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Economic impacts of Australian Government industrial relations changes

Measuring the impacts for workers, consumers and the economy

About this Report

The Australian Government has proposed to introduce significant industrial relations changes for workers and businesses.

In this report, we focus our analysis on the estimated impacts of the proposed legislation for workers who rely on on-demand rideshare and delivery platforms to earn supplemental income.

We also assess the impact on customers, small businesses and the broader Australian economy.

Pragmatic Policy Group

PPG is an independent economic research agency, which models the impact on the economy of various legislative and regulatory scenarios. We are particularly focused on the unintended consequences of government policies for the most vulnerable members of the community.

We use advanced analytical techniques and industry experience to forecast the impact of regulations, share evidence-based insights and help inform strategic decision-making.

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The cost of undertaking this research was covered by DoorDash. The conclusions that PPG presents are entirely our own, based on our independent analysis of the data.

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1. Executive Summary

Impacts on workers

The proposed legislative changes will result in higher costs for on-demand platforms, which will lead to lower demand for workers. Specifically, we project that in the on-demand sector:

- Total hours available for on-demand workers will fall by between **288,000 and 864,000** hours per week.
- **27,000 to 82,000** Australians will no longer be able to earn income by working through on-demand platforms, representing a **6% to 19%** decline.
- Workers' earnings in the sector will fall by between **$262 million and $422 million** per year.
- The main groups of workers impacted will be:
  - Workers who depend on the flexibility of on-demand work to fit with their lives.
  - Workers who have difficulty accessing traditional employment opportunities.
  - Low-income workers with existing part- or full-time employment, who supplement their income using flexible on-demand work.
- These workers will go down one of two paths:
  - Some will seek work in different industries, which will increase labour supply outside of the affected sectors and put downward pressure on economy-wide wages as those workers compete for jobs. Our modelling suggests that only between **2% and 30% of workers** will find, or even seek, alternative work.
  - Most workers will not be re-hired at all because there are either no jobs available to fit their skills or traditional employment arrangements do not suit their ability to work.
  - Our modelling estimates that around **87%** of current workers' labour contribution will be permanently lost to the economy.

Impacts on consumers and small businesses

There will be significant impacts on consumers and small businesses. We find that:

- Prices will rise between **12% and 35%** for consumers using on-demand services.
- Higher prices will reduce consumer demand by between **6% and 19%**.
- Consumer spending across the retail, food and beverage, and transport industries will decrease by between **$770 million and $1.2 billion** annually.
- Small business sales will decline by between **$241 million and $376 million** annually.

Impacts on economy

'Knock-on' effects will magnify the initial impacts across the broader Australian economy.

- Australian economic output will decline between **$387 million and $623 million** per year.
- Consumers will buy an additional **$254 million to $410 million** annually of goods and services from overseas due to rising prices domestically.
- Australian Government tax revenues will decline by between **$79 million and $131 million** annually.

