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HOW NEW ZEALAND SOLVED ITS WORKER SHORTAGE CRISIS

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Executive summary

- Pensioners and veterans in New Zealand can earn employment income without their pension payments being reduced, and only pay income tax on their combined employment income and pension payments, which could be as low as 10.5 per cent.
- A pensioner or veteran in Australia who earns more than just $226 per week on average will trigger a reduction in pension payments in addition to normal income tax rules. For every dollar of employment income above $226 earned, the effective marginal tax rate of pensioners and veterans who work is 69 per cent.
- The different tax treatment of pensioner income is a major reason why one in four pensioners in New Zealand work, compared to only 3 per cent of pensioners in Australia. As a consequence, in the December 2023 quarter, the national labour force participation rate in New Zealand (71.9 per cent) is 5.1 percentage points higher than in Australia (66.8 per cent).
- 90 per cent of difference between Australia and New Zealand's labour force participation rate can be explained by each country's pensioner and veteran work rules. If New Zealand pensioners participated in the labour force at the same rate as Australian pensioners, there would be almost 197,000 more unfilled jobs and the labour force participation rate would be 67.3 per cent.
- Because New Zealand has a greater proportion of pensioners and veterans in the labour force, the number of job vacancies in New Zealand is now only 5 per cent higher than in 2019. This means New Zealand has almost completely recovered from the COVID-19 disruption in terms of worker shortages. Job vacancies in Australia are still 77 per cent higher than in 2019.
- If Australia had the same pension and veteran work rules as New Zealand, there would be 520,000 more Australians participating in the labour force. This is 34 per cent higher than the 388,000 job vacancies currently in Australia.

Introduction

Australia is currently experiencing unprecedented, yet persistent, worker shortages. According to the latest data released by the Australian Bureau of Statistics, the number of job vacancies across the Australian economy—meaning a job position that is available for immediate filling and for which recruitment action has been taken—is currently above 388,000.[1]

Worker shortages make it difficult for entrepreneurs and investors to create or expand a business, and this in turn negatively affects government revenue. Previous economic analysis by the Institute of Public Affairs (IPA) has found that this crisis accounts for $32 billion in foregone wages annually, and $7 billion in foregone income tax revenue.[2]

Recently released IPA research found that there are effective reforms available to the federal government to resolve the worker shortage challenges currently facing Australia. These include reforming welfare laws so that pensioners, veterans, and students are not penalised under the complex rules that reduce benefits if recipients are active in the labour force.[3]

The IPA research has observed that pensioner workforce participation in Australia is atypical in an international context. For instance, in New Zealand 25.2 per cent of pensioners work, compared to 3 per cent in Australia.[4] This report compares and contrasts the social services legislation in New Zealand and Australia, and explores the relationship of this legislation to labour force participation and job vacancies, with a particular focus on the period 2019 to 2023.

The Ministry of Business, Innovation & Employment in New Zealand produces statistics on job vacancies with a proxy measure titled 'Jobs Online'. It is a regular data series that measures online job advertisement from Seek, Trade Me Jobs, and Education Gazette. This data series doesn't produce raw numbers, but rather indexes the percentage increases of vacancies at December 2010 levels. This is unlike the Australian Bureau of Statistics' use of raw numbers in its Job Vacancy data series.

Another difference is that while both the New Zealand and Australia data is collected in quarterly periods, the quarters used in each do not align. To address this inconsistency, this report smooths out the data sets by creating a yearly average and indexes Australia's and New Zealand's level of job vacancies at 2019 levels.

1 Australian Bureau of Statistics, 'Job Vacancies, Australia, November 2023' (10 January 2024): https://www.abs.gov.au/statistics/labour/jobs/job-vacancies-australia/nov-2023.

2 Daniel Wild and Saxon Davidson, *Australia's Unprecedented Worker Shortage: Causes and Solutions* (Institute of Public Affairs Research Report, August 2022).

3 Saxon Davidson, *Unprecedented Nationwide Jobs Crunch: Geographic analysis of worker shortages in Australia* (Institute of Public Affairs Research Report, September 2023).

