

8 August 2003

Committee Secretary
Standing Committee on Employment and Workplace Relations
House of Representatives

Re: Submission to the Inquiry into Employment: Increasing participation in paid work

1. I refer to the attached paper which looks at changes over time in the proportion of the Male and Female population aged 15 and over who are employed. It is especially aimed at studying the influence of changes in the age composition of the population on this indicator. It occurs to me that this work, and the summary reported below, might provide some useful background information to the Committee.

2. It is useful for analytical purposes to focus on data showing the proportion of the population (aged 15 and over) who are employed, as defined by the Australian Bureau of Statistics (ABS) in its labour force surveys. (The "Employed" as defined by the ABS are persons aged 15 years and over who, during the reference week: (a) worked for one hour or more for pay, profit, commission or payment in kind in a job or business, or on a farm; or (b) worked for one hour or more without pay in a family business or on a farm; or (c) were employees who had a job but were not at work for one of a number of specified reasons.¹) In what follows I refer to the proportion of the population (aged 15 and over) who are employed as the 'Employment Ratio'.^{2,3}

3. ABS data for employment and population enables us to calculate the Employment Ratio for Persons, Males and Females aged 15 and over for the period 1978 - 2002.

¹ These being: that they were: away from work for less than four weeks up to the end of the reference week; or away from work for more than four weeks up to the end of the reference week and received pay for some or all of the four week period to the end of the reference week; or away from work as a standard work or shift arrangement; or on strike or locked out; or on workers' compensation and expected to return to their job; or were employers or own account workers, who had a job, business or farm, but were not at work.

² Note that this does not distinguish between part-time and full-time employment and it does not weight the number employed by average hours worked.

³ This ratio is not the proportion of the population who are in paid work as the ABS includes in the number who are employed those persons who "worked for one hour or more without pay in a family business or on a farm".

Figure 1, which is to be found on page 5 of this note, shows the Employment Ratio for Persons. If we simply compare the starting (1978) and end (2002) dates we see that the ratio has risen, albeit by only a small amount. But the dominant message given to us by this diagram is that over the period between 1978 and 2002 there have been quite marked increases and decreases in the ratio, the decreases being associated with the two recessions the economy experienced over the period. We shall see below that the movements in the Ratio for Persons masks quite different evolutions over time in the Employment Ratios for Males and for Females taken separately. However, we shall also see that the over-riding impression we take from Figure 1, that Employment Ratios are markedly and deleteriously affected by recession episodes stands, whether we look at data for Males and Females, taken together or separately.

4. Figure 2, which is also to be found on page 5, shows the aggregate Employment Ratio for Males aged 15 and over for the period 1978 – 2002. Clearly, the aggregate Male Employment Ratio has fallen a good deal over the last two and a half decades. It would also appear that the Ratio has not fallen slowly and continuously over the period but instead has fallen in two discrete ‘steps’. In particular, it has fallen steeply in each recession and did not ‘bounce-back’ to its original level after each recession ended.⁴

5. Figure 3, to be found on page 6, shows the Employment Ratio for Females aged 15 and over for the period 1978 – 2002. This Ratio has tended to rise strongly over the period and especially so in the years 1983 – 1989, that is the period between the two recessions.

6. Comparing Figures 2 and 3, we see that: (a) the underlying trends for Males and Females are in the opposite direction; (b) both Male and Female Employment Ratios fall in recession and rise in recoveries but Male ratios fall far further in recessions than the Female Ratio does, and; (c) the Female Ratio tends to ‘bounce back’ relatively quickly after each recession and the upwards-trend quickly reasserts itself while the Male Ratio, although it rises after each recession, does not tend to return to its original level. Far from it.

⁴ I assume that these reductions are, strictly speaking, involuntary. If they were entirely ‘voluntary’, one wonders what the case is for using some ‘artificial’ policy measures to induce these people back into paid employment.

