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## Maximising participation: post budget workshop

**28 June 2011**

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Workshop summary

HC Coombs Policy Forum

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## HC Coombs Policy Forum

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***Visioning Australia's Future:*** an initiative of the HC Coombs Policy Forum as part of the strategic agreement between the Commonwealth and The Australian National University

The HC Coombs Policy Forum is undertaking a forward looking research series called *Visioning Australia's Future*. The first project in the series is focused on workforce participation and the policy constraints, challenges, and opportunities in increasing participation and improving productivity. As part of this exercise, the Forum organised a high-level scoping workshop with senior government officials and labour market experts from The Australian National University and other research institutions to explore current issues and experience, particularly in light of the 2011 Budget initiative, *Building Australia's Future Workforce*, and to identify key themes for further investigation and joint exploration.

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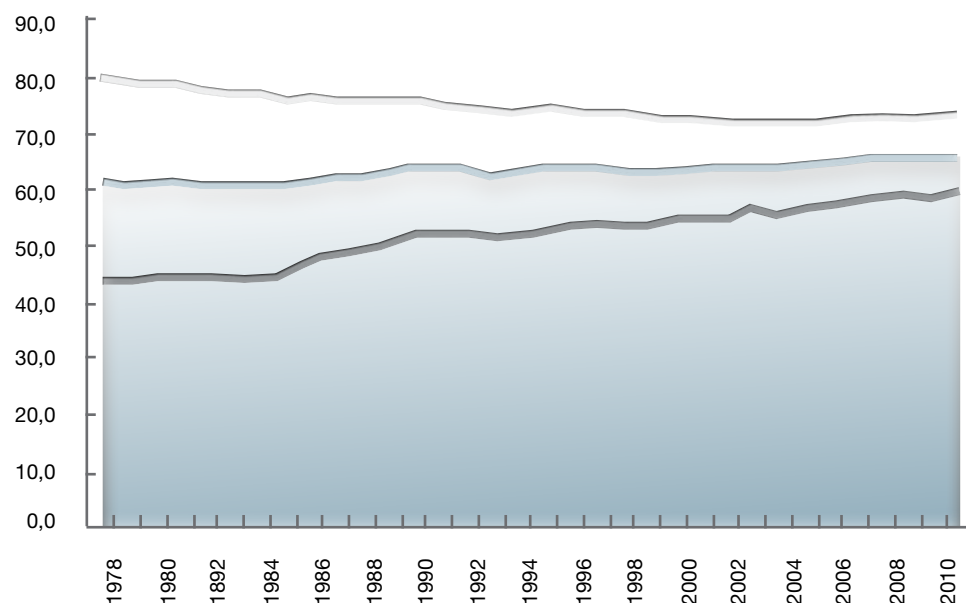
## Increasing workforce participation

Australia, along with a number of industrialised economies, is facing an ageing population which will have an impact on the workforce participation rate and on the tax and welfare systems.

By historical and international standards, Australia has a very low unemployment rate of 4.9 per cent. Nevertheless, there is pressure to increase workforce participation particularly to drive better productivity performance. Numbers of underemployed, discouraged and marginally attached workers remain high. The sum of the unemployed and the underemployed groups, the Labour Force Underutilisation Rate, is currently 12.1 per cent.

Despite 30 years of labour market reform and a period of economic growth, the increase in workforce participation has been only 4.6 per cent. Over this time, women's participation has grown by 16 per cent while that of men has declined markedly, especially in the area of full time work.

The Building Australia's Future Workforce package introduced in the 2011 Budget provides \$3 billion over six years to boost skills and promote participation. It offers a three pronged approach focusing on people, place and partnerships with the aim of providing more targeted services and support. Since then, the Government has announced measures to increase participation as part of the Clean Energy Future package.



Source 6202.0 Labour Force, Australia, ABS

Participation today is around 65.8 per cent, with 72 per cent of men and 59 per cent of women participating in the labour force.

**Figure 1**

Participation by gender 1978-2011



## Who are we talking about?

### In the Labour Force

- > Unemployed - **590,000** people
- > Under-employed - **845,000** people
- > The sum of these two groups is 12 per cent of the labour force.

