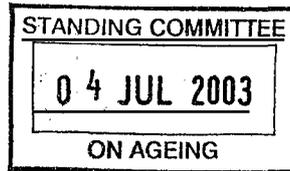




National Office

GPO Box 9879 CANBERRA ACT 2601



Ms Allyson Essex
Inquiry Secretary
House of Representatives Standing Committee on Ageing
Parliament House
CANBERRA ACT 2601

Dear Ms Essex

Thank you for your invitation to the Department of Employment and Workplace Relations (DEWR) to make a submission to the House of Representatives Standing Committee on Ageing Inquiry into long-term strategies to address the ageing of the Australian population over the next 40 years.

To this end, attached for your information and consideration is the DEWR submission. As you would be aware, DEWR appeared before the Committee on 7 March 2003 and took the opportunity to canvass the range of issues discussed in this submission.

The relevant contact person in the Department is Chris Alexandrou (02) 6121 6625, facsimile (02) 6121 6036 or chris.alexandrou@dewr.gov.au.

Yours sincerely

A handwritten signature in cursive script that reads 'Scott Matheson'.

Scott Matheson
Assistant Secretary
Economic and Labour Market Analysis Branch
3 July 2003

A small, stylized handwritten mark or signature in the bottom right corner of the page.

**Inquiry into long-term strategies to
address the ageing of the Australian
population over the next 40 years**

**Submission by the Department of Employment and
Workplace Relations**

July 2003

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Executive Summary

Trends in fertility, mortality and migration will have a significant influence on Australia's future population size and structure and hence on the composition of its labour force. Under what is known by demographers as the 'standard projection' Australia's population should stabilise at around 25 million by 2050 while its labour force should stabilise at just under 11 million. However, even at this level, Australia's labour force as a share of total population would be considerably lower than today. Declining labour force participation can be expected to reduce annual growth in real Gross Domestic Product (GDP). While growth in real GDP per capita (which is a better measure of living standards) is also expected to decline, it should not do so to the same extent.

The prospect of declining labour force participation highlights the critical importance of policies and programmes directed at sustaining Australia's labour supply over the longer term. This is a key area for the Department of Employment and Workplace Relations and a major focus of this Submission.

One population group where there is clear potential for increased labour force participation is the mature aged. The Government has a range of policies already in place or about to be introduced which aim both to encourage those in work to stay at work longer and ensure those who are unemployed or may have dropped out of the labour market altogether are assisted back into work as soon as possible. These policies include specific measures for the mature aged contained in the *Australians Working Together* package which came into effect in July 2002 and the employment services available through the Job Network under the new Active Participation Model which will commence operation from 1 July 2003.

Family friendly policies, particularly those which provide access to flexible working hours and permanent part-time work, can also make a valuable contribution to sustaining Australia's labour supply by assisting women and others with caring responsibilities to combine those responsibilities with paid work should they choose to do so. Such policies may also help increase the labour force participation of the mature aged by allowing them to balance lifestyle choices with a desire to continue in some form of paid employment beyond what might otherwise have been their retirement age.

1 Introduction

The aims of the Department of Employment and Workplace Relations (DEWR) are to maximise the ability of unemployed Australians to find work – particularly those facing the most severe barriers to work - and to support strong employment growth and the improved productive performance of enterprises in Australia. To do this, DEWR provides the Government with high quality advice and services directed at achieving an effectively functioning labour market and higher productivity, higher pay workplaces. DEWR contributes to this in two ways. Firstly, through labour market policy and analysis and labour market programme management and delivery; and secondly, through introducing and supporting a legislative and institutional framework which facilitates flexible work practices underpinned by a minimum safety net and equitable and safe working environments for all employees.

The shape of the labour market over the long run is an important consideration for DEWR as it impacts on the level of employment and, consequently, on the future rate of economic growth. The demographic structure of the Australian population over the next 40 years will have a major bearing on the proportion of the population of working age and, consequently, on the size and growth of the Australian labour force.