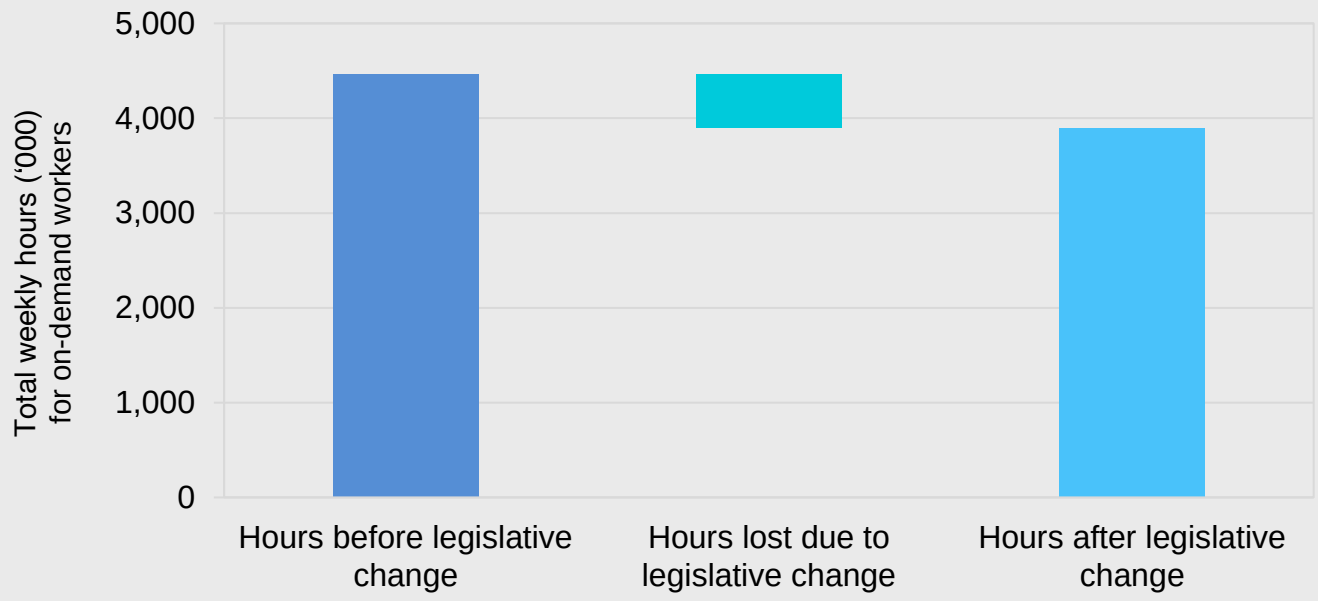
2. Impact on workers

REDUCTION IN HOURS AVAILABLE TO WORKERS

Based on other industry awards that the FWC might consider comparable, new minimum standards for on-demand worker pay and conditions will lead to higher costs for companies. This, in turn, will mean higher prices for consumers, which will reduce consumer demand for on-demand services and cause a drop in hours and earnings available for on-demand workers. Put simply, when on-demand platforms receive fewer ride requests and delivery orders – due to higher prices – on-demand workers will get fewer hours to work and will earn less.

We calculate that on-demand workers currently work an aggregate of nearly 4.5 million hours per week[1], with each only working an average of 10.6 hours per week of 'engaged time' i.e., directly providing service to a customer or enroute to do so (Fig 1). When consumer demand for on-demand delivery falls by between 6% and 19%, this leads to a corresponding decline in hours available to be worked by on-demand workers. We estimate this decline to be between **288,000 and 864,000 hours per week.**

Fig. 1: Reduction in total weekly hours for workers ('000)



[1] Calculated using industry data including as available in: O Alexander et al., The Labour Market for Uber Drivers in Australia, Australian Economic Review, 07 February 2022. We used estimates of engaged vs non-engaged time available in Louis Hyman et al, Platform Driving In Seattle, Cornell University Institute for Workplace Studies, 6 July 2020, which had exclusive access to administrative data from the two major rideshare companies in the United States, Uber and Lyft.

MANY WORKERS WILL NO LONGER BE ABLE TO EARN INCOME

We estimate that there are 423,000 Australians currently earning income through on-demand platforms and that – due to the reduction in available work hours – between **27,000 and 82,000** such workers will no longer be able to do so, representing a decline of between **6% and 19%**.

Our model predicts – based on a range of possible FWC minimum standards orders – that weekly hours available for on-demand workers would fall by between 288,000 and 864,000.

We expect the reduction in hours available for workers to mean that fewer workers would now be able to work on the platform to earn income. There would not be enough hours available to support the original number of Australians accessing these platforms to work.

On-demand workers currently work an average of only 10.6 hours per week, because the overwhelming majority use this flexible work as supplemental income, in addition to working other full-time or part-time jobs or working around other commitments (e.g., caring for a loved one or pursuing their education).

A smaller number of on-demand workers will now be able to fulfill the smaller number of available hours, even if these workers only continue working their current average of 10.6 hours per week. Other workers will be squeezed out, with no room left for them to share in the ‘smaller pie’ of hours.

The main groups of workers impacted will be:



Workers who depend on the flexibility of on-demand work to fit with their lives (e.g., people caring for family members, individuals with disabilities, students).



Workers who have difficulty accessing traditional employment opportunities (e.g., recent immigrants and others from non-English speaking backgrounds).



Low-income workers with existing part- or full-time employment, who supplement their income with a small amount of on-demand work.

The official economic statistics catagorise these displaced workers as coming from the retail, food and beverage, and transport sectors. While a small proportion of workers will be re-hired in these directly impacted sectors, the remaining displaced workers will go down one of two paths:

Path 1

Some displaced workers will seek work in different industries:

- This increase in labour supply outside the directly-affected sectors will put downward pressure on economy-wide wages as those workers compete for jobs, further reducing aggregate payments to workers.
- The modelling results suggest that only between **2% and 30%** of displaced workers will either find, or even seek, alternative employment.