7. Statistical calculations (the results are reported in Tables 4M and 4F of the background paper which is appended to this memo) suggest that changes in the age composition of the population (ageing per se) can explain only a very small amount of the changes in the aggregate Employment Ratio for both Males and Females over the period 1979 – 2001.⁵

8. Further, it would appear that only a small part of the reduction in the aggregate Employment Ratio for Males (1/6th) is due to falling Employment Ratios for Males aged 55-64.⁶ This is shown in Table 5F on page 14 of the Background paper which is attached. More generally, the findings reported in that Table make it clear that the falling aggregate Male Employment Ratio is not primarily or even largely a result of movements out of employment by older workers.⁷

9. Importantly, the results of the statistical analysis reported in that Table show that over half of the reduction in the aggregate Employment Ratio for Males is due to falling Employment Ratios for prime working-age Males (ie those aged 25-54). Figure 4, to be found on the last page of this memo, shows that the 'stepping down' we observed in the aggregate Employment Ratio for Males (see Figure 2) is also evident in the Employment Ratio for Males in the age groups 25-34, 35-44 and 45-54. For each of these prime working-age groups we see the sharp fall in the Employment Ratio in the two recessions and its failure to recover after the recession. This has considerable social, economic and 'fiscal' implications.

10. Summary and Policy Implications

10.1 Changes in the age composition of the population (ageing per se) appears to explain only a very small amount of the movement in either Male or Female Employment Rates over the past two and a half decades.

⁵ Of course, the fact that ageing has not been important in the past does not mean that it may not be more important in the future.

⁶ Or for those aged 65 and over.

⁷ The marked rise which has occurred in the aggregate Employment Rate for Females is also due primarily to the rising Employment Ratio for prime (working) age Females (see Table 4F on page 27 of the Background paper which is attached).

10.2 The evidence suggests that it would be wrong to focus on the behaviour of older workers to explain the marked fall we have observed in the aggregate Male Employment Ratio.

10.3 Since the reductions in the Male Employment Ratio in the past appear to have been 'recession induced' the most significant policy implication is that in order to encourage people back into paid employment government (and institutions such as the Reserve Bank of Australia whose statutory responsibility it is to ensure – inter alia - the maintenance of full employment and economic growth) use macroeconomic policy instruments to ensure that we avoid another deep recession and especially that we avoid the 'sharp' and large increases in unemployment we saw in the early eighties and again in the early nineties.⁸

10.4 More generally, if possible policies were to be evaluated in terms of their likely impact on employment (and thus on production and future tax revenues) per dollar of government expenditure (or revenue forgone), it may be wiser to design policies to raise the employment ratio for (and thus the retention of) prime age workers (and especially younger prime-age workers) than to frame policies whose impact is exclusively on the older workers and the older population.

Robert Dixon
Reader in Economics
The University of Melbourne
Victoria 3010

⁸ The negative impacts of the two recessions is also quite evident in the data for Females (Figure 3) and so I think we can be confident that my suggestion regarding the importance of avoiding future catastrophic recessions is as applicable to Female Employment Ratios as it is to those for Males.

