

Appendix D

Consultant's Report: Access Economics Pty Ltd

8 November 2006



Meeting Australia's Ageing Challenge:

The Importance of Women's Workforce Participation

Report by Access Economics Pty Limited for

**The House of Representatives
Standing Committee on Family
and Human Services**

The Importance of Women's Workforce Participation

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EXECUTIVE SUMMARY

As part of its inquiry into balancing work and family, the House of Representatives Standing Committee on Family and Human Services has asked Access Economics to undertake macroeconomic modelling of the impact of changes to women's workforce participation on projected economic growth in coming decades.

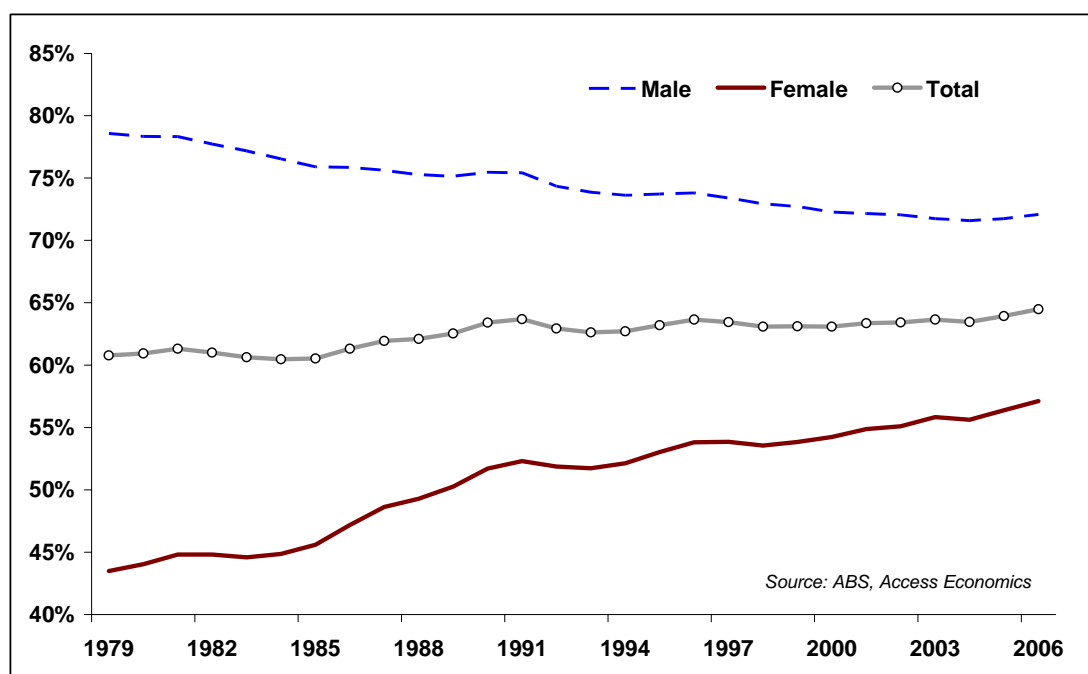
THE INTERGENERATIONAL CHALLENGE

Over the next forty years the number of Australians aged 85 and over will go up by a factor of 5 – some 7 times for men, and 4 times for women. As the Australian Government's 2002 *Intergenerational Report* (IGR) noted, that will have a dramatic impact on both the economy and the Federal Budget:

- ❑ **Economic growth will slow** as a smaller share of the community will be of working age, reducing overall workforce participation.
- ❑ **Government finances will come under pressure** as pension and health care subsidies extended by society to the aged will pose a heavier burden in the future than they do at the moment.

So the potential problems here are well known. And so too are the potential solutions – **Australia needs to see a lift in its productivity growth and its participation rates.** Over the past three decades there has been a rise in the overall participation rate in Australia. That rise has been driven by a dramatic shift of women into the paid workforce, and builds on the increased availability of part-time jobs, child care and a more flexible work-life balance.

TOTAL WORKING AGE PARTICIPATION IN AUSTRALIA



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The increasing tendency of women to be in the workforce has helped lift overall participation rates across this period, even as male participation rates have declined. **In other words, there has been a major shift in the gender balance of Australia's workforce.** Workforce participation rates continue to differ between men and women, but the overall gap has been narrowing.

This report considers the potential for and effects of further gains – or losses – in female participation.

POTENTIAL IMPACT OF FURTHER GAINS IN FEMALE PARTICIPATION

We consider two alternative scenarios for greater future workforce participation by women:

- (1) **Narrowing the 'gender gap' in participation rates.** In this scenario, female participation rates are increased so that the final gap between male and female participation rates is halved (excluding those aged 15-19, where female participation rates are higher). The split between full- and part-time employment (as a percentage of female participation) is unchanged.
- (2) **Boosting full-time participation rates for women.** Total participation rates for females rise as in the above scenario. However, part-time participation rates do not change, so that all the change occurs in full-time female employment.

In each case, participation rates for men are unchanged from the baseline scenario.

WHAT IF FEMALE PARTICIPATION GAINS STALL?

Again two alternative scenarios for the future participation of women are considered:

- (3) **Constant female participation rates.** Where female participation rates are expected to rise they instead remain constant.
- (4) **An increase in part-time participation, with no lift in full-time participation.** This scenario includes increases in part-time participation as in the baseline scenario, but holds full-time participation rates at current levels.

The table below compares the resultant different visions of Australia's future.