This Submission begins with a discussion of the likely impact on the labour supply of demographic trends resulting from changes in the fertility rate and overseas migration. It then identifies the mature aged as one group which can make a significant contribution to sustaining Australia's labour supply in future years. The labour force participation rate of people, particularly women, with caring responsibilities is also discussed. The Submission then outlines a series of policy initiatives in a number of areas of direct portfolio relevance to DEWR which are already or could in future help sustain the labour supply. These include measures to support mature-age persons to participate in or stay longer in the workforce, along with initiatives to provide people with caring responsibilities, particularly women with children, who may choose to be in paid employment with more flexible working arrangements to help them balance those responsibilities with the demands of work.

2 The impact of demographic trends on population and labour supply

Future levels of international migration, fertility and mortality and the present age distribution of the population will impact on the future size and growth of Australia's population and labour force. This part of the Submission identifies a range of possible population futures facing Australia over the next 50 years (see figures in Chart 1). It notes that under what demographers call the 'standard projection' a continuation of the total fertility rate (TFR) and net overseas migration (NOM) – that is, the difference between permanent arrivals and departures - at current levels would allow Australia's population to stabilise over this period which in turn would help to stabilise the labour force both in overall size and as a share of the total population.

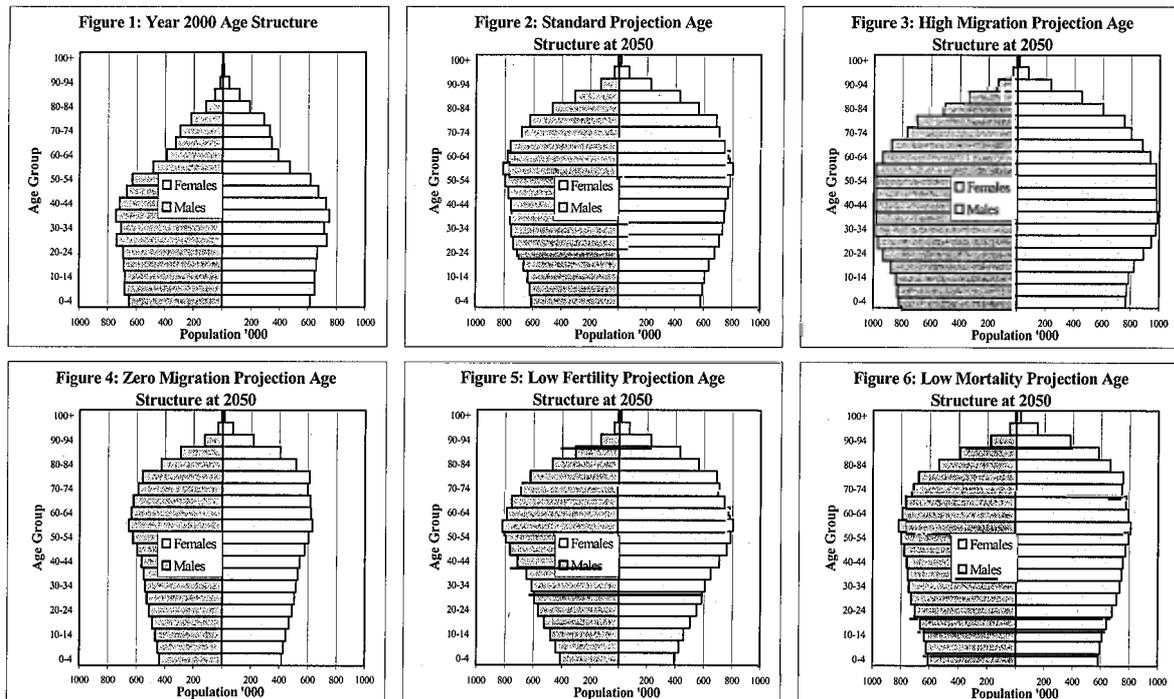
Key points to note are that:

- Under the 'standard projection'¹, Australia's TFR is assumed to stabilise at around 1.65 children per woman from 2005 (it is currently around 1.75) and NOM is assumed to remain constant at around 80,000 persons per annum (that is, around recent levels).

