

Business
Council of
Australia



Business Council of Australia

Employing Our Potential:
Ensuring Prosperity Through Participation

**Workforce Participation Roundtable
Discussion Paper**

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Overview

The Business Council of Australia (BCA) is an association of Chief Executives of 100 of Australia's leading companies. These companies are major contributors to Australia's economy, employing nearly one million Australians and accounting for over 30 per cent of Australia's exports. Accordingly, the BCA has a strong interest in the health of Australia's economy and policies that promote and share sustained growth and prosperity.

Australia is experiencing one of its most prosperous periods for several decades. Good economic management, reform and strong economic growth internationally have delivered higher economic wellbeing and standards of living to an increasing number of Australians.

However, a number of sectors of the Australian economy are now constrained by labour availability and productivity growth has slowed. At the same time, despite more than 16 years of continuous growth and strong employment figures, Australia still has over one and a half million social security recipients without jobs.

The most effective way to ensure that as many Australians as possible can participate in the economy's prosperity is through employment. Lack of employment is the single greatest predictor that an individual will be in the poorest 20% of Australia's population. Further, lack of employment is highly correlated with a myriad of significant social detriments including depression, abuse, and crime. Individuals without employment whether they are unemployed (actively looking for work) or not participating, face higher and accumulating barriers to entry or re-entry the longer they are out of the workforce.

The substantial costs to the individual of non participation are mirrored by costs to the economy.

Australia's ageing population over the next 30 to 40 years means that all possible avenues to increase workforce participation need to be pursued. In addition to mitigating the declining growth of the

employment pool and sharing the benefits more widely, increasing participation simultaneously increases taxation revenue and reduces welfare spending.

Increased employment and participation increases equity and provides economic benefits for both the individual and the nation. There is a clear efficiency and equity case for removing constraints on the effectiveness of the Australian labour market, building opportunities and individual capacity. Participation is the most effective method of increasing social equity. If insufficient numbers of individuals have the ability to enjoy the prosperity achieved through economic reforms there will not be support from those individuals or others for future reforms.

There is also a clear case for closer business involvement. Australia's available workforce will decline substantially in growth over the next thirty years. This will occur primarily because of Australia's demographic changes but the demographic changes in other countries that are keen to retain our employees will also play a part. In order to remain competitive business will need to consider methods to attract and retain employees from an increasingly tighter labour market. In addition, business will need to consider methods of increasing that available pool. This will need to occur through both increased workforce participation and skilling of that workforce. As the fastest growing contributor to the public purse through corporate taxation revenues, business also has a clear interest in ensuring that investment in social welfare is spent effectively.

Participation rates can and should be higher. Too many Australians continue to remain isolated economic participation and community life.

A Few Facts

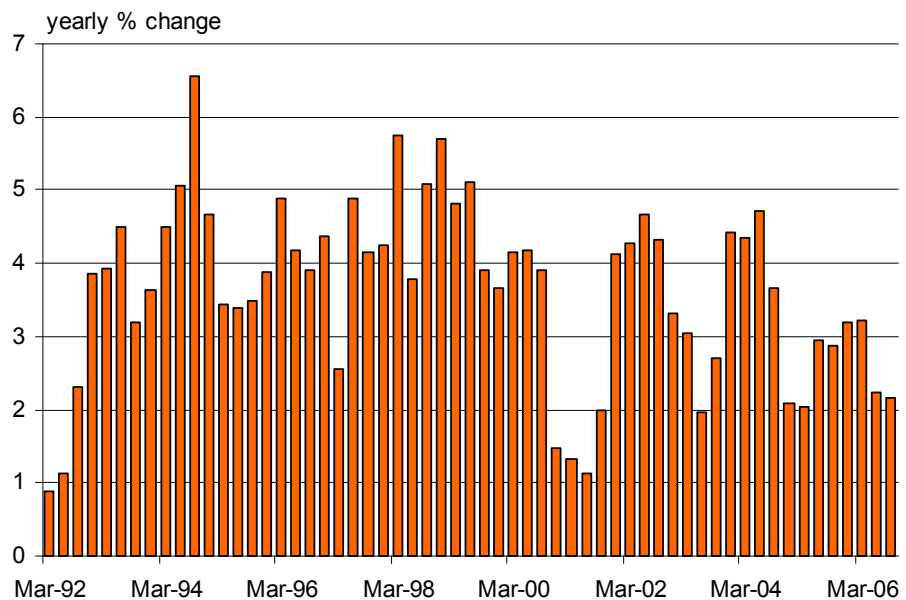
- After more than sixteen years of continuous economic growth, one-and-a-half-million social security recipients are currently without employment.
- There are just five workers paying income tax for every one person reliant wholly or mainly on welfare payments. In the mid 1960s there were 22 workers for every welfare recipient.
- Over the next 40 years the ageing population is projected to slow economic growth (per capita GDP) to 1.6 per cent per year on average instead of the average of 2.1 per cent enjoyed over the last 40 years.
- A quarter of a million people are long-term unemployed (on benefits continuously for over a year). Nearly three quarters of a million have been assessed with severe disabilities. Nearly half a million are jobless parents caring for children.
- One in six Australian children live in jobless households.
- One in nine Australians aged 50 to 64 is on the disability support pension – including one in four males aged 60 to 64.
- Disadvantage is often concentrated. Five per cent of postcodes account for a quarter of all unemployment. Whole communities are impacted.
- For all groups higher participation levels are associated with higher education and better health status. The reverse relationship also holds, exacerbating poverty traps.
- Australia needs to build a phenomenon of the ‘encouraged worker’ removing individuals from the pool of non-participation and providing the right framework for motivation to seek, find and retain employment opportunities.

State of Play

Strong Macro Picture

The Australian economy is now into its sixteenth year of uninterrupted expansion, the longest in its history (Figure 1). The benefits of 16 years of continuous growth are obvious. More Australians are actively engaged in the mainstream economy than ever before, and they are reaping the benefits in terms of income, wealth and living standards.