Figure 1 Aggregate Employment Ratio for Persons - Australia 1978:2 – 2002:2

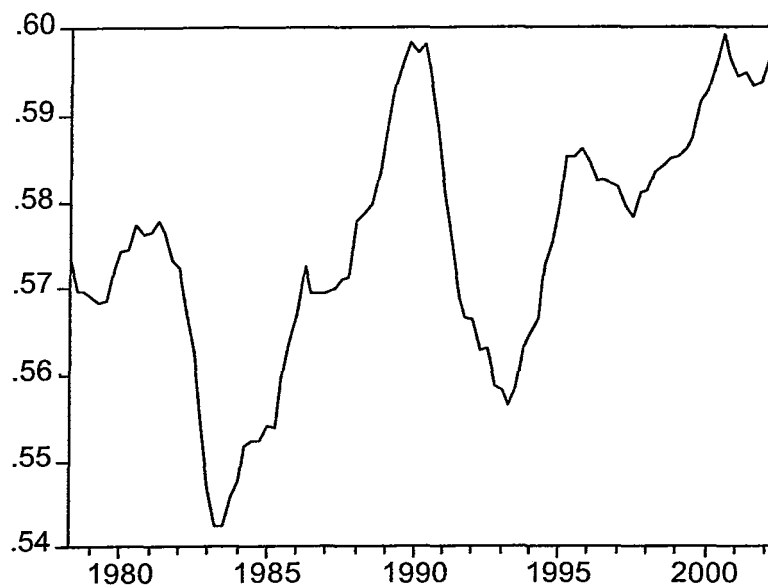


Figure 2 Aggregate Employment Ratio for Males - Australia 1978:2 – 2002:2

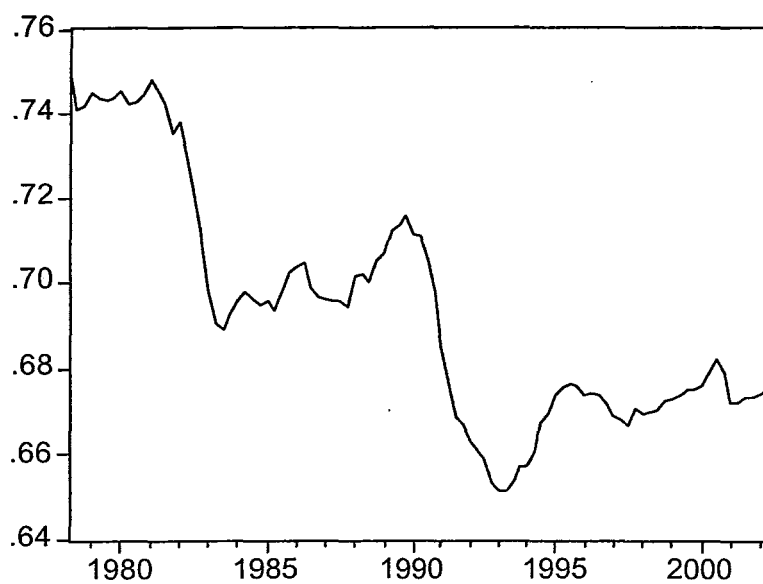


Figure 3 Aggregate Employment Ratio for Females - Australia 1978:2 – 2002:2

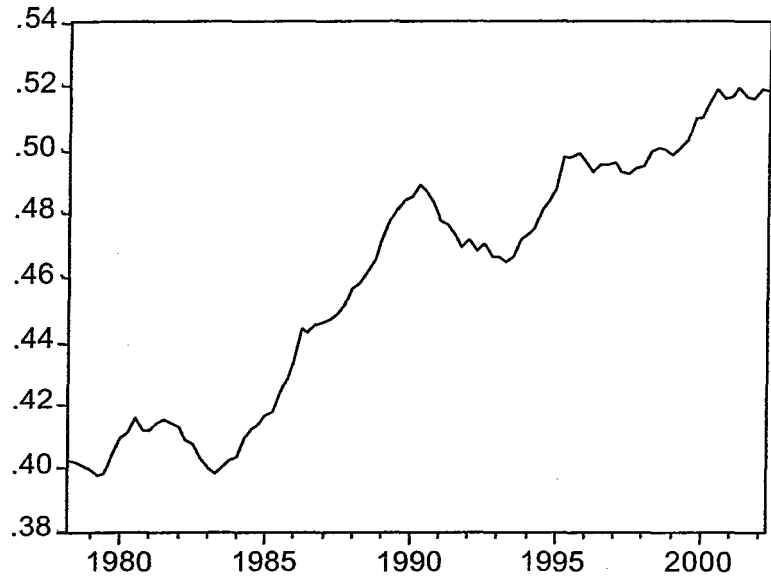


Figure 4 Employment Ratios for Males aged 25-34, 35-44 and 45-54.