Path 2

Most displaced workers will not be re-hired at all, either because:

- There are no jobs available in other sectors of the economy that fit their skills,
- Traditional employment arrangements do not suit their ability to work (e.g., workers who require flexible work due to disability, caring for family members, pursuing education, or facing language barriers/workplace discrimination), or
- Workers who only do on-demand work to supplement other traditional part-time or full-time jobs and will no longer have the flexibility to do so.
- Based on the over 5,000 simulations we ran – our modelling estimates that around **87%** of current workers' labour contribution will be permanently lost to the economy.

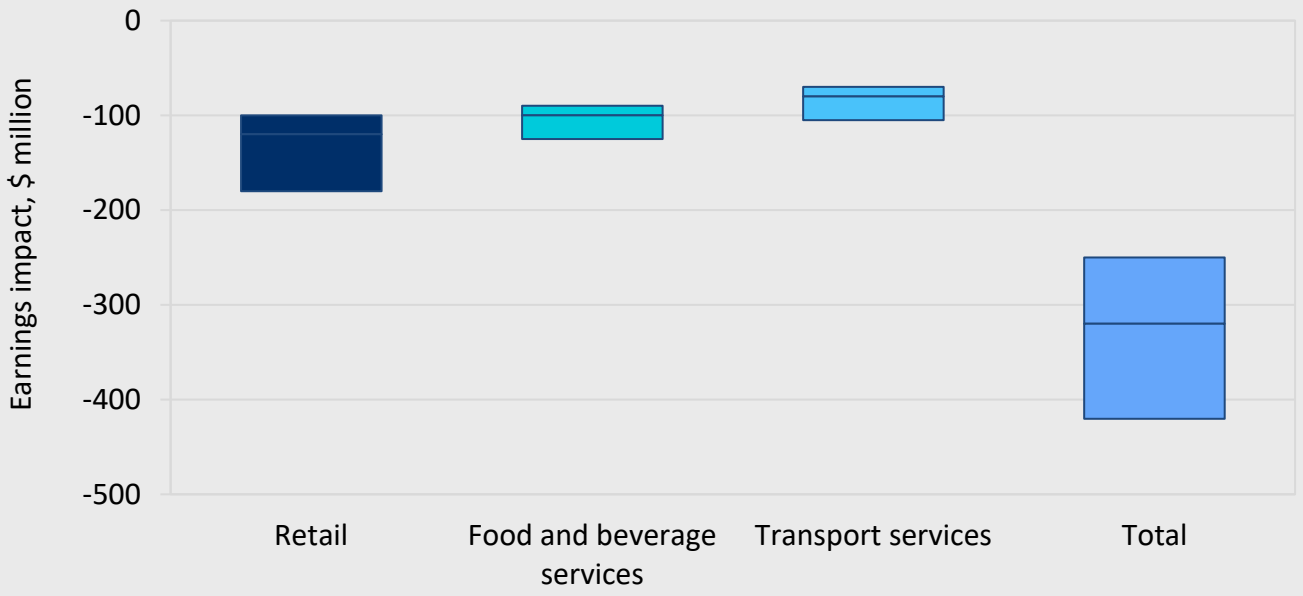
DECLINE IN WORKER EARNINGS

Workers who can no longer access on-demand platforms will suffer a significant earnings loss. Most of the labour income losses come from the directly impacted sectors: retail, food and beverage, and transport.

There is a small aggregate increase in labour incomes in other sectors, as some of the workers who leave the impacted sectors find alternative employment, however some of that increase is offset by a reduction in wages.

The economy-wide effect remains significantly negative. Our modelling forecasts that Australian workers' earnings will fall by between **$262 million and $422 million** annually across the retail, food and beverage, and transport industries (Fig. 2).

Fig. 2: Worker earnings fall between $262 million and $422 million in retail, food & beverage and transport



3. Impact on consumers and small businesses

PRICE RISES FOR CONSUMERS

Under the current provisions of the Australian Government's proposed industrial relations changes, the FWC would be authorised to impose new minimum standards for pay and other conditions for on-demand workers. We studied the range of current awards covering workers whom we expect the FWC would most likely deem comparable in duties to on-demand workers. We expect that:



The FWC may compare rideshare drivers to Grade 2 Casual workers under the Passenger Vehicle Transportation Award 2020, resulting in an 85% cost increase for rideshare companies.



The FWC may compare delivery workers to Grade 2 Casual shift workers under the Road Transport and Distribution Award 2020 (which also covers bicycle couriers), resulting in a 60% cost increase for delivery companies.

- When spread across a whole basket of goods ordered (i.e., average order value, not just the delivery cost) this equates to a 9% cost increase for delivery companies per delivery.