Figure 1: Annual GDP Growth



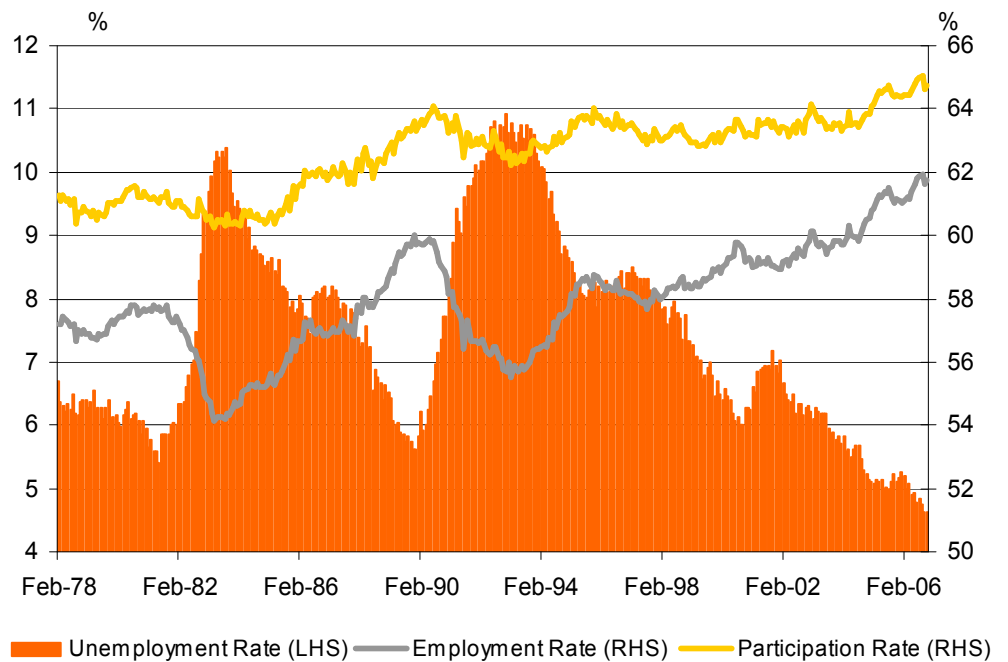
Source: ABS Catalogue No. 5206.0, *Australian National Accounts: National Income, Expenditure and Product*, Table 2, September 2006.

Unemployment is at its lowest levels in three decades. Employment and workforce participation rates¹ are at record highs (Figure 2). Australia's workforce participation rate has increased from 61.3 per cent in 1980 to

¹ The labour or work force participation rate is the total of the employed plus the unemployed as a percentage of the civilian population aged 15 and over.

64.8 percent in 2007.² According to the Productivity Commission’s recent staff working paper comparing participation rates across OECD countries, Australia is doing better than the average participation rates for both males and females and using an adjusted data model,³ Australia is ranked fifth with relatively high participation rates compared with most of its OECD competitors.

Figure 2: High Participation and Low Unemployment



Source: ABS Catalogue No. 6202.055.001 *Labour Force, Australia* Spreadsheets, Table 2, 2006

A Micro Breakdown

Despite this strong macro position a more micro breakdown shows a different picture. There were 5.5 million people aged 15 years and over

² ABS Catalogue No. 6202.0, *Labour Force, Australia*, March 2007.

³ The Productivity Commission Staff Paper (J. Abhayaratna and R. Lattimore2006), uses cross-country comparisons adjusting the data to reflect data discrepancies in the treatment of defence personnel, institutionalised populations missing data from some age brackets and paid maternity leave.

not in the labour force at September 2005.⁴ Australia continues to have unacceptably high levels of unemployment and low participation rates within specific groups. This is not a unique problem; Australia is not the only country to have close to full employment coexisting with regions and groups with high unemployment and low participation.⁵

The employment macro figures do not show those who are not participating in Australia's economy and unable to share the benefits of prosperity. The issues behind unemployment and non-participation are closely related. As a 'non-participant' an individual will not be counted in the unemployment figures and a fall in unemployment figures can therefore reflect a fall in the number of people looking for work.⁶ For the purposes of this paper, 'not participating' (and related terms) is defined as not participating in employment, covering both the unemployed and those not actively looking for employment.

Significant barriers to entry into the Australian labour market exist particularly for the disadvantaged, those with caring responsibilities and those who lack appropriate skills, education, connections or confidence. With these barriers comes the cycle of the 'discouraged worker'. Reduced employment options, both real and perceived, result in lack of participation. Groups with low participation and systemic high unemployment in Australia include:

- youth;
- Indigenous Australians;
- carers, including women with children;
- mature aged men and women;

⁴ ABS Catalogue No. 1301.0, *Year Book Australia*, 2007.

⁵ The OECD *Employment Outlook 2006*, p. 127.

⁶ In January this year, for example, 9,400 unemployed people moved out of the workforce.

- disabled including physical and mentally disabled;
- regionally isolated groups; and
- culturally and linguistically diverse groups.

Table 1: Australian Labour Market – 2006

	Unemployment Rate (%)	Participation Rate (%)	% of Population Aged 15 and Over
Youth (not in education)	14.8	86.3	2.7
Older people 55–64 years	3.3	57.5	13.7
Males 25–54 years	3.5	90.4	26.1
People with disabilities	8.6	53.2	14.1
Indigenous Australians	16	57	1.9
Long-term unemployed	N/A	100	0.6

Source: ABS, *Labour Force*, Australia, Detailed–Electronic Delivery, Cat. No. 6291.0.55.001 for males, mature age, youth, CALD and long-term unemployed, and females 20–44 years (national data) 12 month average June 2005; ABS, *Disability, Ageing and Carers*, Cat. No. 4430.0 for people with disabilities (latest data are for 2003); and ABS, Catalogue No. 6287 *Labour Force Characteristics of Aboriginal and Torres Strait Islander Australians*, Experimental Estimates from the Labour Force Survey, 2005

Table 1 above provides unemployment and participation rates for a number of systemic low participation and high unemployment groups. Improvement in the low participation of women (not shown Table 1), mature-aged workers and people with disabilities who represent such a high proportion of those of employment age provide greatest potential increases in the workforce. More detail regarding a number of these pockets of low participation is provided in **Appendix A**.