4 Department of Social Services, 'DSS Payment Demographic Data, September 2023' (December 2023); Organisation for Economic Co-operation and Development, 'Labour force participation rate' (OECD Data, accessed 10 October 2023): https://data.oecd.org/emp/labour-force-participation-rate.htm.

From this, the analysis compares how both countries have recovered from the increase in job vacancies caused by governmental responses to the COVID-19 pandemic. The analysis finds:

New Zealand has recovered from the sharp increase in job vacancies during the COVID-19 period of labour market disruption and is now just 5.4 percent above the number of vacancies in 2019. This is in sharp contrast to Australia, where job vacancies are almost 85 per cent above 2019 levels.

- New Zealand's job vacancy recovery is due to its higher labour participation rate, particularly among pensioners. In the December 2023 quarter, New Zealand's labour participation rate (71.9 per cent) was 5.1 percentage points higher than Australia's (66.8 per cent).
- 90 per cent of the difference between Australia's and New Zealand's participation rate is attributable to the gap in pensioner participation. One in four New Zealand pensioners work, compared to only 3 per cent of pensioners in Australia. However, if New Zealand pensioners participated in work at the same rate as Australian pensioners, there would be almost 197,000 more unfilled jobs and the labour force participation rate would be 67.3 per cent.
- Following New Zealand's lead by allowing Australian pensioners and veterans to work without being subject to excessive tax rates would help increase Australia's participation rate and alleviate Australia's persistent worker shortage crisis. Adopting New Zealand's pensioner and veteran work rules could result in 520,000 more Australians participating in the labour force. This is 34 per cent higher than the 388,000 job vacancies currently in Australia.

Comparing the current pension systems in Australia and New Zealand

Australia

Under current rules, Australian pensioners can receive a maximum of $501.25 per week on the age pension, but is reduced where a pensioner earns employment income over an amount known as the Work Bonus. Similar rules apply to the service pension paid to Australian veterans.

Under the current Work Bonus, a pensioner or veteran can earn an average maximum amount of $226 per week before their earned income triggers a reduction in their pension payment. If the annual income of a pensioner or veteran is less than $11,800, no pension received will be reduced.

Any income earned that exceeds the Work Bonus is assessed under the pension rules. If a recipient's remaining assessable income is above $226 per week, the pension payment is reduced by 50 cents for every additional dollar in income earned. A pensioner or veteran's combined employment income and pension receipts are subject to income tax. The income of pensioners and veterans are automatically taxed at a rate of at least 19 per cent. This is because the pension payments exceed the income tax free threshold of $18,200, meaning a pensioner or veteran already belongs in a taxable income bracket even before earning employment income. The combined effect of these tax and pension rules is that a pensioner or veteran who works is potentially subject to an effective marginal tax rate of 69 per cent.

The Work Bonus was increased to $226 per week following the passage of the *Social Services and Other Legislation Amendment (Workforce Incentive) Act 2022*. This was initially intended to be a temporary change, but was made permanent by the *Social Security and Other Legislation Amendment (Supporting the Transition to Work) Act 2023* passed in November 2023.

New Zealand

New Zealand's pension system is universal for those aged 65 and older and is funded by a state-owned superannuation fund called NZ Super.

Under current rules, pensioners and veterans in New Zealand can earn employment income without reducing or affecting their pension entitlements as per their tax code. This is true of both single and couple recipients. If a pensioner or veteran in New Zealand earns income, they only have to pay income tax on their combined income earned and benefits received.[5] Unlike Australia, there is no income free threshold in New Zealand and the marginal tax rate of a worker in New Zealand who earns up to $14,000 NZD is 10.5 per cent, the next bracket being 17.5 per cent for those earning between $14,000 NZD and $48,000 NZD.[6] These rules regarding work and income are the same for those who receive the Veteran's Pension in New Zealand.