We then take the average of 85% and 9% to calculate an average 47% cost increase across on-demand rideshare and delivery platforms. We assume on-demand platforms will pass on either 25%, 50% or 75% of this increase in cost. We multiply each of these cost pass-thru scenarios by the 47% average cost increase to calculate an estimated price increase for on-demand customers of either 12%, 23% or 35%.

These estimates are conservative relative to our research peers in the United States who – in their study of legislation in California that would increase costs for on-demand platforms – assumed that the companies would pass on 100% of any increased costs to consumers[2].

[2] D Lewin, W Hamm, M Kim, Berkeley Research Group, Analysis of driver jobs if gig economy companies must reclassify drivers as employees rather than independent contractors, May 2020.

DECLINE IN CONSUMER SPENDING

When the price of on-demand services increase, consumers will use these services less often. Demand will fall as consumers prefer to buy cheaper alternative services and goods that are not impacted by these price increases.

The extent to which an increase in price affects how much consumers choose to buy is referred to as 'price-elasticity of demand'. Our research peers studying California's legislation (cited above) assume that on-demand services have such a price-elasticity of demand equal to -1.2, which would mean that for every 1% increase in prices, customers will order 1.2% fewer services. This assumption was also used by economists who supported employment-like protections for rideshare workers in New York City[3].

We use the more conservative assumption that customers have a lower price elasticity of demand equal to -0.55, based on another U.S. study in Massachusetts that considered the impact of price increases on customer demand[4]. This means for every 1% increase in prices, customers will use the services 0.55% less. We multiply the projected consumer price increase of between 12% and 35% by the price elasticity of demand of -0.55 to estimate a 6% to 19% decline in demand for on-demand services. This decline in demand represents the reduction in rides and orders that on-demand platforms can expect following the proposed legislative changes and potential FWC rulings. We expect consumer spending on retail, food and beverage and transport services to decline by between **$770 million and $1.2 billion** per year.

In aggregate, the proposed legislative change will reduce domestic consumption and significantly shift the mix of consumption away from retail, food and beverage and transport services. The reduction in worker earnings and consumer spending in these directly affected sectors would then ripple across the economy, leading to both lower aggregate consumption across the economy and a substitution towards imported goods and services. There will also be some substitution towards other domestic production, particularly food and manufactured goods. However, contractions in retail, food and beverage and transport also decrease the value of activity in other industries that provide their inputs, particularly agriculture and energy. The overall impact is a significant reduction in consumer spending across the economy (Fig. 3).

[3] J Parrott and M Reich, Report for the New York City Taxi and Limousine Commission, An Earnings Standard for New *York City's App*-based Drivers: Economic Analysis and Policy Assessment, July 2018

[4] T Osman, Beacon Economics, How many app-based jobs would be lost by converting rideshare and food delivery drivers from independent contractors into employees in the Commonwealth of Massachusetts?, February 2022

Fig. 3: Consumption falls between $770 million and $1.2 billion in retail, food & beverage and transport



DECLINE IN SMALL BUSINESSES SALES

Small businesses make up a large share of the gross economic output of the industries we modelled. Small businesses comprise 36% of food and beverage economic output, followed by 30% for retail and 28% for transport[5]. The decline in consumption and economic output will negatively impact these small businesses, many of whom rely on on-demand platforms for a substantial share of their sales.

Across the retail, food and beverage, and transport industries, small businesses generate an average of just over 31% of all economic output. We assume that small businesses will, at the very least, suffer a proportional impact from the decline in consumer spending, meaning that small businesses across these directly-affected sectors will lose in the order of **$241 million to $376 million** annually in sales to consumers.

[5] Contribution to Australian Gross Domestic Product, Australian Small Business and Family Enterprise Ombudsman, June 2023

4. Impact on economy

DECLINE IN AUSTRALIAN ECONOMIC OUTPUT

Our modelling predicts that the Australian Government's proposed industrial relations changes will result in an aggregate decline in labour force participation and work, and a reduction in payments to Australian workers. This will lead to lower real household incomes and an aggregate contraction of the Australian economy. The retail, food and beverage, and transport sectors will be most negatively impacted. Other domestic sectors will benefit from some of the shed workers and reduced wages (especially those industries hiring similar workers) but – in aggregate – incomes will decline and substitutions towards imported consumption will dominate.

We forecast Australian economic output to decline by between **$387 million and $623 million** per year. Most of the declines come from declines in consumption and from increases in imports.

Figure 4 shows the distribution of potential outcomes for economy-wide consumption, economic output (Gross Domestic Product or GDP) and imports. The peaks for each colour represent the most likely outcome for that economic variable across the 5,000 simulations we ran in our model.