While these groups have a marked participation problem there are also concerns regarding employment and participation trends for the 'traditional bread winner'. The male full-time employment–population ratio for those aged between 15 and 64 years is near its lowest level ever. Full-time employment has fallen for all men but it has been primarily concentrated on the unskilled.⁷ Inactive men are more likely to be living alone, poorly educated, and of Indigenous or non-English speaking migrant background. In 2005–06 nearly 30 per cent of the male working-age population were neither working nor looking for work.⁸ An underlying theme for many is the shift away from unskilled manual work in an increasingly service oriented and skill-based economy. About half the men aged 25–64 years old who are outside the labour force are in receipt of the Disability Support Pension.

⁷ P. Frijters and R. Gregory, *From Golden Age to Golden Age: Australia's "Great Leap Forward"?*

⁸ R. Lattimore, *Men Not at Work: An Analysis of Men Outside the Labour Force*, Productivity Commission Staff Working Paper, Canberra, January 2007.

An Unsustainable Position

Cost to the Economy

Maximising Australia's participation rates is now more vital than ever.

Australia's demographic changes will have a profound effect on workforce participation rates. Over the next 30 to 40 years, as Australia's population ages, there will be relatively fewer people in the workforce. This reflects the increase in the share of the population over 60 coupled with the relatively low rates of participation among those in older age groups. Currently labour force participation declines rapidly after the age of 55 years. As more of the population shifts into older age groups the aggregate participation rate will decline. This will have impacts on a number of levels:

- it will be more difficult for employers to attract labour and skills;
- there will be fewer taxpayers relative to dependents; and
- there will be a net increase in demand for services and spending in areas such as health and aged care.⁹

The Treasury *Intergenerational Report 2007*¹⁰ and the Productivity Commission notes that failure to stem this rapid decline in participation rates will impact per capita income growth. GDP growth can be

⁹ Productivity Commission, *Economic Implications of an Ageing Australia*, Research Report, Canberra, 2005.

¹⁰ Department of the Treasury, *Intergenerational Report 2007*, April 2007.

expected to fall to half its current growth rate with an accumulated dent in GDP of \$4,100 billion (4.1 trillion) by 2045.¹¹

Demographic changes underscore the importance of supporting higher rates of workforce participation wherever possible.

In addition to demographics there are other costs to the economy including greater government spending directly on welfare benefits and on associated low participation outcomes such as poor health and increased crime.

Participation increases social equity. Greater numbers of people enjoying the benefits of prosperity brought about by economic reforms and management will naturally boost community support for economic reforms in the future.

Cost to Individuals

Limiting opportunities for individuals to work and be productive members of our society limits living standards, the ability to provide financially for themselves and their families, and excludes individuals from the wider community. 'Paid work is the way most people obtain the economic resources needed for day to day living, for themselves and their dependents, and to meet their longer term financial needs. Having paid work contributes to a person's sense of identity and self-esteem.'¹²

The inability to participate leads to and is directly correlated with a myriad of related problems including, frustration, depression, drug and alcohol addiction, domestic violence, civil disorder and suicide.¹³ There is a strong correlation between not being employed, poverty and

¹¹ Productivity Commission, *Economic Implications of an Ageing Australia*, Research Report, p. 128.

¹² ABS Catalogue No. 1370.0, *Measures of Australia's Progress*, 2006.

¹³ B. Day, 'The Workforce Super Highway', address to the 2005 AFR Industrial Relations Conference.

disadvantage. Unemployment is the single greatest common factor for the poorest 20% of Australians.

Given the substantial and often intergenerational costs to individuals and communities,¹⁴ Australians need to do better in removing barriers to employment.

Business Case for Greater Involvement

To remain competitive and rise to the challenge of globalisation businesses will need to attract and retain employees from a workforce declining in growth due to demographics. Migration may assist to some degree, but increasingly Australian employers will compete for employees with other countries who are undergoing similar demographic challenges.

In addition to competing within the current pool of employees, business needs methods of increasing the available pool through increased participation. Typically, those from low-participation sectors are unlikely to have the skills to boost productivity particularly initially. However, employment from this group can assist with removing labour capacity constraints and, provided employment is complemented with increased skilling of the workforce more generally, this will increase productivity over the longer term.¹⁵

According to recent work undertaken by the Productivity Commission closing the participation gap relative to the highest performing comparable OECD country in only three areas (prime aged males, childbearing aged females and people nearing retirement) would increase the number of people participating in the workforce by 5.7 per

¹⁴ T. Vinson, *Dropping off the edge: the distribution of disadvantage in Australia*, 2007.

¹⁵ Simply being in the workforce increases skills and, conversely, higher skills and education are associated with increased likelihood of employment and length of working life.

cent to 11.2 million, increasing the aggregate participation to 69.2 per cent.¹⁶ Other research shows that if Australia had the same proportion of its working age population working as, for example, the United States we would have an additional half a million people in work.¹⁷

The fiscal costs of low participation are large and will get larger. Given the increasing dependency ratios of an ageing workforce we need as many people in employment as possible. As well as the increasing cost of welfare benefits, the range of associated problems including poor health and higher crime rates also costs taxpayer dollars. As the fastest growing contributor to the public purse through corporate taxation revenues, business has a clear interest in ensuring that investment in social welfare is spent effectively. Business is also concerned that the future call on spending is minimised and the likely fiscal gap, which will result in higher taxes, including for business, is reduced.

Australia will need to re-examine its approach to the last 4.5% of unemployed workers and those who are not currently participating in the workforce.

Underlying Issues and Common Themes

The issues of low workforce participation and the interrelated problems of significant and often intergenerational disadvantage are complex. However, there are clearly some underlying themes when looking across the range of low participating groups.¹⁸

¹⁶ Productivity Commission Staff Paper 2005.

¹⁷ B. Day, *'The Workforce Super Highway,'* address to the 2005 AFR Industrial Relations Conference.

¹⁸ Statistics are from ABS Catalogue No. 6105.0, *Australian Labour Market Statistics*, January 2007.