¹ The various assumptions which underpin this scenario and others depicted in Chart 1 are summarised in Table 1.

- Together, these developments would see Australia's population stabilise at around 25 million by 2050
 - the population's age structure in 2050 would look like that in Figure 2 in Chart 1 below. This is an age structure which is generally thought by demographers to be sustainable in the long run – that is, it leads to the stabilisation of the population over time, which in turn helps stabilise the proportion of the working age population to the total population

Chart 1: Age structure of year 2000 population and projected populations in 2050



Source Data: Australian Centre for Population Research (ACPR)

- even so, Australia under this scenario would still experience a decline in the working age population as a percentage of the total population – from 67.2 per cent in 2000 to 59.6 per cent in 2050. The participation rate would drop from 62.9 per cent to 50.8 per cent over the same period with the total labour force stabilising at just under 11 million (see Table 2 and Chart 2 below).
- A substantially lower TFR of, say, 1.3 children per woman (a level similar to current fertility rates in many European countries and Japan) is projected to result in the population reaching 22.6 million by 2050 (see Figure 5 in Chart 1), before falling in subsequent years. Under this scenario, Australia's total labour force would peak at 10.8 million in 2025 and then begin a downward trend falling to 9.8 million by 2050 (see Table 2 and Chart 2)
 - such a rapidly ageing population structure and declining labour force would be difficult to reverse because as the smaller size of young cohorts replaces the larger older cohorts over time, the number of births continues to fall. A decline in the TFR to around 1.3 would require a net migration intake of 200,000 persons per annum over the next 50 years, starting now, to achieve a more sustainable population structure such as envisaged under the 'standard projection'. But NOM of this level would be well above the highest ever reached in Australia in the last 50 years.

Table 1: Parameters for population projection to 2050

Projection	Inputs		
	TFR ^a	e ₀ ^b	NOM ^c
1. Standard	1.65	ABS	80 000
2. High migration	1.65	ABS	0.67%
3. Zero migration	1.65	ABS	0
4. Low fertility	1.30	ABS	80 000
5. Low mortality	1.65	High	80 000

- a. Total Fertility Rate (TFR). 1.65: TFR falls from 1.75 children per woman in 2000 to 1.65 in 2005 and then remains constant. 1.3: TFR falls from 1.75 children per woman in 2000 to 1.3 in 2015 and then remains constant.
- b. Life expectancy at birth (e₀). ABS: e₀ rises from 77.4 years for males and 82.6 years for females in 2000-05 to 83.1 years for males and 86.3 years for females in 2045-50, in line with Australian Bureau of Statistics assumptions. High: e₀ rises from 77.5 years for males and 83.0 years for females in 2000-05 to 86.5 years for males and 92.0 years for females in 2045-50.
- c. Net overseas migration (NOM). 80 000: NOM is constant at 80 000 per annum. 0.67%: Annual NOM is set at 0.67% of the population. 0: Annual NOM is constant at zero.