Fig. 4: Distribution of policy impacts across 5,000 simulations

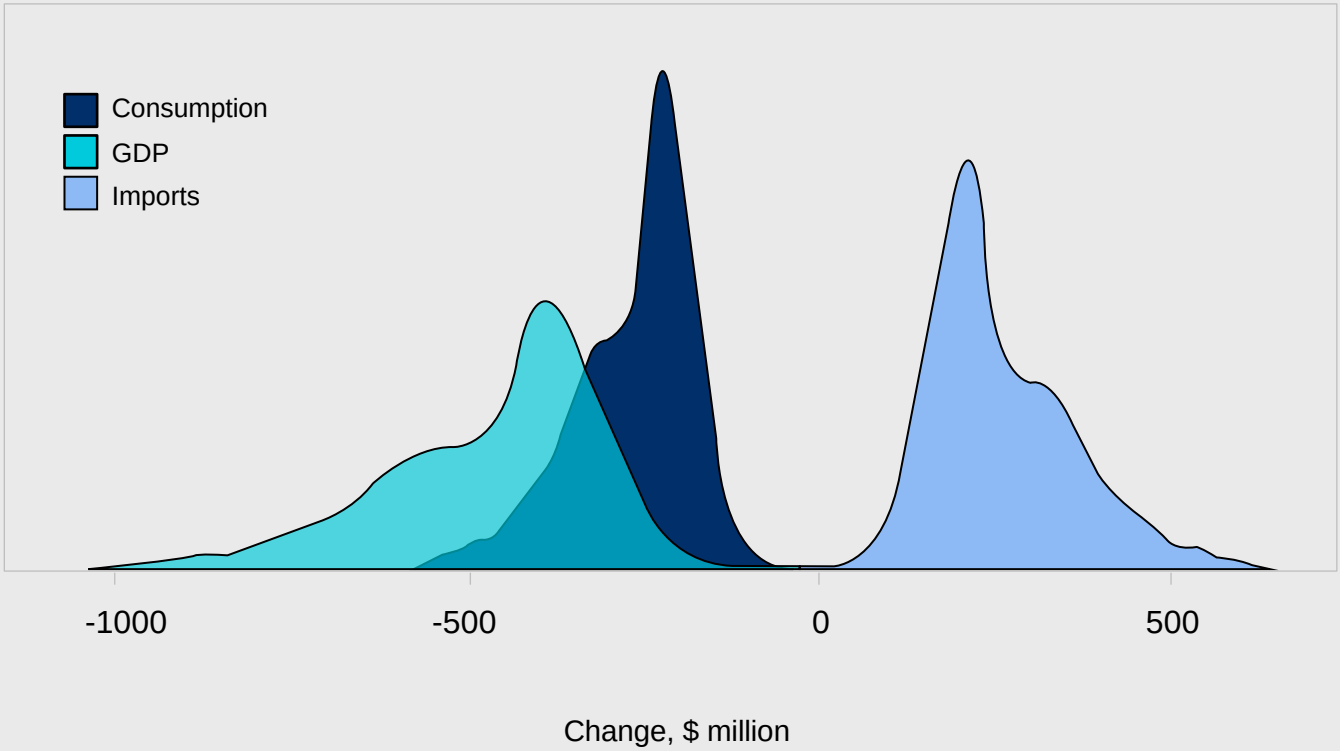
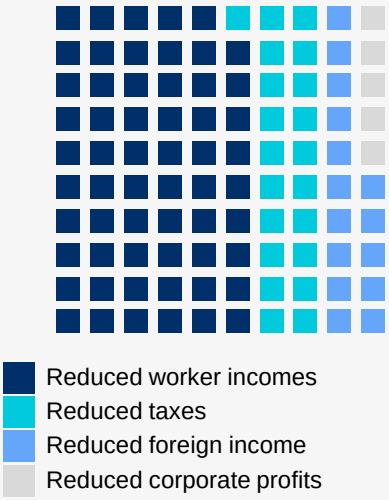


Fig 5: Workers will bear most of the negative economic impact



Of the total reductions in economic value in Australia, most of the losses (**58% to 62%**) come from reduced payments to Australian workers, and only a small share from reduced corporate profits (about 5%) (Fig. 5).