In a number of typically low participating groups the issues are compounding. For example, sole-parent families account for a larger share of Indigenous families than is the case among other Australian families. Indigenous female sole parents are less likely to be employed, tend to be younger and to have larger numbers of children and less education compared with other sole parents.¹⁹

Age

In July 2006, 11% of unemployed people reported their main difficulty in finding work as 'considered too young or too old by employers'. The most commonly reported main difficulty in finding work for unemployed people aged 45 years and over was 'considered too old by employers' (29%).

Insufficient Education, Skills or Employment Experience

10% of unemployed people reported 'insufficient work experience' as their main difficulty in finding work. The most common main difficulty reported by unemployed people aged 15–19 years (15%) and 20–24 years (21%) was 'insufficient work experience'.

There is a strong correlation between unemployment and low participation and level of education. People who obtain a Year 12 qualification are more likely to continue their involvement in further education and training and be employed. In 2004 Indigenous students were half as likely to continue to year 12 as non-Indigenous students²⁰.

Health

According to the ABS last year 'own ill health or disability' was cited by 10% of unemployed people as the major obstacle to employment. 'Own

¹⁹ A. Daly, using 1991 and 1996 census data.

²⁰ SCRGSP, *Overcoming Indigenous Disadvantage Key Indicators 2005*, Productivity Commission, Canberra, 2005, p. 3-14.

ill health or disability' was the most common main difficulty in finding work reported by those aged 35–44 years and was cited by a similar proportion of those aged 45 years and over. 13 per cent of the 25–44 age group and 14 per cent of the 45 years and over cited 'Own ill health or disability' as the reason for not finding work.

Lack of Appropriate Work Arrangements

Eight per cent of women unable to find work reported unsuitable hours as their main difficulty, compared with men (3%). It is well documented that family-friendly working arrangements are needed to provide more flexibility to support for those with caring responsibilities, including care of the elderly and childcare.

Childcare costs also contribute to lower participation rates particularly for those with low earning capacity.

Regional Isolation

Rural and regional areas have higher proportions of people in receipt of government pensions and benefits compared with metropolitan centres. Weaker employment opportunities in rural and regional Australia are due to a range of reasons including smaller populations resulting in limited markets and economies of scale. There is often reliance by the local economy on one specific industry (and sometimes even one business), reducing fallback employment options if that industry suffers a downturn. In general there is a strong reliance on, either directly or as a service arm to the less flexible and traditional economic base of primary industry. This is often compounded by a lack of available services such as health, and education opportunities.

Stigma, Assumptions and Prejudice

The negative assumptions made by employers about low participating groups are often incorrect and misinformed. These assumptions are often not 'conscious' but can act very effectively as barriers to employment. Similarly the assumptions made by individuals themselves can act as barriers. Such assumptions can include:

- length of time unemployed;
- place of residence;
- family situation;
- that there is only one way to do undertake a specific role;
- who will be productive (based for example on appearance, physical capacity, nationality, sex, race and age);
- perceptions regarding the capacity to retain workers once hired; and
- perceptions about costs of hiring, including ongoing support, office fit-out or flexibility of roles compared with benefits provided by the employee.

Business Risk

For Business, the perceived and actual risks in hiring individuals without good employment track records provide tangible barriers to employment. The higher the perception of business risk, the less likely it is that business will hire.

Actual and perceived costs and risks for business can include:

- low retention rates of employees (losing employees often very soon after hiring them);
- insufficient skills or capacity to undertake the work; and
- costs of workplace modifications or additional services to ensure the employee can participate effectively.

Poor/Perverse Incentives

There are a range of financial, welfare and taxation disincentives that exist and form barriers to employment and participation. For example, in order to become part of the workforce, sole parents face child care costs and in many cases have to combat the employment barriers of low

education and limited work experience. They then face high effective marginal tax rates through the interaction between means-tested welfare arrangements. This compounding of factors can make a return to work a seemingly insurmountable problem.²¹

An individual's decision regarding work is strongly influenced by financial rewards. Australia's support mechanisms need to be humane but also must not discourage workforce participation. According to Noel Pearson, the system must say "there is no alternative to work, education and training" otherwise all the youth programs and interventions will come to very little.²² The Productivity Commission notes that retirement provisions for example can have a powerful influence on participation rates. In New Zealand the change in the eligible pension age from 60 to 65 years arguably resulted in an increase in participation rates for males aged between 60-64 of more than 20 percentage points over the 10 year phase in period.²³

Making a Difference

The intrinsic problems around low participation amongst specific groups have existed through many different governments, policies and programs. We know that there is no silver bullet but given the clear costs and benefits, including the significant and growing economic case, we need a more effective approach to managing this problem.

²¹ The federal government has improved incentives for sole parents with school aged children, making it compulsory to work 15 hours a week. The practical realities of 200,000 individuals trying to enter the workforce from 1 July this year remain to be seen.

²² N. Pearson, 'When welfare is a curse', *The Age*, 23 April 2004.

²³ Productivity Commission, Presentation by Gary Banks, *Policy Implications of an Ageing Australia: an illustrated guide to the Financial Review Ageing Population Summit*, 2005.

While successive Australian governments have been proactive in instituting policies to increase participation levels, including among the significantly disadvantaged, there is more that can be done. Given the clear benefits to the economy of raising participation and the costs for individuals and society of sustained joblessness, we need to re-think our approach. It is hoped that discussion and debate can assist in establishing some broad directions to contribute to a more effective system. This may not require a substantial increase in funding, the federal government currently spends around \$92 billion per annum on social security and welfare. It could involve, however, a more targeted and strategic approach including better co-ordination and understanding between levels of government, business community and individuals.

Any solutions need to address two separate issues:

- assisting/enabling those who are currently in the pool of long-term unemployment or non-participation; and
- stemming the inflows into the pools of long-term unemployment and entrenched non-participation.

The Productivity Commission's recent report comparing participation rates across OECD countries demonstrated that there are low participation rates in Australia amongst certain groups compared with other OECD countries. For example Australia compared to 30 OECD countries had low participation rates among:

- males aged 25 to 54 years;
- child-bearing aged women, 25 to 44 years; and
- older men and women 55 to 56 years.