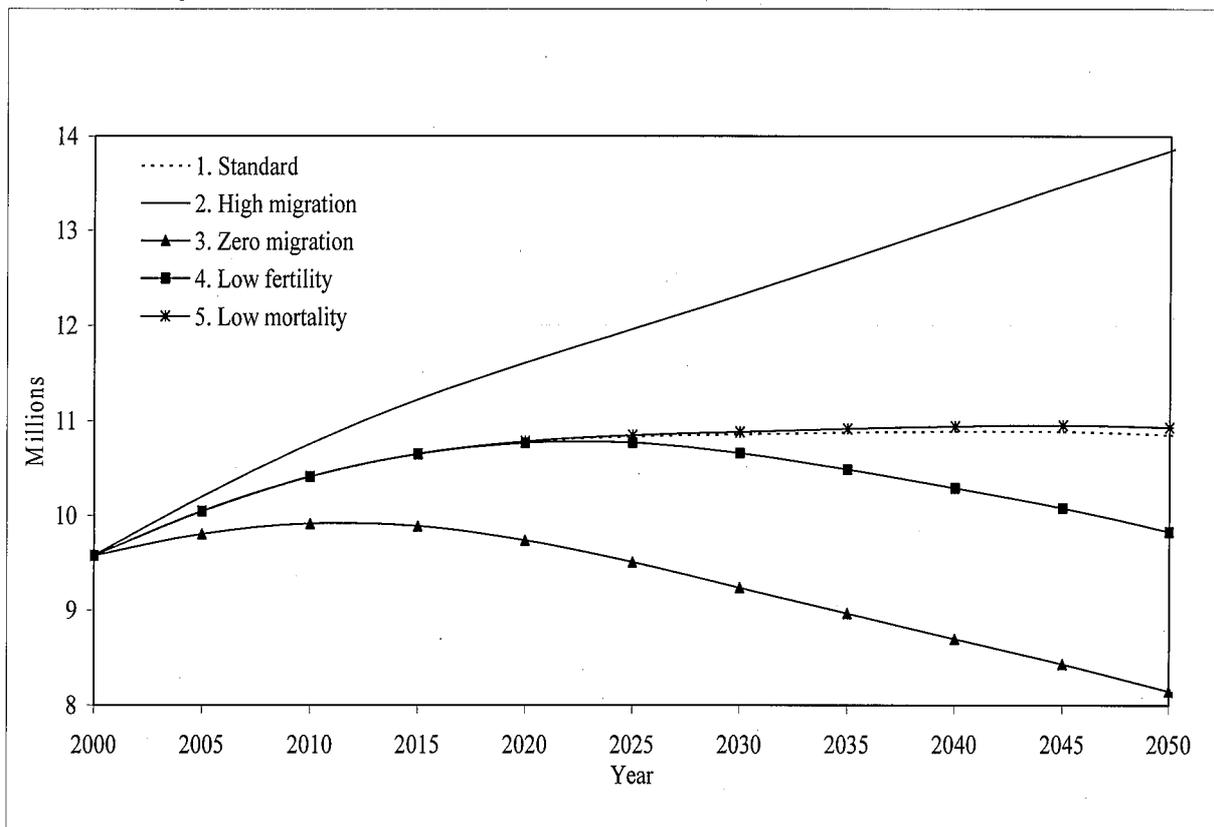
Source: McDonald Peter, Demography Program, Australian National University (unpublished projections, 2000).

Table 2: Projected scenarios of population and labour force growth

	Working Age as % of total Population	Labour Force Participation Rate	Population (projected) (million)	Labour Force Size (projected) (million)
Year 2000	67.2	62.9%	19.2	9.6
Year 2025				
Standard	63.9	55.5%	23.3	10.8
Higher Participation Rate		64.0%		12.5
Zero Migration	62.9	54%	20.8	9.5
Higher Participation Rate		62.6%		11.0
High Migration	64.5	56.6%	25.3	12.0
Higher Participation Rate		65.0%		13.7
Low Fertility	65.7	55.5%	22.4	10.8
Higher Participation Rate		64.0%		12.4
Low Mortality	63.5	55.2%	23.4	10.8
Higher Participation Rate		63.6%		12.5
Year 2050				
Standard	59.6	50.8%	25.0	10.9
Higher Participation Rate		60.7%		12.9
Zero Migration	57.2	48.2%	19.5	8.1
Higher Participation Rate		58.0%		9.8
High Migration	61.4	53.1%	30.9	13.8
Higher Participation Rate		62.9%		16.4
Low Fertility	59.9	49.1%	22.6	9.8
Higher Participation Rate		59.3%		11.9
Low Mortality	57.5	48.8%	26.1	10.9
Higher Participation Rate		58.4%		13.1

Working age: defined as aged 15-64

"Higher Participation Rate" is based on the female Participation Rate increasing to the levels in Sweden, and increasing Participation Rates for men aged 35 years and over to the higher levels of 30 years ago.