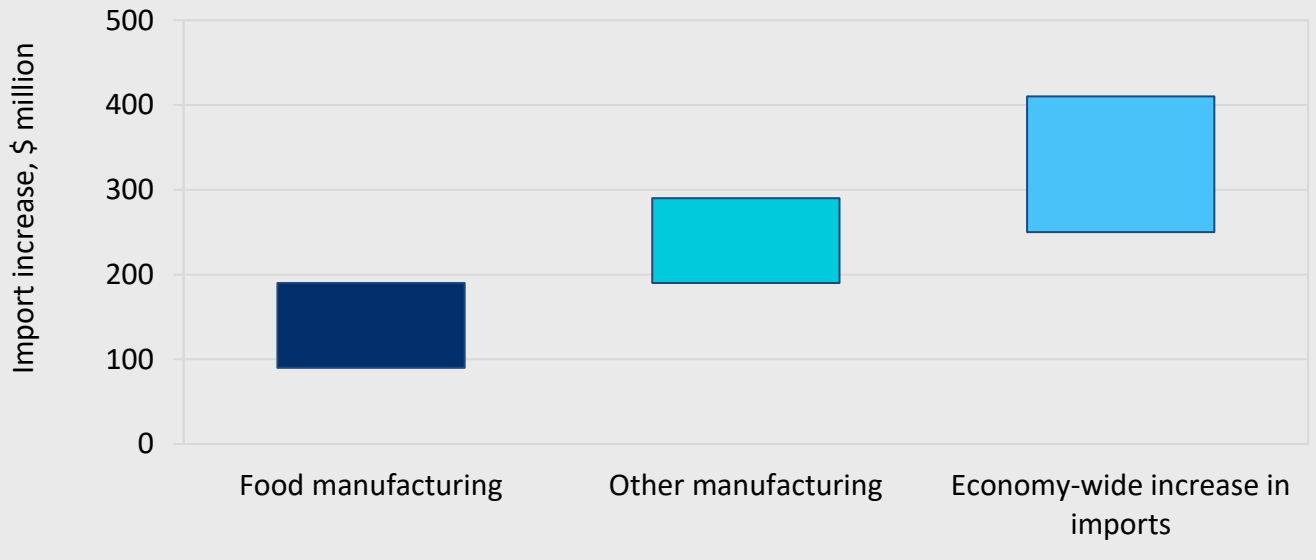
Our analysis suggests that approximately **87%** of the labour contribution lost due to the proposed legislative changes will be permanently lost to the economy. Even many workers who have another form of primary work that they can rely on will permanently lose the supplemental income they earned from working through on-demand platforms.

INCREASE IN IMPORTS

The increase in prices of Australian on-demand services will also increase other prices across the economy for goods and services that use on-demand services as their inputs. This general increase in a range of Australian prices will cause consumers to substitute away from domestically produced goods and services and purchase more goods and services from overseas (whose prices have not risen).

Our modelling estimates that Australians will spend an additional **$254 million to $410 million** per year on overseas goods and services (Fig. 6).

Fig. 6: $254 million to $410 million more in imports



REDUCTION IN GOVERNMENT TAX REVENUES

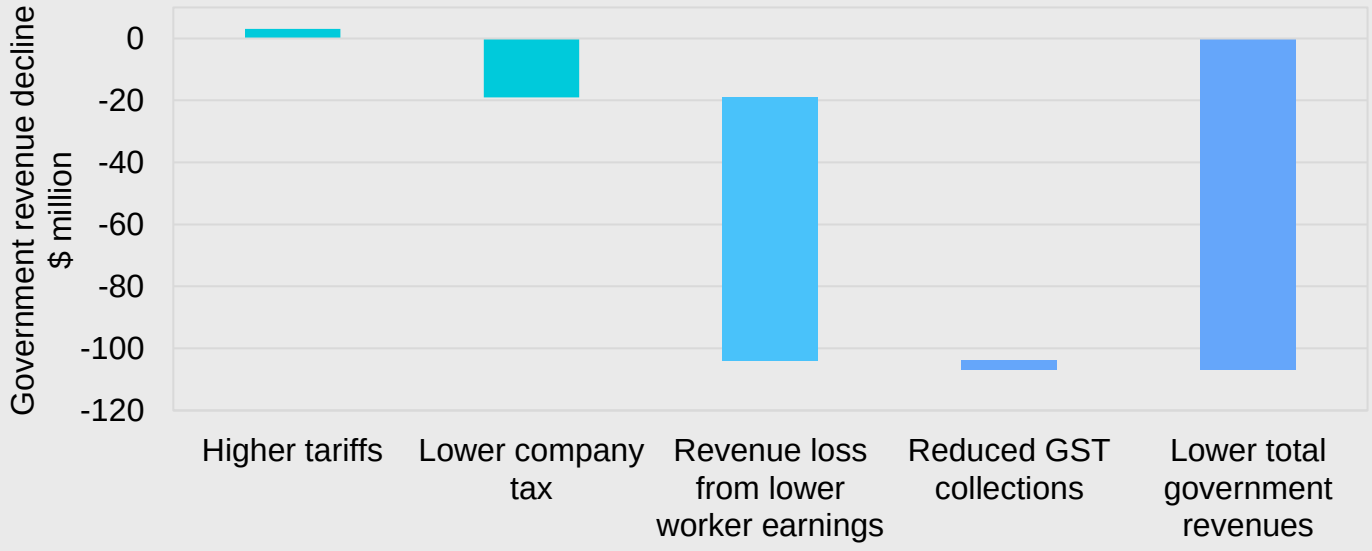
Economic contraction will drive reductions in government tax revenues equal to between $79 million and $131 million per year. Our central estimate is a reduction of **$107 million** per year.