International research shows that women with dependants and older workers are the main groups where scope exists for increasing participation whereas investing in younger people provides the greatest

benefit over time. Increased education and improved health are key drivers of participation across all groups.²⁴

To a large degree the policies that assist employment and participation more broadly will also assist specific pockets of disadvantage. The OECD undertook a Job Strategy Framework in 1994 and has recently backed up its findings in the 2006 Employment Outlook.²⁵ The OECD concluded that employment and participation is increased by:

- setting macroeconomic policy for sustainable (non inflationary) growth;
- enhancing creation and diffusion of technological know-how;
- increasing flexibility of working times;
- nurturing and entrepreneurial climate;
- making wage and labour costs more flexible by removing restrictions that prevent wages reflecting local conditions and individual skill levels in particular of younger workers;
- reforming employment security provisions that inhibit the expansion of employment in the private sector;
- strengthening the emphasis on active labour market policies and reinforcing their effectiveness;
- improving skills;
- reforming unemployment and related benefits and interaction with the tax system so as not to impinge on the efficiency of the labour market; and

²⁴ J. Button, (Chair) *Victoria: Working Futures*, report of Victoria's Workforce Participation Taskforce 2005, Executive Summary.

²⁵ OECD *Employment Outlook 2006*.

- enhancing product market competition, reducing monopoly and other market barriers and contribution to an innovative and dynamic economy.

The OECD has also noted that the impact of policies and institutions vary across different employment and demographic groups.²⁶ However, some policies are effective in combating a range of issues. The following provides areas for discussion where strategies could be developed to more effectively increase and maintain higher workforce participation including across a range of disadvantaged groups.

Education and Training of Individuals

Males and females with higher educational attainment rates have greater participation rates at all ages. The transition from compulsory education to the labour market or to further education and training is a key determinant of a person's workforce and therefore life experiences. Early school leavers have higher levels of marginal attachment to the labour force or to education and training systems.

In addition it is important to ensure that skills are maintained throughout an individual's working life. This has become increasingly important over the last thirty years with a rapidly adapting economy and increasing and evolving technology. Effective lifelong learning has significant potential to help workers adjust to changing skill demands and aspire to better paid employment. The OECD notes that there needs to be sufficient financial incentives for firms and workers to invest more in on-the-job training and that co-financing can provide an effective model.

How do we encourage more unskilled people to increase their education and skill levels? Strategies are needed to minimise early disengagement from education and bring about re-engagement of those who do not complete school. A greater focus on employability training including while in employment could assist.

²⁶ OECD Employment Outlook 2006.

The skill needs of business and industry continue to change and at an increasing rate with the advent of adapting technology and processes. While there are processes to capture this information these vary in sophistication. How might the process of developing work skills be enhanced so as to increase participation?

Education and Training of Business

Government and other groups including business can play an important role in increasing public and business awareness of demographic challenges and the potential options for business seeking to increase its workforce. Future demographic and low participation impacts could be improved through increased business understanding of the economic and social costs of low participation. Increased understanding and awareness of the benefits of employment from these groups and how business culture and employment strategies can be adapted will also assist business.

The OECD has found that information campaigns and guidelines promoting best practice and the benefits of age diversity in the workplace has been vital given the demographic challenges facing many OECD countries. It is arguable that this type of strategy is transferable across a range of employment groups potentially with tangible results.

What steps can government, business and not for profits undertake to improve current understanding and practice? What mechanisms can be developed within business to remove barriers to employing and retaining from traditionally low participating groups?

In addition there needs to be greater support mechanisms both for individuals and for business to assist those that break down barriers and gain employment to stay in employment (as discussed further below).

Retaining Employment

Clearly it is important to ensure that those that break free of the barriers then remain employed. Are support mechanisms for the newly employed effective? Can we reduce business costs and risks by ensuring greater

retention rates? Is there sufficient focus on capacity building in areas such as changing mindsets and self perception? What mechanisms could be employed to help support and retain workers? For example provision of:

- ongoing counselling and mentoring;
- training in basic business skills including teamwork, planning, time management; and
- training tailored to specific circumstances including telecommuting working at home managing flexibility.

Better Measurement and Understanding

Do we have sufficient understanding of how and why participation rates vary for different groups at different stages in life including changing circumstances, capacities, opportunities (both perceived and real) and incentives? Could there be more effective targeting of programs?

Can we learn from international best practice in this area?

Reducing Risk for Employers

How do you reduce the risks for employers or encourage employers to take on risks? Should we look at:

- ‘try before you buy’ work trials (an opportunity for employers to overcome their fears about employing a person in specific circumstances by testing them in an available position);
- increasing the capacity of the Supported Wage System;
- improving advice for employers, through say an advisory body or specialists consultants; and
- training business how to work with/support and retain new employees to manage flexibility between different work practices/hours.

Efficiency and Effectiveness of Current Systems

There is currently a significant amount of money and resources directed at increasing participation particularly across more disadvantaged groups. It is arguable that greater co-ordination of services and programs and a more targeted and co-operative approach between government, service providers and potential employers could provide more effective results for this investment. Given the number of layers of assistance and the potential for the siloing of issues and programs is the current system working as efficiently as possible?

Recent work undertaken on Australia's most disadvantaged areas showed that in a number of cases there have been short-term (three-year) supportive programs that have seen crucial improvements but once the support is removed the disadvantage returns.²⁷ This raises the question of whether our focus has been sufficiently long-term. Do we need longer term and sustained strategies which not only provide initial support but assist at different stages to ensure that individuals do not fall back and that the next generation is not as vulnerable?

In addition low participation groups are generally the most vulnerable in society, the least likely to know how to negotiate their way through government bureaucratic processes and the least likely to be aware of what resources are available. Ensuring that programs are readily accessible is clearly vital. Is there need for a more effective single point of contact for those looking to assist these groups including through better co-ordination of funding across government programs and different levels of government?

