,328.90 is over \$493.80.
- Pay income tax on the \$1,328.90 they earned at a weekly rate of \$276.
- Have a post-tax income of \$1,052.90 a week.

Under the Pension Work Bonus plan, the \$490 fortnightly income ceiling before the pension starts to be reduced at 50% for every extra dollar earned will be increased to \$790.

The average weekly salary of every employed Australian is \$1,328.90. If a pensioner who was not working previously and received the maximum pension of \$493.80 a week entered the workforce and earned the average weekly salary of \$1,328.90, the combined weekly work bonus and income test free of \$395 would be deducted, leaving \$933.90. Then 50c from each dollar would be clawed back through reduced pension payments, reducing their pension from \$493.80 to \$26.85. The pensioner's taxable income would then be the sum of the remaining pension and the \$1,328.90, this is an effective weekly rate of \$284.¹⁷

The pensioner would have \$1,071.75 in post-tax income per week. Regarding pensioners who would earn the average salary regardless, this would result in \$980.20 in additional disposable income annually.

¹⁶ Australian Bureau of Statistics, "Average Weekly Earnings, Australia, November 2021," February 2022,

¹⁷ Australian Taxation Office, "Weekly tax table", <https://www.ato.gov.au/rates/weekly-tax-table/>

Financing The Work Bonus Plan

If a pensioner shifts from just receiving the maximum pension to earning an average salary under the proposal, it will result in a net benefit to the budget of \$750.95 per week per pensioner, equal to \$39,049.40 annually per pensioner. This is comprised of the reduced amount of pension paid and the income tax received.

The direct cost of the expanded Work Bonus scheme is estimated to be approximately \$145 million per year.

What this means is that only 3,713 out of the 1,701,256 Australians currently receiving the maximum age pensions would need to enter the workforce for the policy to pay for itself. This equates to a 0.21% increase in workforce participation.

Unlocking this potential workforce is vital during the current worker shortage. In addition, it will provide economic benefits in the longer term, and help to address structural issues Australia faces with an aging population.

A Deloitte Access Economics report published in 2012 found that if Australia were to achieve a 3-percentage point increase in mature age participation over and above that currently, annual economic output would be \$33.0 billion, or 1.6%, larger. A 5-percentage point increase would lead to a \$47.9 billion, or 2.4%, boost to GDP.

Adjusted for inflation, the latter is equivalent to about \$60 billion today. A recent survey from National Seniors found that 20% of pensioners would consider re-entering paid work, in addition to the 16% who already have.¹⁸ This implies that up to an additional 510,000 pensioners could consider re-entering the workforce.

Table 2: Worker Shortages By State

State	Job Vacancies: May 2020 (000's) ¹⁹	Job Vacancies: May 2022 (000's) ²⁰	% Change	Total Pensioners (000's) ²¹
Australia	129.2	480.1	272%	2,554
NSW	39.8	145.1	265%	791.9
Victoria	28.7	120.1	318%	601.8
Queensland	25.2	78.6	212%	511.4
South Australia	6.8	24.5	260%	216.7
Western Australia	16.8	65.2	288%	240.2

¹⁸ National Seniors Australia, "Why pensioners want to work," 14 April 2022, <https://nationalseniors.com.au/news/featured-news/why-pensioners-want-to-work>.

¹⁹ Ibid

²⁰ Ibid

²¹ Department of Social Services, "DSS Payment Demographic Data," March 2022, <https://data.gov.au/data/dataset/dss-payment-demographic-data>.

Further Reform Opportunities

The work bonus proposal is a promising first step onto greater reform that is required to motivate more pensioners to work amidst this labour shortage crisis. There are three further reform options which could also be pursued.

Double the proposed bonus from \$600 to \$1,200 per fortnight

One potential policy is doubling the work bonus from the proposed \$600 to \$1,200 a fortnight. Pensioners earning the weekly average salary would have a taxable income of \$1,505.75 a week, which would be taxed at \$337 a week²² and have a post-tax income of \$1,168.75 a week. Compared to the current proposal, the pensioner would have \$5,044 more in disposable income annually that can be invested into their local communities and economies. The federal government would have an annual net benefit of \$34,005.40 for each pensioner that shifted from earning the maximum pension to earning the average weekly salary.