Chart 2: Projected labour force, 2000-2050

Australian Centre for Population Research (ACPR)

In summary, trends in fertility, mortality and net overseas migration will have a significant influence on Australia's future population size and structure and hence on the size and composition of its labour force. Even under the 'standard projection' Australia's labour force as a share of total population stabilises in future years at a level considerably lower than today. This prospect highlights the critical importance of focussing on policies and programmes directed at sustaining Australia's labour supply over the longer term. Such policies are outlined later in this Submission. First, however, it is useful to briefly discuss the likely impact of any decline in labour force participation on the economy as a whole.

3 Impact of a decline in labour force participation on the economy

As noted in the previous section, the changing demographic profile of the Australian population is expected to place downward pressure on the labour force participation rate due to a higher proportion of the population reaching retirement age. This in turn could reduce annual growth in Gross Domestic Product (GDP), but growth in real GDP per capita is not expected to decline to the same extent.

The downward pressure on the participation rate is likely to intensify over the coming decade as more of the 'baby boom generation'⁴ enter retirement, although working in the opposite direction is the ongoing increase in the female participation rate which has been converging towards the male participation rate over the past fifty years. However, on current trends this is not expected to be large enough to offset the numbers flowing into retirement.

⁴ There is no official definition for the Baby Boomer generation but in Australia it is most common to include people born from 1946 to 1961.

- According to Treasury, changes in the age-structure of the population are projected to subtract an average 0.3 percentage points per annum from growth in the total participation rate over the current decade as the 'baby boom generation' moves into retirement and longevity continues to improve.⁵

Based on Treasury projections, the downward trend in the rate of growth of the working age population and the likelihood of a declining participation rate will reduce the rate of employment growth. This could reduce annual GDP growth by between one-quarter and three-quarters of a percentage point per annum.⁶ According to the Treasurer's *Intergenerational Report*, real GDP growth is projected to decline to an average of 3.1 per cent per year in the current decade (assuming that productivity will grow at around its 30-year average of 1.75 per cent per year) and to around 2 per cent by the 2020s and beyond.⁷

- Australia, though, would remain amongst the top of the league in terms of real GDP growth ahead of the United Kingdom, New Zealand and Japan but slightly behind the United States, reflecting mainly higher fertility rates in that country. Over the long term, productivity growth is expected to be the key driver of real GDP growth as employment growth, which is driven essentially by growth in the labour force and participation rates, would be significantly lower over the coming decades.

Real GDP per capita, which is a more relevant indicator of growth in living standards, is not expected to decline to the same extent as the growth rate of real GDP. Real GDP growth per person is projected to decline to 2.1 per cent per year in the current decade and to around 1.4 per cent annually by the 2020s and beyond.⁸

4 Scope for increased labour force participation

Given the demographic trends outlined above, and in view of their potential impact on labour supply and the economy as a whole, a key policy question is what scope is there to boost the future labour force participation of particular population groups with a view to offsetting at least in part these long term demographic trends.

One group where there is clear potential for increased labour force participation is the mature aged. Over time, the number of mature aged persons in the population is projected to increase substantially:

- By way of illustration, the latest Australian Bureau of Statistics (ABS) projections show that by 2016 Australia's population is expected to increase by 16 per cent, with 94 per cent of this growth being among mature-aged people. In turn, this demographic shift is expected to be the main driving force behind the change in the structure of the labour force. For example, nearly one-third of the projected growth in the labour force by 2016 will be among people aged 45-54. By comparison, the 20-44 age group will represent only 20 per cent of that growth.

⁵ Spring 2000 *Economic Round Up* article "Demographic influences on Long-term Economic Growth in Australia".