Removing Economic Disincentives and Other Barriers

Barriers to participation are many, varied and often compounding. One of the most prevalent is the generally unintentional financial

²⁷ T, Vinson, *Dropping off the edge: the distribution of disadvantage in Australia*, Jesuit Social Services/Catholic Social Services Australia, 2007, p 100.

disincentives caused by issues such as the interaction of the tax and welfare systems.

The safety net itself although socially important provides a barrier to employment. OECD work covering the last decade has found that higher benefit levels and duration are associated with more unemployment. Welfare benefits contribute to joblessness by reducing the job search intensity of the unemployed, reducing willingness to accept offers of employment and increasing the duration of unemployment. Joblessness is also increased by lowering the opportunity cost of not working which may in turn increase pressure on wage claims increasing the cost of employment and thereby reducing employment opportunities. How benefits are administered from eligibility criteria through to phase-out rates also plays a major role in employment levels.²⁸

The OECD notes that active labour market policies are very effective in removing the otherwise negative impact which employment benefits can have on participation. They recommend a judicious mix of incentives including re-employment services and monitoring of job-search efforts of unemployed backed by the threat of graduated benefit sanctions.²⁹

Other barriers include areas such as capacity to access flexible employment options. How employers adjust to the part-time preferences of older workers and carers for example will be important in the attraction and retention issues for specific businesses and, at a more macro level, participation levels of these groups. The OECD has found that across a range of countries reducing barriers to employing female carers has produced effective results through provision of:

- flexible working patterns;
- appropriate tax incentives;

²⁸ OECD *Employment Outlook 2006*, p. 60.

²⁹ *ibid.*, p 218.

- adequate, but not overly long, paid parental leave;
- good quality, affordable child care; and
- more sharing of caring responsibilities between men and women.

Within all OECD countries, female participation shows a clear lifecycle trend with a defined dip between the ages of 25 to 34 relating to childbirth and child rearing. However, this dip in participation rates is most pronounced in Australia³⁰ suggesting that Australia could do much more to remove barriers to re-entry into the workforce for working mothers.

Do we have the right economic and financial incentives or do our systems still work against each other to a detrimental extent? What are the key areas of incentives/removing disincentives in the current system which should be addressed in the immediate term to provide maximum benefits?

Are we being sufficiently proactive in addressing other barriers to employment? Given that the increased participation of women has been a key driver in increasing Australia's participation rates overall and international research confirms that lack of affordable childcare is a major barrier to this participation, what more needs to be done to gain effective results in this area? What assistance is needed to help businesses change culture, mindsets and business capacity to offer non-traditional employment options and employ from low participation areas?

Approach to Regional and Entrenched Disadvantage

To date, policies aimed at reducing entrenched disadvantage associated with regional isolation have focused on increasing viability of regional centres rather than encouraging job seekers to move. Moving individuals to less disadvantaged areas has a number of associated

³⁰ J, Button, (Chair) *Victoria: Working Futures*, report of Victoria's Workforce Participation Taskforce 2005, p. 32.

costs and has not been overly successful overseas. According to the Victorian Government's *Working Futures* report³¹ place-based strategies with clear workforce participation objectives work best at the local level when linked to local government and regional economic activity.

The OECD recommends that in addition to general policies to increase the economic viability of the region, to combat regional disadvantage it is important that wage setting and conditions not be highly regulated and have the flexibility to reflect productivity and local circumstances.

Where issues are regionally specific and entrenched do there need to be more specific programs to lift participation in select areas?

Prevention Rather than Cure

Are there currently effective strategies to prevent those who are known to be at risk from falling into unemployment?

Across all groups of traditionally low participation rates there is a common theme. The issues are difficult and costly to solve. Moving individuals into employment and helping them to retain employment is not easy, it is frequently expensive and unfortunately frequently unsuccessful. For example only 26% of recipients of Job Network Intensive Support services get a job which lasts more than 13 weeks.³² Government pilot programs working with Disability Support Pension (DSP) recipients also found that it was very difficult to bring highly disadvantaged people back into the labour market particularly once they had been on the welfare benefit for some time. It is for this reason that the DSP benefits are aimed at the 'inflow' (reducing the number of people likely to go onto the benefit in the first place), rather than 'stock' (those already on the benefit) of those on these benefits.

³¹ J. Button, (Chair) *Victoria: Working Futures*, report of Victoria's Workforce Participation Taskforce, 2005.

³² ACOSS press release, *Welfare reform: participation or punishment?* May 2005, p. 3.

Work done by a number of Australian organisations and extensive overseas literature demonstrates that the most cost-effective methods of increasing participation are through prevention rather than cure. This is particularly the case with early intervention programs. Children's formative years have a lifelong impact.³³

Addressing the flow into the pool of non participation rather than the existing stock of non participants is, by definition, a long term strategy requiring a sustained approach.

In addition to early intervention a number of organisations are running programs with good success rates which target individuals from specific groups at times when they are likely to be most vulnerable. In addition to preventing individuals from falling into the unemployment pool, how do you shorten the duration of unemployment and prevent those who fall into unemployment becoming part of the long-term unemployment pool or pool of non-participants?

There may be other areas where it would be more beneficial to focus on prevention rather than cure. For example the *Victorian Population Health Survey 2004* report showed that the lower the self reported health status the lower that person's workforce participation rate.³⁴ Given the interdependency of health, unemployment and early retirement do governments and employers need to reconsider their responsibilities towards the health of their employees? Is this an education process needed for the employees themselves or do all parties need to play a role?

³³ See for example Mission Australia's *Pathways to Prevention Project* the first five years 1999–2004.

³⁴ J. Button, (Chair) *Victoria: Working Futures*, report of Victoria's Workforce Participation Taskforce, 2005, p. 29.

Concluding Comments and Directions

Increasing workforce participation has clear benefits for individuals and for the economy. There are no instant fixes or single solutions and without a sustained and long-term strategy gains are unlikely to be substantial. Australia is not alone in facing these problems.

The BCA roundtable process will also not find an ‘instant solution’. However, real progress can be made by highlighting areas where further work could be effectively pursued in Australia and by singling out one or two key areas that would provide real gains from collaboration between business, government, non-profit and issues-specific groups. In prioritising these areas there needs to be consideration of the most effective and cost efficient methods of:

- bringing the maximum number of people into the workforce now and on a longer-term basis;
- ensuring individuals do not fall into sustained unemployment or non-participation in the first place; and
- ensuring individuals who gain then retain employment.