Halve the pension reduction rate

A different policy could be to half the rate at which the pension is reduced from 50c of the dollar after the work bonus to 25c of the dollar. Applying the current work bonus and income free test threshold of \$245, if a pensioner earned the average weekly salary of \$1,328.90, they would have a taxable income of \$1,551.73 with a weekly tax rate of \$353.²³ This is a post-tax income of \$1,198.73 a week and, compared to the current proposal, equals to \$6,602.96 more in annual disposable income. The annual net budget benefit arising from the sum of less pension paid and more income tax received would be \$32,446.70.

Remove the pension claw-back altogether

Lastly, the federal government could remove the work bonus system all together, and have pensioners pay income tax on the combined pension and earned income total over the tax bracket. Under this scenario, if a pensioner earned the average weekly salary, they would just pay income tax on the combined \$1,328.90 and \$493.80 at a weekly rate of \$446.²⁴ This would leave pensioners with a weekly income of \$1,376.70 and have \$15,857.40 more in annual disposable income compared to the current proposal.

22 Australian Taxation Office, "Weekly tax table", <https://www.ato.gov.au/rates/weekly-tax-table/>

23 Ibid

24 Ibid

AUSTRALIA'S UNPRECEDENTED WORKER SHORTAGE: CAUSES AND SOLUTIONS

About the Institute of Public Affairs

The Institute of Public Affairs is an independent, non-profit public policy think tank, dedicated to preserving and strengthening the foundations of economic and political freedom. Since 1943, the IPA has been at the forefront of the political and policy debate, defining the contemporary political landscape. The IPA is funded by individual memberships, as well as individual and corporate donors.

The IPA supports the free market of ideas, the free flow of capital, a limited and efficient government, evidence-based public policy, the rule of law, and representative democracy. Throughout human history, these ideas have proven themselves to be the most dynamic, liberating and exciting. Our researchers apply these ideas to the public policy questions which matter today.

About the authors

Daniel Wild is Deputy Executive Director of the Institute of Public Affairs, with primary responsibility for delivering the IPA's research programs. Daniel has been with the IPA for six years, having previously held the roles of Research Fellow and Director of Research.

Daniel frequently appears in the media to communicate the IPA's research and analysis, and has published a number of opinion pieces in *The Australian*, *The Daily Telegraph*, *The Sydney Morning Herald*, *The Courier Mail*, and *The Spectator*. Daniel also routinely appears on radio and television, including Channel 7, the ABC, Sky News, 2GB, 3AW, and 4BC.

Daniel previously worked at the Commonwealth Department of the Prime Minister and Cabinet where he analysed global and domestic macroeconomic policy. Prior to that he held positions at the Commonwealth Department of Finance where he worked on regulatory reform.

Daniel holds an honours qualification in economics and a degree in international studies from the University of Adelaide, and is currently undertaking a Master of Business Administration at the Melbourne Business School.

Saxon Davidson is a Research Associate at the Institute of Public Affairs.

He feels most strongly about liberty, freedom of speech and the Australian way of life, and how these values have declined rapidly due to government policies during the Covid-19 pandemic. Saxon is currently studying a Bachelor of Arts at the University of Melbourne, majoring in Politics.

WORKER **SHORTAGE** AND IMMIGRATION POLL



Worker shortage and immigration poll

This poll of 1,000 Australians was commissioned by the Institute of Public Affairs. Data for this poll was collected by marketing research firm Dynata between 13 April and 14 April 2023 and rounded to the nearest whole number.

QUESTION 1:

Australia should temporarily pause its intake of new immigrants until more economic and social infrastructure, such as schools, roads, hospitals, and houses, are built.