Most of the revenue reduction is driven by lower income tax collections (between $64 million and $103 million per year) due to declining household incomes.

Company tax revenues fall by between $14 million and $23 million per year.

GST collections fall by between $5 million and $8 million per year.

Fig. 7: Government revenues fall by $107 million



5. Glossary and methodology

Glossary

- ‘On-demand platform’ means an app-based technology that connects supply and demand for rideshare or delivery services in Australia.
- ‘On-demand worker’ means a person who has earned income by supplying services through an on-demand platform in the last 12 months.
- ‘On-demand services’ means services provided to consumers through an on-demand platform.
- All dollar figures are Australian dollars.

Methodology

- To estimate the impact of the proposed legislative changes, we:
  - Estimate the population of on-demand workers in Australia.
  - Model three scenarios to estimate the likely increase in prices for consumers. Our scenarios assume on-demand platforms pass on either 25%, 50% or 75% of the cost increase flowing from potential minimum standards orders by the Fair Work Commission (FWC).
  - Estimate the amount by which consumers will reduce their use of on-demand platforms in response to higher prices (i.e., lower their demand).
  - Model the impact of lower customer demand on the number of work hours available for on-demand workers, the associated reduction in the number of workers who can access on-demand platforms to earn income and the income that affected workers will lose.
- To estimate the impact on the Australian economy, we custom built a computable general equilibrium model which ran 5,000 simulations using a range of different assumptions to produce a full distribution of results.

6. Technical Appendix

MODELLING DETAILS

To model the broader flow-on impacts to the Australian economy, we custom-built a computable general equilibrium (CGE) model tailored to look at the implications of the Australian Government's proposed industrial relations changes.

General equilibrium models are widely applied in Australia and internationally to look at the broader impacts of policy changes, especially where there are important linkages between sectors[6]. Our model simulates the following:

- **Aggregate national economy –** the sum of state and territory economies, plus international trade. Final demand in the economy is comprised of consumption by households, private investment by companies, government expenditure, and demand for Australia's exports. Imports are sourced from overseas at world prices.
  - Each state and territory engages in international trade (exports and imports), as well as domestic trade with the other states and territories. States and territories are then disaggregated into 151 Commonwealth Electoral Divisions (CEDs).
- **11 sectors of the Australian economy –** namely agricultural production, mining, food manufacturing, other manufacturing, retail, food and beverages, road transport, other transport, education, health, and other services. These sectors of the economy use workers, capital and land, and intermediate inputs, to produce goods and services.
- Estimates of government capital expenditures and demand for goods and services.
- Custom adjustments to represent the unique labour characteristics of on-demand workers, based on industry and ABS survey data. This includes geographic distribution of worker earnings by local area.
- Our database was constructed using the national input-output tables with 2020-21 as a base year, which we updated to 2023-24 and split into states and territories using a range of sources including the National Accounts, Labour Force Survey, state data sources, and government expenditure and revenue accounts.
- We ran 5,000 simulations to provide a full range of possible results. Each of these simulations varies the parameters of the model to ensure that our results cover all plausible representations of the real world, as well as the three cost-pass-thru scenarios we use earlier in this report.
- We allowed for labour mobility and capital flows between regions and industries, the substitutability of goods and services bought by households, and the responsiveness of Australia's export buyers to changes in Australian export prices.
- The results we show in this report for the impact of the proposed policy change across the Australian economy are typically presented as ranges that represent the central 2,500 of the 5,000 simulations (the 'middle 50%' of outcomes). Where a 'central estimate' is presented, that represents the average of the 5,000 simulations.

