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WHY AUSTRALIA IS GOING TO RUN OUT OF WORKERS

FINANCIAL REVIEW

by Richard Yetsenga and Toby Roberts

We all know Australia's population is ageing – by 2030, almost 20 per cent of the population will be older than 65. We also know that Australia's economy is increasingly reliant upon the service sector. Our modelling predicts that services will comprise an even greater proportion of the economy by 2030 (up 5 per cent to 77.3 per cent), due in part to increased health spending and new export opportunities in Asia. But few of us are thinking about the way these forces will collide.

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The growth sectors identified above all require high levels of education, which presents another challenge – funding the tertiary education sector. Today, over half of Australia's population has completed year 12 and has at least a post-school certificate (more than twice as many as in 1981), and by 2030 this could climb above 70 per cent. But the increase in the pool of potential skilled workers is unlikely to fully satisfy demand due to the downward pressure on overall worker numbers.

MIXED SIGNALS

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relief, but the strongest growth in employment is occurring in positions that cannot readily be replaced by machines, such as business professionals and health workers. These changes in occupation structure suggest education will continue to grow in importance for Australia's workforce.

The flip side of this analysis is capital. Most service industries are capital "light" in comparison to goods industries, which means financial service providers and investors may have to adapt to a world dominated by industries with lower funding requirements. Projects associated with the mining boom had very high capital requirements. With many of these projects now complete, and with lower commodity prices meaning fewer new projects, investment is being redirected to areas like computer software and R&D. The funding requirements in these knowledge industries are typically lower, but more frequent, than those of the goods industries.

We believe these changes to labour and capital allocation are already starting to take effect, and they help explain some of the mixed signals that the Australian economy has been sending recently. For instance, how do we reconcile relatively resilient GDP growth and strong employment numbers on the one hand, with weak investment and falling inflation on the other? The answer may lie in the transition to a growing services economy which requires more skilled labour but less investment.

Another possible implications of an increasingly dominant service sector could be a shift in the distribution of wealth in Australian society. Demand for labour in services, coupled with a contraction in the more capital-intensive industries like mining, should support a recovery in the labour share of income. In fact the wage share of Australia's GDP has already risen 2 per cent since 2010 and we forecast this will rise further over the next 15 years (up 5 per cent to 65 per cent). As a result, some of the consequences of a falling labour share which we have seen in recent decades, such as growing income inequality, may begin to unwind. A rising labour share would also have implications for the broader economy because consumption should theoretically increase.

KEY STEPS

There are some obvious steps that businesses and governments can take to prepare for these coming changes:

- Businesses will need to adopt more flexible work arrangements as labour becomes harder to find. In particular, more part-time work and work-from-home arrangements will help retain older and female workers. While the participation rate for women has risen above 70 per cent for the first time, it is still well short of participation rates for men.
- Boosting skilled immigration and arresting Australia's falling fertility rate should be priorities for policymakers.
- The growth sectors such as healthcare, education and professional services all require high levels of education, so better partnerships between business and the education sector will be needed to help bridge the funding gap in the tertiary education sector.

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