The aim of the BCA’s Workforce Participation Roundtable is to provide renewed energy into what is clearly a difficult but vital issue for Australia. This is not to suggest that much is not already being undertaken and achieved. Australian governments have long recognised the importance of higher participation rates for both economic and social reasons. Australia has also has an extensive and established welfare sector that has been focused on increasing participation for over 100 years.

While measures to date have made significant headway, more needs to be achieved with new and different solutions. In addition over the last ten years the economic and technological environment has changed rapidly, public views and understanding have evolved and international best practice has moved on. A coalition of government, the not for profit

sector and business has the potential to share experiences, views and ideas and establish additional effective measures to address these complex issues. In doing this we need to agree on the key issues contributing to non-participation and what areas are still not being adequately or effectively addressed.

The overriding objective is to lift participation of groups with the lowest participation rates, including those that will make biggest contribution to labour supply, and those suffering greatest disadvantage. A contribution from the roundtable to this objective could be made in three areas:

1. A clear articulation of the problem and agreement on the potential and scope to move views, practice and outcomes forward.
2. Agreement on one priority area that this group believes would have the most significant benefit in terms of increased participation.
3. Agreement on one project where government, the not-for-profit sector and business can work together and make a tangible difference.

Recommendation on Way Forward

To raise the profile and public awareness of the issues and as part of laying the ground for public policy changes in the future the BCA will undertake media immediately post the roundtable. This will highlight the importance of the participation problem and the contribution that was made by the cross section of groups through the roundtable discussion. In addition, the following course is recommended for later this year:

- A short outcomes paper and public statement highlighting agreement of the roundtable on the need, potential and scope for to increase participation be released;
- As part of the outcomes paper isolation of one area of focus which would provide the most substantial and efficient contribution to increased participation. Broad agreement on this area needs to be achieved through the roundtable discussions. This does not have to be a direct program, or involve significant expenditure. For example

it could involve an area of research, education, monitoring and measurement which would make a substantial contribution;

- That the participants of the roundtable agree on a defined project which will make a significant contribution to the participation problem and a working group consisting of government, not for profits and business be established to undertake this work. For example development of a Workplace Diversity Kit for businesses which highlights the need for and benefits of greater diversity in the workplace could be developed. This could provide tools to assist business in:
 - reducing business risks and maximising benefits;
 - attracting and retaining people from less mainstream areas of the workforce and current non-participants; and
 - measuring whether their workplace practice will provides a conducive environment to hiring and retaining people from less mainstream areas.

Appendix – Snapshot of Non-participation in the Workforce

Long Term Unemployed

Long term unemployed people are those that have been unemployed for 52 weeks or longer. Of the 462,000 unemployed people in July 2006, twenty-one per cent (94,900) of unemployed people were long-term unemployed.³⁵

Long periods of unemployment are associated with ceasing to participate in the labour force by ceasing to seek employment. This is known as the ‘discouraged worker’. People unemployed for long periods may experience greater economic hardship, and may have more difficulties in finding employment due to loss of relevant skills and employers’ perceptions of their ‘employability’. According to the ABS in July 2006, of the 10% of unemployed people who reported that they had no difficulties at all in finding work, more than three-quarters (77%) had been unemployed for less than eight weeks.³⁶

Factors such as the level of education and skills, location and the current tax and welfare structure all contribute to long-term unemployment. Age has a significant impact on the chances of becoming long-term unemployed. Recent ABS statistics show that the proportion of unemployed who were long-term unemployed increased with age from 9% of those aged 15–19 years to 15% of those aged 20–24 and 34% of those aged 45 years and over. The main difficulty in finding work most commonly reported by the long-term unemployed was ‘considered too old by employers’ (19%).

³⁵ ABS Catalogue No. 6150.0, *Australian Labour Market Statistics* January 2007.

³⁶ *ibid.*

Youth

Young people tend to have a relatively high unemployment rate. Young people can have difficulty finding work during economic downturns and the proportion becoming long-term unemployed increases.

Twenty-two percent of the 462,000 unemployed people in July 2006 were aged 15–19 years, more than half of whom (52 per cent) were looking for full-time work.³⁷ In January 2007 the participation rate for those aged between 15–19 was 62.2 per cent falling from 64.3 per cent in 2004. The unemployment to population ratio was 5.5 per cent.³⁸

Fortunately, Australia's low participation rates for youth are better than they appear because many in this group are in fact engaged in full time education. It should also be noted that Australia performs well in this area compared with many OECD countries. Australia is ranked 2nd highest for the participation rate for youths (15 to 24 years) among the OECD.³⁹ However, much more can still be done.

Indigenous Australians

Despite some gains in this area, Indigenous Australians continue to have substantially lower levels of labour force participation and higher levels of unemployment than the rest of Australia's population. The Indigenous population experiences significant disadvantages and barriers to participation in the labour market. In 2002, 64% of Indigenous adults aged 18–64 were in the labour force compared with 79% of the non-Indigenous population in this age group. But it is not age group specific; all Indigenous age groups have lower participation rates than the same age group for non-Indigenous people.

³⁷ ABS Catalogue No. 6105.0, *Australian Labour Market Statistics*, January 2007.

³⁸ ABS Catalogue No. 6105.0, *Labour force*, 2007.

³⁹ J. Abhayaratna and R. Lattimore, *Workforce Participation Rates — How Does Australia Compare?* 2006.