Agree	60%
Disagree	28%
Don't know	13%
NET	100%

	By gender	
Column %	Male	Female
Agree	62%	57%
Disagree	26%	29%
Don't know	11%	15%
NET	100%	100%

	By age					
Column %	18-24	25-34	35-44	45-54	55-64	65+
Agree	47%	58%	62%	57%	66%	63%
Disagree	33%	31%	25%	28%	23%	27%
Don't know	21%	11%	13%	15%	11%	9%
NET	100%	100%	100%	100%	100%	100%

	By state						
Column %	ACT	NSW	QLD	SA	TAS	VIC	WA
Agree	40%	61%	58%	51%	60%	62%	63%
Disagree	45%	27%	25%	39%	35%	27%	24%
Don't know	15%	12%	17%	10%	5%	12%	13%
NET	100%	100%	100%	100%	100%	100%	100%

QUESTION 2:

Australia is a tolerant and welcoming nation.

Agree	85%
Disagree	9%
Don't know	6%
NET	100%

	By gender	
Column %	Male	Female
Agree	89%	82%
Disagree	7%	11%
Don't know	4%	7%
NET	100%	100%

	By age					
Column %	18-24	25-34	35-44	45-54	55-64	65+
Agree	79%	83%	82%	86%	87%	93%
Disagree	13%	12%	11%	8%	8%	4%
Don't know	8%	5%	7%	6%	5%	2%
NET	100%	100%	100%	100%	100%	100%

	By state						
Column %	ACT	NSW	QLD	SA	TAS	VIC	WA
Agree	90%	86%	83%	90%	65%	83%	89%
Disagree	5%	7%	13%	7%	10%	12%	7%
Don't know	5%	7%	5%	3%	25%	5%	4%
NET	100%	100%	100%	100%	100%	100%	100%

QUESTION 3:

Australian pensioners, veterans, and students should receive first preference for Australian jobs rather than new migrants.

Agree	69%
Disagree	21%
Don't know	10%
NET	100%

	By gender	
Column %	Male	Female
Agree	71%	67%
Disagree	21%	21%
Don't know	8%	12%
NET	100%	100%

	By age					
Column %	18-24	25-34	35-44	45-54	55-64	65+
Agree	58%	65%	72%	69%	75%	71%
Disagree	27%	27%	21%	19%	16%	17%
Don't know	15%	8%	8%	11%	9%	12%
NET	100%	100%	100%	100%	100%	100%

	By state						
Column %	ACT	NSW	QLD	SA	TAS	VIC	WA
Agree	45%	69%	74%	74%	50%	65%	71%
Disagree	40%	21%	17%	16%	45%	24%	15%
Don't know	15%	10%	10%	10%	5%	10%	14%
NET	100%	100%	100%	100%	100%	100%	100%

QUESTION 4:

The federal government is proposing to let in a further 650,000 migrants over the next two years. This is:

Too many	64%
Not enough	6%
The right amount	30%
NET	100%

	By gender	
Column %	Male	Female
Too many	61%	66%
Not enough	6%	5%
The right amount	32%	28%
NET	100%	100%

	By age					
Column %	18-24	25-34	35-44	45-54	55-64	65+
Too many	41%	56%	65%	64%	76%	77%
Not enough	12%	10%	6%	4%	2%	1%
The right amount	48%	34%	29%	31%	22%	23%
NET	100%	100%	100%	100%	100%	100%

	By state						
Column %	ACT	NSW	QLD	SA	TAS	VIC	WA
Too many	50%	64%	65%	67%	60%	65%	66%
Not enough	5%	6%	6%	0%	5%	7%	5%
The right amount	45%	31%	29%	33%	35%	28%	29%
NET	100%	100%	100%	100%	100%	100%	100%

PARLIAMENTARY RESEARCH BRIEF

A Research note from the Institute of Public Affairs distributed to all Australian parliamentarians