[6] Jorgenon, D., Dixon, P. (2012) Handbook of Computable General Equilibrium Modelling, North Holland

CURRENT NUMBER OF ON-DEMAND WORKERS IN AUSTRALIA

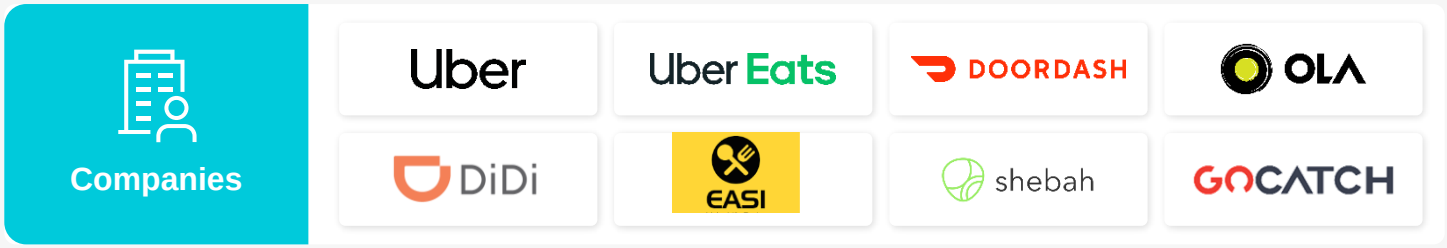
We estimate the number of Australians who typically earn income through an on-demand platform in a 12-month period by using two different methods — one 'bottom-up' method and one 'top-down' method. We then apply weightings to these estimates based on our judgement of their reliability. Overall, we estimate that nearly **423,000 Australians** earned income through an on-demand platform during the 12-month period that we sampled.

Below, we explain the two different methods that underpin this 'reliability-weighted' estimate:

(1) Bottom-Up Method: Individual Company Estimates, January 2024

Estimate = 669,000, Weighting = 40%

We collected public disclosures from the following on-demand platforms about the actual number of workers that have used their platform to earn income in the previous 12 months:



Importantly, our estimate is conservative as it excludes Menulog, the second largest food on-demand delivery platform in Australia, for which we were unable to find data. We also do not include estimates for companies that focus primarily on package delivery, such as GoPeople and Sherpa.

We must also avoid double-counting workers who 'multi-app', whereby they work on two or more platforms at the same time (and could be reported by both companies). According to national survey data, 47% of Australian workers using on-demand platforms to earn income say they work on two or more on-demand platforms at the same time. We remove this double-counting from our estimate using national survey data on the number of on-demand platforms that workers choose to work on while multi-apping[7].

We start with a total of just over 956,000 workers reported by on-demand platforms. We then, for those workers who report working on two platforms, exclude their work on the second platform (i.e., we divide this cohort by two). For workers who report working on three platforms, we exclude their work on both the second and third platforms (i.e., we divide this cohort by three), and so on. Through this method, we calculate that there are nearly 669,000 unique on-demand workers.

[7] P McDonald, P Williams, A Stewart, R Mayes, D Oliver, Queensland University of Technology, Digital Platform Work in Australia: Prevalence, Nature and Impact, commissioned by the Victorian Department of Premier and Cabinet, June 2019. At the time, this was the largest ever survey of on-demand work in Australia, surveying over 14,000 people.

This remains a conservative estimate; in addition to Menulog, there are likely to be other on-demand platforms for which we do not have reported worker data.

Total number of individual workers reported by on-demand platforms (before removing duplication):		956,330

On-demand workers by number of platforms they work on	Percentage (%)	Implied number (#)	Divided by	Unique on-demand workers
1 platform	53%	506,855	1	506,855
2 platforms	16%	156,838	2	78,419
3 platforms	13%	125,279	3	41,760
4+ platforms	18%	167,358	4	41,839
Total	100%	956,330		668,873

(2) Top-Down Method: ABS National Survey, November 2023

Estimate = 258,000, Weighting = 60%

In November 2023, the Australian Bureau of Statistics (ABS) released fresh data suggesting that – in just a four-week period – nearly 137,000 people earned income from working on a digital platform[8]. In addition, 62% of those people reported personal transport or food delivery as the main platforms that they worked on, equivalent to nearly 85,000 on-demand workers.

However, many on-demand workers go long periods without earning income on the on-demand platforms that they have previously worked on – which they later return to whenever they want to start earning supplemental income again. It is therefore appropriate to study a full 12-month period, as on-demand workers come and go from on-demand work during that time.

We used industry data to calculate that just over three times as many on-demand workers typically work over a 12-month period, compared to a four-week period. Multiplying the nearly 85,000 on-demand workers in our four-week sample by a scaling factor of just over 3 times yields over 258,000 Australians that are likely to have earned income through an on-demand platform over a 12-month period.

[8] Australian Bureau of Statistics - Survey of digital platform workers in Australia, November 2023

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