### Not in the Labour Force

- > **5.9 million** people aged 15 and over
- > Of these, **1.3 million** wanted to work and **100,000+** wanted to work but were not actively looking for a job because they believed they would not find one
- > **800,000** people on the Disability Support Pension
- > **127,000** young people not engaged in full-time education or work
- > **344,000** women caring for children indicated that they were not looking for work but they would be available to start in the next four weeks.

## Key groups

- > Compared with other OECD economies, Australia ranks highly in the proportion of young people not in education, employment or training (NEET), and in the number of children growing up in jobless households. The number of people not in the workforce due to disabilities is also higher than the OECD average.
- > Particular groups needing further consideration include:
  - **Children in jobless families** – Australia has the 4th highest proportion of children under 15 in jobless families in the OECD (after UK, NZ and Turkey) – more than half a million children; need to improve outcomes for sole parents – with intergenerational returns on investment
  - **Mature aged people** – the employment rate of people aged 55-64 trails that of the US and New Zealand and unemployment duration is more than double that of other jobseekers. Superannuation arrangements discriminate against workers over 70.
  - **People with disability and Indigenous Australians** – particularly through investment in skills
- > Overall, key population groups where participation could be increased are:
  - Young people
  - Indigenous Australians
  - Single-parent pensioners
  - People with a disability, including with mental health issues
  - Migrants
  - Low-skilled men
  - Middle-class women
  - The long-term unemployed
  - Mature age people
  - The underemployed
  - Jobless families
  - Low socio-economic status communities

## Key Issues

### Multiple goals

- > There are multiple policy goals for participation:
  - Filling job vacancies to satisfy skills demand
  - Improving social inclusion and community and individual wellbeing
  - Reducing Budget impact
  - Increasing workforce productivity.
- > Different strategies are needed in response to different goals; there is a focus on economic indicators and analysis in discussions of workforce participations, arguably more attention should be paid to sociological and social inclusion perspectives
- > One hundred percent participation in the workforce is not the goal. There are other valuable forms of participation such as caring and volunteering. Is there an obligation to work? Should people who don't participate in paid work receive support and, if so, under what conditions?

### Relative roles of welfare and tax systems and the macro economy

- > Trend data indicates that overall employment rates reflect the strength of the economy. High unemployment has coincided with recessions in the early 80s and particularly the early to mid 90's. However this is not always the case for specific groups.
- > For every year a person is unemployed, their future income earning potential is reduced by around 3 per cent.
- > Australia is witnessing a large increase in part time work. In 1968 the ratio of part time employment to population of 15-64 year olds was just over 0.06. In 2010 this had grown to 0.21. This compares to the same ratio in the US in 2010 of 0.13.
- > Any welfare program reforms need to ensure that people are always better off in work.
- > How valid is the assumption that if unemployed people are assisted to become more like employed people demographically, this will help them to participate in the workforce?
- > There is a question over the extent to which people are participating in the illicit (cash) economy and are not, therefore, captured in official statistics.

### Building blocks for participation

- > Include providing:
  - Safe and affordable housing
  - Income security
  - Safe functioning families
  - Cohesive communities
  - Adequate and appropriate schooling and training
  - Access to health care
  - Affordable child care
  - In work support
  - Participatory habits
  - Effective infrastructure, especially affordable, safe and efficient transport

### Regions

- > Locational disparities – In 2006, 49 per cent of people aged 15 to 64 living in the 10 per cent of most disadvantaged regions had a job compared to 74 per cent in the 10 per cent of least disadvantaged regions; further work is needed to understand the reasons for locational disparities as well as initiatives to ameliorate these.
- > Currently place-based trials, managed by the Department of Education, Employment and Workplace Relations, are being conducted in 10 disadvantaged locations across the nation.

## What is the HC Coombs Policy Forum doing?

A number of policy initiatives are already under way as part of the *Visioning Australia's Future* initiative including:

### **Seminars and presentations**

- > Regional Australia and the patchwork economy
  - Background papers and seminar – September
- > International experience in participation policy – review of recent UK (and other international) policy
  - Background papers and seminar – October
  - Professor Dan Finn, Professor of Social Inclusion: visiting fellow – 28 November to 2 December
- > Henry and Harmer reports on the interaction between tax and social security especially the incentives and disincentives for participation in the workforce
  - A roundtable in association with the Academy of Social Sciences in Australia, ANZSOG and relevant areas of ANU – October.