The unemployment rate for Indigenous adults decreased over this period from 37% in 1994 to 20% in 2002. This was still substantially higher than the rate for non-Indigenous adults (6%).⁴⁰

According to the Victorian Government's study of the ABS 2001 Census data about half the difference in employment outcomes between Indigenous and non-Indigenous people can be attributed to differences in education attainment. In Victoria the retention rates from Year 7 to Year 12 of full-time Indigenous secondary students was below 40 per cent which was less than half the retention rate for non-Indigenous students. Location also clearly is a major factor, the 2001 Census of Population and Housing showed that among those aged 15 and over more than one-quarter (27%) of all Indigenous people were living in remote or very remote parts of Australia compared with just 2% of the non-Indigenous population.⁴¹

Carers (Particularly Women)

In line with most OECD countries the substantial increase in female participation rates over the last twenty years has been a key driver in Australia's total participation rate increase. In the years from 1985 to 2005 the labour force participation rates for women increased from 46% in 1985 to 54% in 1995 and 57% in 2005. In contrast, the participation rate for men decreased from 76% in 1985 to 74% in 1995 and 72% in 2005.⁴²

International research shows that re-engagement will be heavily determined by factors such as child-care arrangements, leave entitlements (including for the partner) and availability of part-time and flexible work arrangements. Currently a family with an annual income of

⁴⁰ ABS Catalogue No. 1370.0, *Measures of Australia's Progress*, p. 53.

⁴¹ J, Button (Chair), *Victoria: Working Futures*, report of Victoria's Workforce Participation Taskforce, 2005, p. 42.

⁴² ABS Catalogue No. 1370.0, *Measures of Australia's Progress*, 2006.

\$27,000 spends an average of 11.8 per cent of its weekly disposable income on full-time child care for one child and nearly 20% for two children.⁴³

The increase in women's participation in employment has been strongly associated with an increase in part-time work, with women accounting for the majority of part-time workers (72% in 2005).⁴⁴

It is also worth noting that as Australia's population ages there will be greater demands on individuals, often females, to act as carers for the elderly. This is often at a time in their careers when they have most experience but are considering their retirement options. Both government and business will need to consider options which lessen this impact.

Mature Aged Workers

Demographic changes mean that employers will not have the pool of young people they have traditionally drawn on. Mature-aged workers represent one of the largest areas where participation can be increased. If Australia was to attain labour force participation rates in the top 20% of OECD experience (by age group) then the national participation rate would fall only slightly from its current 63.5% to about 61%. On the current path we can expect a fall of around 55.5% as projected in the Commonwealth's *Intergenerational Report 2002*. In addition GDP per head would be almost 10% higher than otherwise.⁴⁵

The decision to retire can be impacted by many factors including age. For example, cultural expectations, family circumstances, level of education, and employment circumstances all play a part. In addition

⁴³ Ibid., p. 33.

⁴⁴ ABS Catalogue No. 1370.0, *Measures of Australia's Progress*, 2006.

⁴⁵ See M. Parkinson and D. Gruen, *Intergenerational Challenges Facing Australia and the World*, Department of the Treasury, July 2004.

areas such as employment flexibility and opportunities, household wealth including level of superannuation, and government incentives and disincentives such as access to superannuation benefits and pension eligibility age will also contribute to an individual's retirement considerations.

Two of the most disadvantaged groups are those aged over 45 and under 25. Retrenchment and redundancy are major causes of unemployment among the mature aged. Re-employment opportunities decline significantly with age. Compared with other age groups a substantial proportion of older workers who lose their jobs as a result of redundancy subsequently withdraw from the labour force. Those that do get back into the workforce generally experience longer periods of unemployment compared with other parts of the community.⁴⁶

The Victorian Government's Workforce Participation Taskforce noted that income accumulated during their working life can make mature aged workers ineligible for basic job search assistance provided by the Commonwealth Government.⁴⁷

Participation is increasing among the older age groups. Participation rates for males aged 60 to 64 years have increased by 10 percentage points over the past 20 years, but greater improvements can be made. Business may need to consider increased flexibility such as transitional jobs, less demanding roles or availability of part-time and working from home arrangements in order to keep older workers.

⁴⁶ J. Button, (Chair) *Victoria: Working Futures*, report of Victoria's Workforce Participation Taskforce, 2005, p. 35.

⁴⁷ *ibid.* Executive Summary.

Disabled

In 2003 almost 4 million Australians, or 20% of the Australian population identified as having a disability. Of this, 16.6% of people who identified as having a disability are of working age (ages 16–64).⁴⁸

There are approximately 700,000 people receiving a Disability Support Pension of which around 400,000 are profoundly disabled. In 2003 only 53.2% of people of working age with a disability were in the labour force, compared to 80.6% of people without a disability. This represents a large proportion of the population who are not being fully utilised as resources with skills and knowledge.

Community consultation and work by groups such as the Employers Roundtable for People with Disabilities has shown that barriers to employment for these individuals are both real and perceived. One of these barriers is the attitude of employers to employing people with disabilities. The Employers Roundtable believed that barriers to employing more people with disabilities could be significantly reduced by providing greater information, advice and education for employers, reducing the complexity around disability employment. In addition they recommend that greater work be undertaken to ensure that the education and training systems deliver training to people with a disability in jobs and industries in which employment opportunities exist and that they have access.⁴⁹

Regional

Low participation rates and interrelated disadvantage – including low education attainment, poor job opportunities, health problems and access to affordable housing – can become ingrained in specific locations as well as among specific groups. Location and in particular

⁴⁸ Australian Bureau of Statistics (ABS), 2003 Disability, Ageing and Carers: Summary of Findings.

⁴⁹ Employers Round Table for People with Disabilities *Employer Demand Action Plan*, Report to the Minister, 31 October 2005.

geographical isolation from major centres plays some part. Entire communities can be impacted.⁵⁰

Culturally and Linguistically Diverse Groups

The difference in participation rates for those born overseas and those born in Australia are notable. In November 2006 the Australian born participation rate was 68.1% but the participation rate for those born overseas was 58.5%.⁵¹ Country of birth and length of time in Australia appear to be the major influencers of participation levels of those from overseas. In 2005 immigrants from English speaking countries had a workforce participation of 65.9% while those from other countries had a participation rate of 52.6%.⁵²

⁵⁰ T. Vinson, *Dropping off the edge: the distribution of disadvantage in Australia*, 2007.

⁵¹ ABS Catalogue No. 6105.0, *Labour force*, January 2007.

⁵² J. Button, (Chair) *Victoria: Working Futures*. report of Victoria's Workforce Participation Taskforce, 2005, p. 41.

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