The only pensioners who have their pension reduced for earning income are those who include their partner on their NZ Super pension payments and that partner is not qualified to receive those payments. The option to include non-qualified partners has not been legal since 9 November 2020. After this date, qualified partners could choose to exclude their non-qualified partner from NZ Super payments and could then work without risking high effective marginal tax rates on their combined income and pension received.[7]

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5 Work and Income, 'NZ Super and Veteran's Pension payment rates' (Accessed 4 October 2023): https://www.workandincome.govt.nz/eligibility/seniors/superannuation/payment-rates.htmlx.

6 Inland Revenue, 'Tax codes for individuals' (Accessed 19 October 2023): https://www.ird.govt.nz/income-tax/income-tax-for-individuals/tax-codes-and-tax-rates-for-individuals/tax-codes-for-individuals.

7 Work and Income, 'Non-qualified partner included in NZ Super or Veteran's Pension' (Accessed 4 October 2023): https://www.workandincome.govt.nz/eligibility/seniors/partner-included.html.

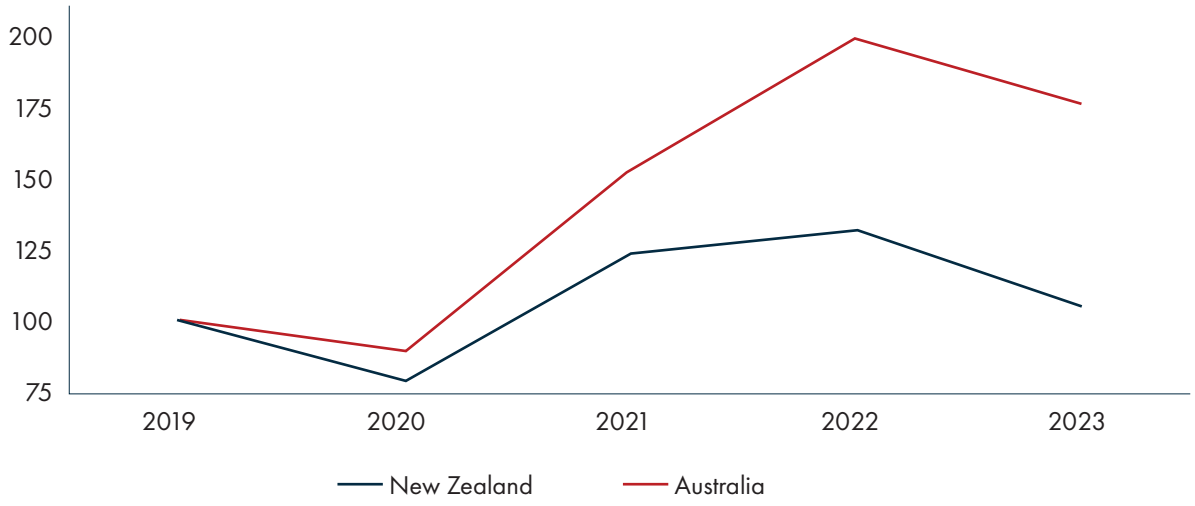
How New Zealand recovered from worker shortage increases

In both Australia and New Zealand, there was a decrease in job vacancies in 2020, coinciding with job losses and the closure of businesses caused by government responses to the COVID-19 pandemic. This was followed by a spike in the number of job vacancies in 2021 as labour demand recovered faster than labour supply following the initial shock of COVID-19 restrictions, with job vacancies rising by almost 45 per cent in New Zealand, and by 62 per cent in Australia based on 2019 figures.[8]

By 2022, Australia had double the number of vacancies it had in 2019, while New Zealand's job vacancy number was 32 per cent above what it was in 2019.

2023 figures show that New Zealand's job vacancy number is currently only 5.4 per cent above the number of vacancies in 2019, showing that the job vacancy spike in 2021 has been largely eradicated. In contrast, Australia's job vacancy number is still 77 per cent above what it was prior to the COVID-19 pandemic.