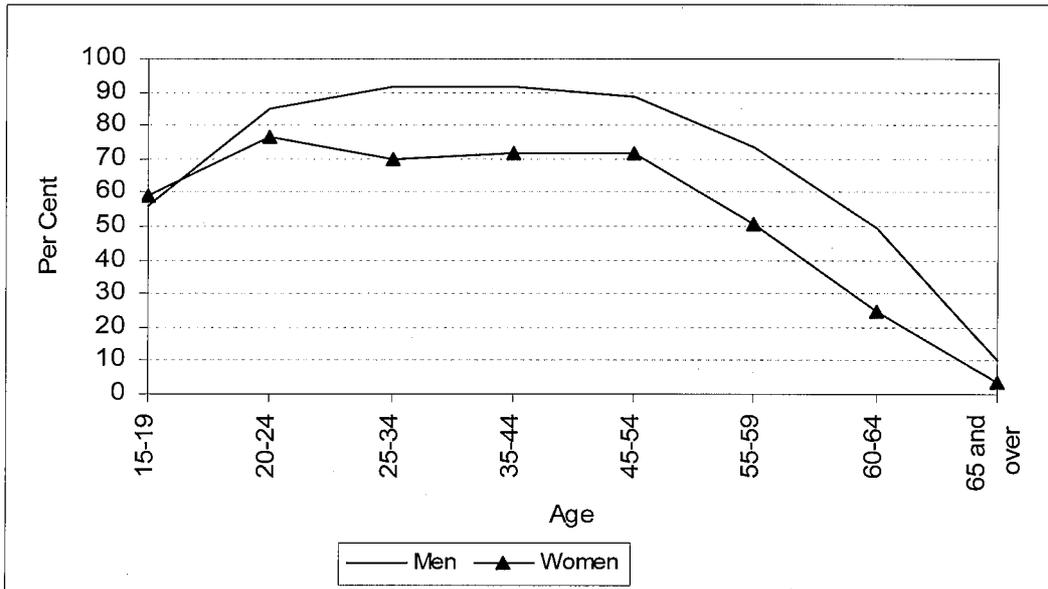
⁶ *ibid.*

⁷ *Intergenerational Report 2002-03*, Budget Paper No.5, p30.

⁸ *Ibid* page 30.

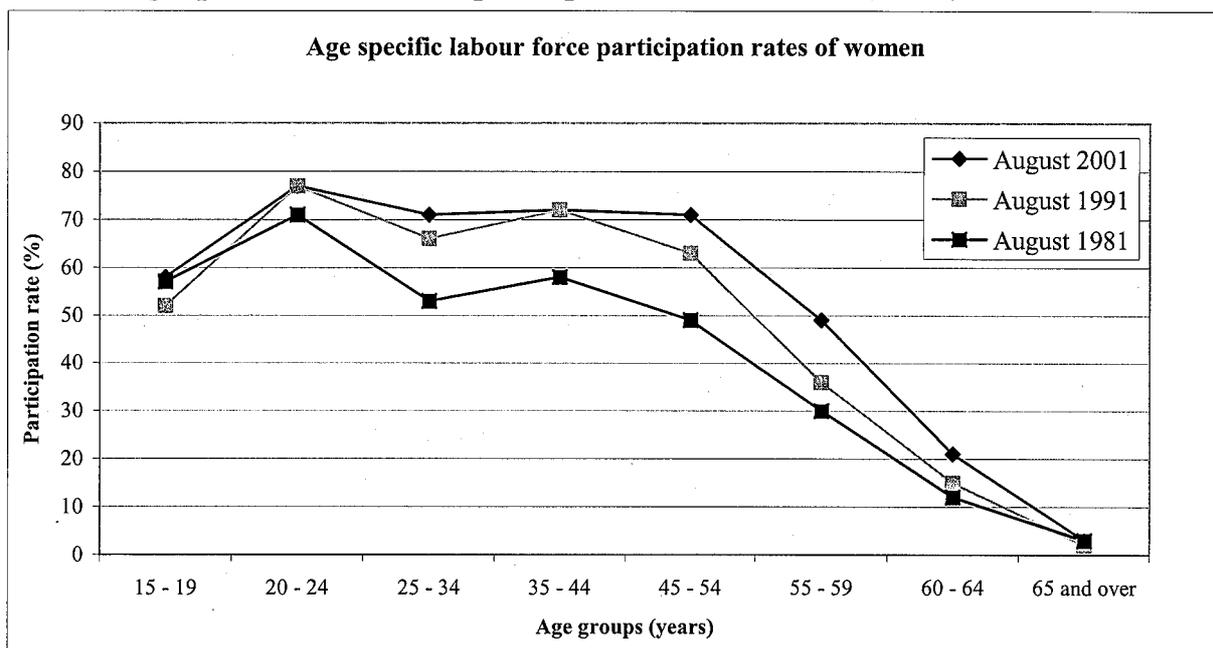
At the same time, however, the labour force participation rate of the mature aged is significantly lower than for other age groups. As can be seen from Chart 3 below, the participation rate for both men and women declines sharply from their mid 50s onwards.