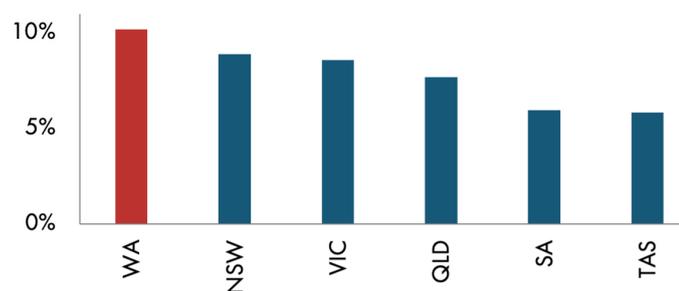


WESTERN AUSTRALIA IS WORST AFFECTED BY CRIPPLING WORKER SHORTAGE

Australia is currently experiencing a persistent and unprecedented, country-wide shortage of workers.

Currently, Western Australia is hardest hit by worker shortages. The number of job vacancies in WA is equivalent to 10% of the WA working age population not in the labour force, close to double states such as South Australia.¹

Chart 1: Job vacancies as a percentage of working-age West Australians not in labour force

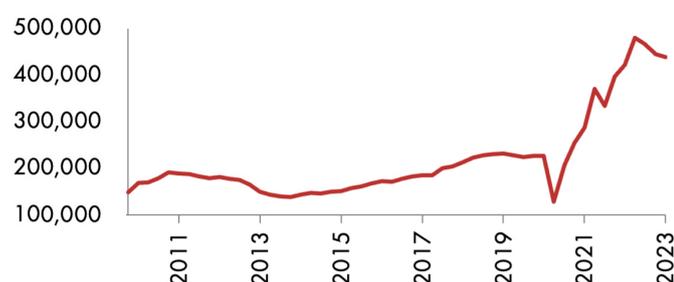


Source: ABS

Australia's worker shortage crisis is unprecedented

Australia has experienced a sharp increase in the number of job vacancies since March 2020. According to the Australian Bureau of Statistics, there were 438,500 reported job vacancies in February 2023 and one quarter of businesses cannot find enough workers.²

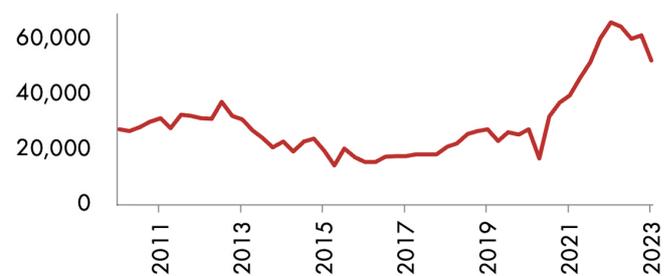
Chart 2: Number of job vacancies in Australia



Source: ABS

In WA, there are almost 53,000 job vacancies – double the number prior to Covid – and over one in five businesses cannot find enough workers.³

Chart 3: Number of job vacancies in Western Australia



Source: ABS

The unprecedented worker shortage imposes significant consequences on Australian taxpayers. IPA analysis in August 2022 found that Australia's worker shortages accounted for:

- \$32 billion in lost wages
- \$6.8 billion in forgone income tax revenue for the federal government annually.⁴

WA pensioners, veterans, and students face unfair barriers to work

- Pensioners and veterans can only earn \$226 a week before they lose 50 cents on the dollar in pension payments.
- Students on Youth Allowance lose 60 cents on the dollar once they earn more than \$288 per week.
- Pensioners, veterans, and students face red tape and government bureaucracy and form-filling which discourages work.

As a result of these barriers, only 3% of pensioners and veterans in WA and Australia are currently in work, compared with 25% in New Zealand, which does not have red tape or tax barriers to work.

The federal government attempted to address worker shortages by passing in November 2022 the *Social Services and Other Legislation Amendment (Workforce incentive) Act 2022*, which meant pensioners could earn \$226 per week instead of \$150 before losing 50 cents on the dollar. This is the equivalent to allowing pensioners and veterans to work only an extra half day a week.