CHART 1: INDEX OF JOB VACANCIES IN NEW ZEALAND AND AUSTRALIA, SMOOTHED, 2019-2023



Source: Stats NZ, Australian Bureau of Statistics. Index: 2019 =100

Chart 1 smooths the data by taking the annual average of Australian and New Zealand job vacancy data

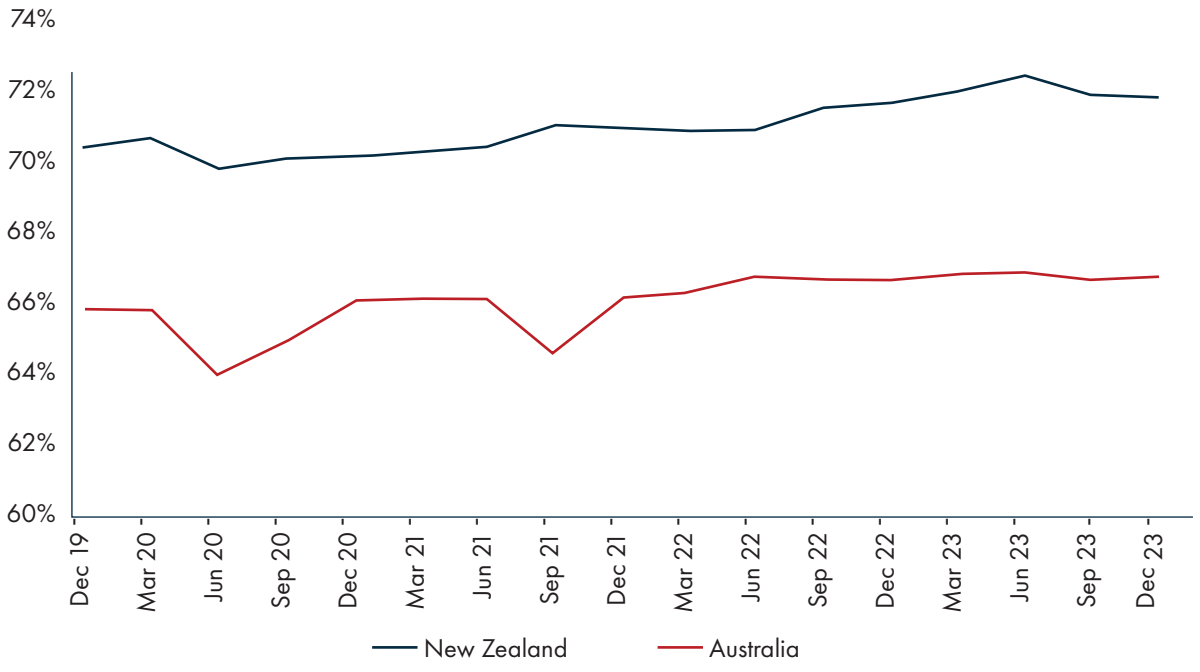
8 Ministry of Business, Innovation & Employment, 'Jobs Online Seasonally adjusted data – December 2023 quarter' (January 2024); Australian Bureau of Statistics, 'Job Vacancies, Australia, November 2023' (10 January 2024).

To understand how New Zealand was able to restrain the rapid increase in job vacancies, then reduce them at a faster rate than Australia, it is important to observe other labour market measures—specifically the labour participation rate and the unemployment rate in both countries.

New Zealand had a consistently higher participation rate than Australia between 2019 and 2023, it being approximately five per cent higher than Australia's during this period.

Meanwhile, the current rates of unemployment in New Zealand and Australia have both been just below four percent.[9]