Chart 3: Labour force participation of men and women by age



Labour Force Australia, ABS Cat. No. 6203.0 May 2002

Chart 4: Age specific labour force participation rates of women, 1981, 1991 and 2001



Labour Force, Selected Summary Tables, Monthly (ABS Cat. no. 6291.0.40.001)

Chart 3 also shows that the labour force participation rate of women is below that of men in most age groups. That said, as is evident from Chart 4, there has been a significant increase in women's labour force participation – particularly in the child bearing years – over the last 20 years. This has helped to offset the decline in the overall labour force participation rate arising from the fall in the participation rate of men in the work force over the same period. There are a number of reasons why the labour force participation of women remains below that of men, despite the significant increases in recent times:

- First, women's employment is affected by the presence of children. After the age of 25 Australian women's participation rates show the M-shaped curve typical of Western societies, with a dip in workforce participation levels when women begin to engage in childbirth and child rearing. This remains the case, notwithstanding the significant increase in labour force participation rates for women during their child bearing years which have been evident over the last 20 years.
- A further factor affecting the participation rate of mothers is whether or not they have a partner, as the labour force participation rate for lone mothers is lower than for partnered mothers. According to the ABS, averaged over the 12 months to January 2003, there were 441,900 mothers who were sole parents with children under 15 years of age. Some 52.9 per cent of these women were in the labour force and 47.1 per cent were not. In contrast, there were 1,672,000 mothers in couple families with children under 15 – some 62.7 per cent of these were in the labour force, and 37.3 per cent were not.

Clearly the lower labour force participation rate for mothers will in many cases reflect a preference to remain at home and care for their children. From a policy perspective, the key issue is not to mandate particular labour market behaviour for this group. Rather, it is to create the environment in which those people, particularly women, with child rearing or other caring responsibilities can balance those responsibilities with the demands of work should they choose to enter or return to the labour force.

5 Policies to sustain the growth in the labour supply

This part of the Submission outlines policies and initiatives that may help to ameliorate the projected slower growth in the size of the labour force in coming years. In particular, it focuses on policies to increase mature aged labour force participation. As argued above, this group will be a key source of labour supply as Australia's population ages. It also outlines a range of initiatives which are already helping or may in future assist people, particularly women, with caring responsibilities who choose to be in the labour force to better balance their work and family commitments.

5.1 Increasing mature age labour force participation

There are two aspects to increasing mature age labour force participation: encouraging those in work to stay at work longer and ensuring that those who are unemployed or perhaps have dropped out of the labour force altogether are assisted back into work as soon as possible:

- The incentives to encourage mature age workers to stay in work longer include building on the Government's workplace relations reforms, particularly its reforms to agreement making that have allowed increased flexibility in working conditions including the opportunity to access permanent part-time work and more flexible working hours.