Three reforms that can help address the worker shortage crisis

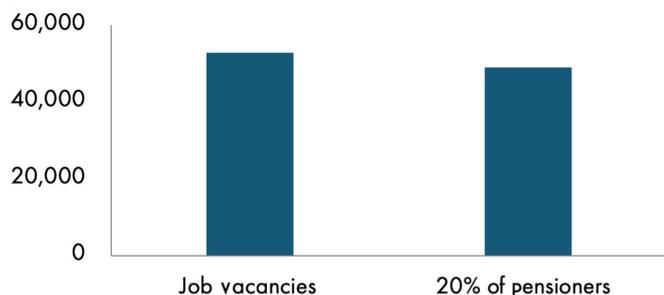
Pension reform

Under the current pension rules, the combined earnings and pension payments of an aged pensioner are subject to income tax.

- This means that age pensioners and veterans are potentially subject to a tax rate of 69%.⁵
- A recent survey by National Seniors revealed that 20% of all Australian pensioners would consider re-joining the workforce if penalties on work were adequately eased.⁶
- IPA analysis has found that allowing pensioners and veterans to work without also reducing their benefits is a responsible and cost-effective solution.⁷

According to the Department of Social Services, there are 247,385 pensioners in Western Australia.⁸ If 20% of West Australian pensioners re-joined the workforce, there would be additional 49,477 workers in WA, an amount nearly equal to the total number of job vacancies in the state.

Chart 4: Comparison of job vacancies to 20% of pensioners in Western Australia



Source: DSS and ABS

Youth Allowance reform

Similarly restrictive payment rules apply to students.

- Students receiving the Youth Allowance payment can earn \$240 per week before their payments begin to be reduced.
- For every dollar over \$240 the student earns, their Youth Allowance payment is reduced by 50 cents.
- For every dollar over \$288 the student earns, their Youth Allowance payment is reduced by 60 cents.

Across the nation there are almost 125,000 students on the Youth Allowance, of which, 55% have no alternative income.⁹

As with pensioners and veterans, the loss of benefits should be removed for students.

Criminal justice reform

Coinciding with the worker shortage crisis is a long-term emerging incarceration crisis. According to data released by the Productivity Commission in February 2023, it costs Australian state and federal governments \$6 billion in total prison expenditure, or \$148,000 per prisoner per year.¹⁰

Among the 41,833 prisoners, there are approximately 16,000 non-violent offenders who should not be incarcerated.¹¹ Instead, these offenders should be sentenced in the community, which would involve participation in offender employment programmes which target industries suffering from worker shortages.¹²

End Notes

1. Australian Bureau of Statistics, 'Job Vacancies, Australia, February 2023' (March 2023); Australian Bureau of Statistics, 'Labour Force, Australia, February 2023' (March 2023).
2. Australian Bureau of Statistics, 'Job Vacancies, Australia, February 2023' (March 2023).
3. Australian Bureau of Statistics, 'Job Vacancies, Australia, February 2023' (March 2023).
4. Daniel Wild and Saxon Davidson, *Australia's Unprecedented Worker Shortage: Causes and Solutions* (Institute of Public Affairs, August 2022).
5. Daniel Wild and Saxon Davidson, *Australia's Unprecedented Worker Shortage: Causes and Solutions* (Institute of Public Affairs, August 2022) 4.
6. National Seniors Australia, 'Let Pensioners Work and Pay Tax' (2022).
7. Daniel Wild and Saxon Davidson, *Australia's Unprecedented Worker Shortage: Causes and Solutions* (Institute of Public Affairs, August 2022).
8. Department of Social Services, 'DSS Payment Demographic Data' (March 2023).
9. Ibid.
10. Productivity Commission, 'C8: Corrective Services' in *Report on Government Services 2023* (31 January 2023).
11. Morgan Begg, 'Better ways to deal with many who are incarcerated', *The Daily Telegraph* (12 June 2023).
12. Mirko Bagaric and Morgan Begg, *Let Them Work: How Criminal Justice Reform Can Help Address Australia's Worker Shortage* (Institute of Public Affairs, March 2023).