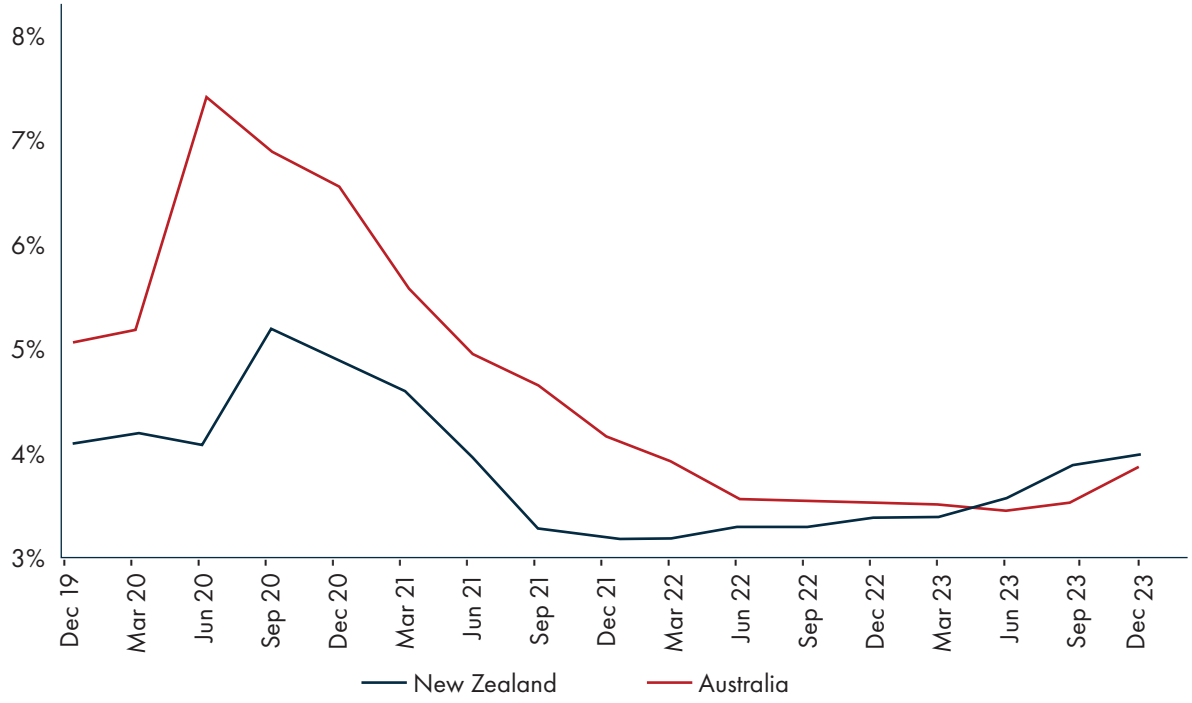
CHART 2: COMPARISON OF NEW ZEALAND AND AUSTRALIA LABOUR PARTICIPATION RATES



Source: Stats NZ, Australian Bureau of Statistics

9 Stats NZ, 'Labour market statistics: December 2023 quarter' (February 2024); Australian Bureau of Statistics, 'Labour Force, Australia, December 2023' (January 2024).

CHART 3: COMPARISON OF NEW ZEALAND AND AUSTRALIA UNEMPLOYMENT RATES



Source: Stats NZ, Australian Bureau of Statistics

These figures show that New Zealand's ability to control and recover its job vacancy level is, at least partially, attributable to a higher proportion of its population constantly participating in the labour force during the observed period.

If New Zealand pensioners participated in the labour force at the same rate as Australian pensioners, there would be 196,674 more unfilled jobs. The total labour force participation rate would be 67.3 per cent, 4.6 percentage points lower than the current rate, and only 0.5 percentage points above Australia's current rate.[10] New Zealand has recovered from the 2021 spike in job vacancies because, as job positions became available, there was a higher percentage of New Zealanders available to fill them. This is particularly the case in pensioner participation: pensioners account for 6.4 per cent of New Zealand's total labour force, compared to half of one per cent in Australia.[11]

The almost equally low unemployment rates of both countries suggest that labour policy needs to be adapted to incentivise Australians who are currently not participating to join the labour force, such as willing pensioners, so that job vacancy levels can recover to pre-pandemic levels.

10 Ministry of Social Development, 'Benefit Fact Sheets: New Zealand Superannuation and Veteran's Pension data tables December 2023' (January 2024); Stats NZ 'Labour market statistics: December 2023 quarter' (February 2024).

11 Stats NZ 'Labour market statistics: December 2023 quarter', (February 2024); Australian Bureau of Statistics, 'Labour Force, Australia, December 2023', (January 2024).

