

Submission

Inquiry into Employment: Increasing Participation in Paid Work

Standing Committee on Employment and Workplace Relations

Australian Industry Group

September 2003

## **Introduction**

The Australian Industry Group welcomes the opportunity to provide our views to this important Inquiry.

A leading driver of Australia's improved living standards over the post-1960 period has been the growth of the workforce relative to the total population. This has been due to the progression of the baby boomers into the workforce, the general increase in female participation and the decline in birthrates. These developments have offset declines in workforce participation by males.

In the decades ahead the growth of the proportion of people of workforce age is set to stabilise and then to decline. From its position of positive contributor to improved living standards over the past few decades, the broad demographic profile of the Australian population is now set to constrain and impede further improvements in living standards.

- This presents structural challenges for public sector budgets as health and aged-care costs rise.
- It also threatens Australia's ability to generate the economic growth that underwrites improvements in living standards.

While these are substantial challenges, there are steps that can be taken to counter their impacts. In broad terms these are:

- Raising our rates of productivity improvement;
- Increasing our rates of workforce participation; and,
- As a longer-term strategy, stopping and reversing the decline in the rate of childbirth.

## **Improving Productivity Growth**

Even in the absence of the demographic forces mentioned above, productivity improvements would be required to maintain growth in Australian living standards. The demographic pressures mean we cannot merely seek to sustain improvements in efficiency. Rather, we need to put in extra effort to find ways to boost our rates of productivity beyond current levels.

In broad terms, the key elements of higher productivity growth are:

- Building on our record of stable and prudent budgetary and monetary policy.
- Addressing our poor savings performance.
- Boosting our rates of commercial innovation.
- Accelerating the dispersion of commercial innovations –in information technology for example - throughout the economic system.
- Improving Australia's education and training performance and deepening links between industry and our publicly funded research institutions.
- Making progressive improvements to our pattern of taxation and ensuring our overall burden of taxation is internationally competitive.
- Maintaining and improving infrastructure in transport, communications, health, education and defence.
- Identifying and implementing new areas of microeconomic reform including by improving the effectiveness of commonwealth-state co-operation.

- Reducing the regulatory burden on Australian businesses – particularly that faced by small and medium sized businesses.
- Seeking new efficiencies in public sector service provision, including in those areas of shared responsibilities between commonwealth and state and territory governments.

This submission is not the place to elaborate on these elements of a higher rate of productivity improvement. They are, nevertheless, essential components in a holistic approach to our demographic challenges and they overlap with the other components of such an approach - improved workforce participation and higher birthrates.

### **Raising Workforce Participation**

There are several population segments where participation levels are low and in some cases falling. These include:

- The over-50 age groups
- Parents, particularly sole parents
- The officially unemployed
- The hidden unemployed – particularly among disability pensioners.

Raising participation among these disparate groups requires different strategies. That said, there is a common element across that stretches across most of these groups. In varying degrees, there tends to be a concentration of lesser-skilled people among most categories.<sup>1</sup> A key element of the strategy to improve participation should be a fostering of ongoing improvements in Australia's education and training performance – and its relevance to workforce opportunities - particularly at schools, TAFE, and in workplaces.

#### *Over 50s*

The over 50 age groups are attracting growing attention as are the steps employers (including in the public sector) and employer organisations can take to attract and retain the participation of older Australians in the workforce. These include:

- Raising the flexibility of workplaces and work practices to better accommodate older workers
- Making workplaces more responsive to the needs of older workers
- Greater utilisation of the experience and skills of older workers
- Addressing internal cultural barriers to the employment of older workers
- Publicising benefits and success stories.

Additional steps include:

- Addressing disincentives (including inter-temporal disincentives) to participation in the paid workforce arising from superannuation, age pension and taxation arrangements
- Removing barriers to the employment of part-time and casual employment from industrial awards and other industrial arrangements.

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<sup>1</sup> Kennedy and Hedley in Treasury's Economic Roundup (Winter 2003) explore these connections by segmenting participation rates by educational attainment, age and sex.