- For example, regular part-time work provides employees with continuity of employment, pro rata conditions of employment (for example, annual leave and sick leave) as well as greater predictability in when hours are worked. This can be of significant assistance to employees trying to make a gradual move to retirement rather than making a total break from the workforce or assist those that may have caring responsibilities (for example, parents or spouses). It may particularly suit employees who wish to and are capable of working beyond traditional retirement ages.
- Further flexibilities which may assist mature age workers include make-up time and time-off-in-lieu of overtime, job-sharing, home-based work and career breaks, while carer's leave provisions may be important for employees with children or elder care responsibilities.
- Improved workers' compensation arrangements can also act as an incentive to stay in work.
- Removal of compulsory retirement provisions has been another important step in increasing mature age labour force participation.
- There is also a need to change the employer culture so that they recognise the value of investing in retaining and retraining older staff. Those workers considering leaving work for early retirement need to have realistic information about their financial needs and the financial, personal and social benefits of continuing in work.
- Getting those older workers who become unemployed or left the work force altogether back into work as soon as possible will remain a priority.
 - Starting with the development of the employment services framework in 1998 and building on this through to the design of the Active Participation Model that will commence from 1 July 2003, assistance to job seekers including older Australians has improved significantly. Key elements of the new model include: a single provider working with each job seeker; a job seeker account which allows Job Network members to purchase a wide range of assistance for job seekers; and access to complementary State/Territory government programmes. The Active Participation Model also includes the important messages of mutual obligation and participation. Overall, the Model will establish a sound basis for ensuring employment services are positioned to meet future needs.
 - Under the *Australians Working Together* (AWT) package, which came into effect in July 2002, the Government is providing \$146 million over four years for a range of measures to assist mature age job seekers. Measures include: early access to Job Search Training; Training Accounts for mature age job seekers; new Transition to Work services; access to Centrelink Personal Advisers; and a series of free workshops on the changing nature of the labour market and portfolio employment which are being conducted by the Council on the Ageing National Seniors Partnership in conjunction with DEWR in metropolitan and regional areas across the country over 2002 and 2003.

5.2 Facilitating labour force participation through family friendly policies

As was noted above, in Australia the key work and family goal is to facilitate choice for families, rather than to mandate particular labour market behaviour. Family friendly policies are particularly valuable as they can assist women and others with caring responsibilities to make choices about whether to engage in paid work.

Such policies can also be of assistance to the mature aged in allowing them to balance lifestyle choices with a desire to continue in some form of paid employment. As such they may also help to increase the labour force participation of this group.

Research by the OECD shows that in countries with low rates of work and family provisions, women's overall employment is generally low – while the opposite is true of countries with a greater emphasis on work and family provisions. In an analysis of women in their thirties (who are likely to have children and child-rearing responsibilities), the OECD noted that 'in countries with well-developed systems of work/family reconciliation, these women tend to have higher employment rates'.¹⁰ While this pattern is not clear cut across all countries, it would appear that a greater emphasis on work and family balance may assist many women with children who wish to work – but in their current circumstances cannot – to join or rejoin the workforce in the future. In recognition of these considerations, the Prime Minister has established an inter-departmental taskforce to review all of the options that might better facilitate choice for families in balancing their work and family lives.

In Australia, the federal workplace relations system is central to the provision of family friendly working conditions across the workforce. One of the principal objects of the federal *Workplace Relations Act 1996* (WR Act) is to assist employees to balance their work and family responsibilities effectively through the development of mutually beneficial work practices with employers. Another principal object of the Act is to respect and value the diversity of the work force by helping to prevent and eliminate discrimination on the basis of matters including sex, age, family responsibilities or pregnancy.

The focus on agreement making in the WR Act allows employers and employees to work out mutually beneficial arrangements which are appropriate for each organisation, its operating requirements and the particular needs of its employees. Arrangements which are increasingly being taken up through agreement making include flexibility over start and finish times and the scope to work part-time.

Other examples of family friendly working provisions and programmes in Australia that are designed to assist parents with children, as well as other carers, include: carer's leave provision; Workplace Pregnancy guidelines which were published by the Human Rights and Equal Opportunities Commission in 2001 with Government endorsement; breastfeeding facilities which are increasingly being provided by employers; and the Government's maternity allowance.

¹⁰ OECD Employment Outlook 2002 p129