### **Working papers**

A number of papers have been commissioned to be completed by 30 November 2011.

#### **Participation**

- > How will the new National Quality Framework affect women's labour force participation?
- > Increasing participation, the minimum wage and in work benefits
- > What policies will be most effective in increasing the employment rates of indigenous Australians?

#### **Regional**

- > Enhancing community sector capability in rural and regional Australia

#### **Underpinning data work**

- > Improved coordination of federal government survey data collection relating to individuals

## What issues do we need to look at to take the next step in public policy formulation?

### Participation and productivity

- > **The relative roles of welfare and tax systems** and the macro economy need to be explored- systematically analyse welfare reforms and their impact on participation behaviour and outcomes.
  - To the extent transfer payments decrease participation how can they be reformed?
    - Is it more than just lowering Effective Marginal Tax Rates (EMTR)
    - Which program reforms have worked and why
  - Can participation be increased without welfare reform? How important are inducements, threats, eligibility requirements and taper levels to participation rates?
  - To what extent are people making choices to access welfare, a particular scheme and when and on what basis?
  - Would there be a benefit in making the overall welfare system simpler and more rational?
- > **What is the role of part-time work** – and are there contradictions in this?
  - To meet industry needs for efficiency
  - To permit some people to make a work/leisure (or family) trade-off
  - As a means of allowing individuals (or income units) a means of achieving a desired income level
  - To what extent should the tax and transfer system provide a subsidy for part-time work (that is relative to the counterfactual of the person working full-time)
- > **What type of participation are we interested in?**: are we seeking to increase on the extensive margin (employment) or the intensive (hours) margin
- > **Explore the best ways to promote the value of work** over a lifetime eg by including reference to the employers' compulsory superannuation contribution and to cultivate a social norm of participation and self-support

- > **Examine the impact of skills training and education** on individuals and economy; structural changes to enhance economic productivity
  - What is the cost-effectiveness of the wide range of current interventions – including tertiary education
    - Which of these are actually productivity enhancing
    - Will training enable all to be productive – and if not what policies should be put in place for this group.
  - Do we have the funding/charging mechanisms right
  - Investigate the value of early intervention in facilitating transitions from school to work and from care to work

### People

- > **Mature age workers** – is their employment status an on-going structural adjustment to labour market conditions or a passing phenomenon?
- > To what extent do we allow **'family' units** to consider their participation as a single unit; what is influencing **the choices women and families make** in going to work?
- > Provide a **demographic snapshot** of key population groups and examine the barriers to their participation in the workforce and how these might affect their choices, eg why have the participation rates of men fallen?

## Place

### > How should location be treated?

- What expectations should be placed on people to be mobile? Should people be encouraged to move to areas with jobs or should incentives be given to create jobs in areas of high unemployment
- What are the most productive urban and regional investments
- Are there still wage rigidities that have adverse spatial consequences
- What role is there for overseas migration

> **Explore innovative applications of technology** to provide more jobs in regions. One example is the use of prefabricated materials in housing construction in the Northern Territory which creates opportunities for less skilled workers, while minimising costs.

## Data

While there are a lot of data on individual service transactions, there is a lack of information on people moving through different transaction types and different service providers. Information is also missing on what happens when people are not in the system. Ideally administrative data could be tied in with survey, and especially longitudinal survey, data in order to shed more light on this issue.

- > The need for systematic analysis of reforms and their impact further highlights the **importance of relevant and accessible data**. Control groups and pilot programs along with randomised trials may provide useful information or evaluations.
- > **Detail the available administrative data** held by government departments and its accessibility to researchers

## Invitation

You are invited to consider and provide comment on the proposals in this paper, in particular to identify priorities for further exploration in addition to considering:

- > Staff secondments to ANU
- > Nomination of visiting fellows
- > HC Coombs Policy Forum engagement with stakeholder consultations

## Contacts

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