### *Parents*

Greater participation in the workforce by parents, particularly single parents, can play an important role in improving overall workforce participation. A greater participation by parents can be assisted by:

- Improved childcare and more family-friendly workplaces
- Greater flexibility in workplaces and in work practices
- Improving the structure of participation-related incentives built into income support arrangements, the taxation system and the interactions between these two systems
- Improved training opportunities, particularly for sole parents.

### *The Unemployed*

While the officially unemployed are, strictly speaking, labour force participants, reducing unemployment offers considerable scope to contribute to raising the proportion of people in paid work. Ai Group has recently made a submission to the review being conducted by the Minister for Family Services and the Minister for Employment and Industrial Relations into the social support system for jobless individuals and families. Ai Group's submission is attached. In summary, the main recommendations are:

- Improved programs of training and education are central to improving both the workforce prospects for those currently unemployed. They are also investments that would reduce the likelihood that future workforce entrants will experience unemployment and they improve the prospects of a rapid re-entry into the workforce for those who will find themselves unemployed in the future.
- In relation to the income-support component of the social support system for the jobless, Ai Group supports the need to remove the most extreme instances of high effective marginal tax rates affecting jobless individuals and families.
- Ai Group also supports the general principle that income support payments should be targeted to those most in need. Ai Group is very doubtful about the cost-effectiveness of a comprehensive reduction in the effective marginal tax rates faced by the jobless as a solution to workforce participation among this group and does not support this approach.
- Addressing unemployment requires a renewed focus on the impact of Australia's wage-fixing arrangements on the unemployed and on unemployment. Ai Group believes that, in making adjustments to minimum wages and conditions, much closer consideration should be given to the impacts of those adjustments on jobless individuals and families.

### *The Hidden Unemployed*

The arguments presented above in relation to the unemployed also apply to the hidden unemployed. This group is isolated for additional comment to emphasise the importance of taking into account the disability income support system when considering means by which workforce participation can be improved – particularly among older males.

It is clear, not only in Australia, that shifts in industrial structure and increases in part-time and casual unskilled work over the past few decades have had particular impacts on lesser-skilled older people who are now over-represented among the recipients of disability income support.

The incentives impacting on workforce participation and saving by older, lesser-skilled people need to be examined closely to ensure that their participation in the workforce is encouraged.

In addition to the effective marginal tax rates faced directly by disability support recipients, the life-cycle disincentives against earning and saving additional income for the self-provision of retirement income need to be closely examined to ensure that age pension income and assets tests, do not unduly deter workforce participation and saving by people approaching age-pension age.

### **Improving the Birthrate**

Increasing the birthrate will not have a positive impact on overall participation until any extra children born reach workforce age. Nevertheless, a sustained lift in the birthrate is has the potential to play an important role as a longer-term measure to improve the overall rate of participation.

The difficulty with this proposition stems from the possible impact of a higher birthrate on the workforce participation of parents. The impacts of higher rates of childbirth on parent's participation can partly be addressed by taking the steps outlined above in relation to improving the participation of parents. Nevertheless the fact that child rearing involves a degree of switching from paid work into unpaid work, means that increasing rates of childbirth would dampen the success of measures to improve the participation of parents in paid work.

Neither the long lead-time involved nor the impacts on workforce participation by parents should overshadow the important role of improved childbirth in increasing participation rates in the longer-term. The reasonable expectation is that over their lifetimes, additional children will offer many more hours in the paid workforce than the number of hours lost due to the lower participation in paid work by parents. The margin of benefit is sufficiently large to cover the fact that the extra participation from an additional child will be delayed while the loss of parents' labour time occurs much sooner.

Policies that could encourage greater childbirth include:

- Ensuring that parents have greater scope to balance the unpaid work involved in childrearing with paid workforce participation such as through the measures listed above.
- Providing a base level of maternity leave through a taxpayer-funded program.
- Encouraging employers and employees to allocate a greater share of increased productivity to improving family-orientated changes in workplaces rather than by increasing wages. Examples include additional maternity allowance, greater childcare, and more responsive workplaces and work practices.
- Addressing the extent to which the tax and social security systems discourage family formation and constrain family size.