Adopting New Zealand's pensioner rules can increase labour force participation in Australia

Australia's low unemployment rate but persistent worker shortage levels highlight why labour force participation rates must rise to fill job vacancies.

The effective marginal tax rate facing Australian pensioners is a major reason why only 85,500 out of almost 2.6 million pensioners are currently working; this is only three per cent of all pensioners in Australia. New Zealand, by comparison, has a pensioner participation rate of more than 25 per cent.[12] This can, at least partially, be attributed to the fact that New Zealand does not penalise pensioners and veterans for working.

A leading survey found that 20 per cent of Australian pensioners would re-enter the labour force if these barriers were removed.[13] If 20 per cent of pensioners in Australia entered the labour force, there would be an increase of nearly 520,00 people working.[14] If that were to occur, the total labour participation rate would increase from 66.8 per cent to 69.6 per cent.[15]

Previous IPA analysis has concluded that the Australian Work Bonus system should be abandoned.[16] Pensioners and veterans should be allowed to earn income and only be taxed on their combined income earned and pension received, just as New Zealanders are under the NZ Super system.

This change should also be extended to Australian students, who face similar tax disincentives. Currently Australian students on the Youth Allowance are subject to an effective marginal tax rate of up to 79 per cent should they choose to work and earn above $288 per week. Across the nation there are more than 150,000 students on the Youth Allowance, of whom more than half do not work.[17] Similar barriers exist for students in New Zealand on their equivalent Student Allowance.

Recent analysis by the IPA, which measured worker shortages throughout different geographic zones across Australia, found that the removal of these unfair tax barriers on pensioners, veterans, and students could potentially alleviate worker shortages by over 60 per cent in every geographic zone in Australia.[18]

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12 Organisation for Economic Co-operation and Development, 'Labour force participation rate,' (OECD Data, accessed 10 October 2023): https://data.oecd.org/emp/labour-force-participation-rate.htm.

13 National Seniors Australia, 'Why pensioners want to work' (April 2022).

14 Department of Social Services, 'DSS Payment Demographic Data, September 2023' (December 2023): https://data.gov.au/data/dataset/dss-payment-demographic-data.

15 Australian Bureau of Statistics, 'Labour Force, Australia, December 2023' (January 2024): https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/dec-2023.

16 Daniel Wild and Saxon Davidson, *Australia's Unprecedented Worker Shortage: Causes and Solutions* (Institute of Public Affairs Research Report, August 2022).

17 Department of Social Services, 'DSS Payment Demographic Data, September 2023' (December 2023) https://data.gov.au/data/dataset/dss-payment-demographic-data.

18 Saxon Davidson, *Unprecedented Nationwide Jobs Crunch: Geographic analysis of worker shortages in Australia* (Institute of Public Affairs Research Report, September 2023).

Conclusion

Australia is currently in the midst of an unprecedented but persistent worker shortage crisis, which began after a spike in job vacancies in 2021. This spike was also seen in New Zealand.

The spike in job vacancies experienced by New Zealand was smaller and more quickly resolved than it was in Australia. This report contends that New Zealand's higher participation rate generally, and particularly amongst pensioners, has been a major reason why this occurred. More than 25 per cent of New Zealand pensioners are participating in the labour force, compared to just three per cent in Australia.

The reason for this striking discrepancy in pensioner participation rates is the Australian government's imposition of a potential effective marginal tax rate of 69 per cent, while New Zealand's government includes pensioners in the standard tax bracket and taxes them like all other citizens. This is extended to New Zealand's veterans as well.

Australia's persistent worker shortage levels and low unemployment rate demonstrate a pressing need to lift the labour force participation rate. IPA analyses have repeatedly found that removing red tape and tax barriers on Australian pensioners, veterans, and students would be a simple, cost efficient, and effective solution to this problem. Using New Zealand as a model, reform of existing taxation arrangements would help boost the labour force participation rate and alleviate the worker shortage pressures facing Australian businesses.

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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 author

Saxon Davidson is a Research Fellow 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 has a Bachelor of Arts from the University of Melbourne, majoring in politics.

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