ECONOMIC PROJECTIONS – CHANGES UNDER ALTERNATIVE SCENARIOS				
2041-42	Closing the gap (1)	Boosting full-time participation (2)	No further gains (3)	Part-time increase only (4)
Employment (000s)	467.5	467.5	-433.8	-213.0
Full-time	218.1	513.0	-214.5	-212.2
Part-time	249.4	-45.5	-219.4	-0.8
Full-time equivalent	326.1	493.3	-309.4	-212.5
Real Output (\$bn)	\$65.1	\$98.4	-\$61.8	-\$42.4
% change	2.9%	4.4%	-2.8%	-1.9%
per capita (\$)	\$2,237	\$3,385	-\$2,123	-\$1,458

In brief, by 2041-42 these different scenarios have the potential to result in:

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- ❑ A range of employment outcomes from 300,000 *less than* projected in the IGR to 500,000 *more than* projected in the IGR.
- ❑ In turn, that implies a difference in national income (measured here in 2005-06 dollars) ranging from \$2,100 per head *less than* implied in the IGR to \$3,400 per head *more than* implied in the IGR.
- ❑ Or, put differently, that range implies a difference in national income ranging from 2.8% per head *less than* implied in the IGR to 4.4% per head *more than* implied in the IGR.

These sums are enormous.

Past analysis has suggested that the tax reforms of 2000 may have added somewhere in the region of 2½% to the national income of Australians (Access Economics, 2000), while promoting national competition policy may have added 5½% (Industry Commission, 1995).

Therefore these results are revealing. They suggest that the benefits to national income of boosting full-time female participation rank somewhere above those of tax reform and below those of promoting competition policy. Such estimates are imprecise at best, but they are a timely reminder of the importance of an issue that will grow with the passing of time.

Australia's women are too valuable to waste – and their participation choices will make a notable difference to Australia's future prosperity.

OUR FUTURE – AND THE POLICIES REQUIRED TO UNLOCK ITS POTENTIAL

Australians have known for some time that key challenges await us. Indeed, a 2000 report for the Department of Health and Aged Care (Access Economics, *Too Valuable To Waste* – a report commissioned by the then Minister for Aged Care, the Hon Bronwyn Bishop MP) set out these risks and opportunities. The latter report concentrated on the potential opportunities from better tapping Australia's mature aged workforce. This report concentrates on the potential opportunities from better tapping Australia's female workforce.

Both these groups are vital to our future, because both groups contain large numbers of potentially underutilised skilled workers. As NATSEM has noted¹:

- ❑ 7 out of every 10 new jobs created since 1990 have gone to tertiary qualified applicants.
- ❑ Nearly one in four working women now holds a university degree, up from one in ten in 1990.
- ❑ Education is closing the gender participation gap, with 43% of all new jobs created between 1990 and 2003 going to female graduates, up from 5% in 1990.

Indeed, more women than men now (a) graduate Year 12 and (b) earn tertiary qualifications, so **it would be a key failing on Australia's part were we to leave these locked up potential participation and productivity gains untapped.**

¹ *May the labour force be with you, The changing face of the Australian labour force 1985 – 2005*, AMP.NATSEM Income and Wealth Report Issue 12. November 2005, at page 1.

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WORKCHOICES – AND CHILDCARECHOICES TOO

The increased participation of Australian women in the paid workforce has – like the recent round of *WorkChoices* policy changes – contributed to the increased flexibility of Australia's labour markets. In turn, that increased flexibility in labour markets has helped make Australia more prosperous, as well as less liable to fall into recession.

But more may yet be needed. In particular, as the modelling results in this report help to highlight, policy changes aimed to help to capture the economies of scale in the provision of childcare make sense.

The potential 'bang for the buck' in policies which help to unlock the participation and productivity of women workers is large, not merely in the longer term, but – given the current capacity constraints which the Reserve Bank has highlighted – in the short term as well.

Access Economics
8 November 2006

1. INTRODUCTION

As part of its inquiry into balancing work and family, the House of Representatives Standing Committee on Family and Human Services has asked Access Economics to undertake macroeconomic modelling of the impact of changes to women's workforce participation on projected economic growth in coming decades.

In examining how the Australian Government can better help families balance their work and family responsibilities, the mix of financial and social incentives that Australian women face when choosing to enter or return to the paid workforce is crucial.

This report focuses on an important goal for those incentives – encouraging more women to take up flexible and rewarding roles in the paid workforce. It examines the economic projections of the Australian Government's 2002 *Intergenerational Report*, and assesses the contribution of expected increases in workforce participation by women to future growth in the Australian economy.

It also considers alternative assumptions about future work trends among women, highlighting the potential economic benefits of encouraging more women into the paid workforce.

The remainder of this report is arranged in three chapters:

- ❑ **Chapter 1** outlines the ageing challenges facing the Australian economy in coming decades.
- ❑ **Chapter 2** examines past trends in women's workforce participation, and reviews the prospects for the future.
- ❑ **Chapter 3** provides alternative projections of employment and economic growth under a range of assumptions about women's future work patterns.

2. AUSTRALIA'S AGEING CHALLENGE

It is now well known that Australia has an ageing population structure. A combination of falling death rates and associated rising life expectancy with the demographic bulge of the baby boomers will lead to a dramatic rise in the number of older Australians:

Over the next forty years the number of Australians aged 85 and over will go up by a factor of 5 – some 7 times for men, and 4 times for women (as relative life expectancy for men and women moves closer into alignment).

As the Australian Government's 2002 *Intergenerational Report* (IGR) noted, that will have a dramatic impact on both the economy and the Federal Budget:

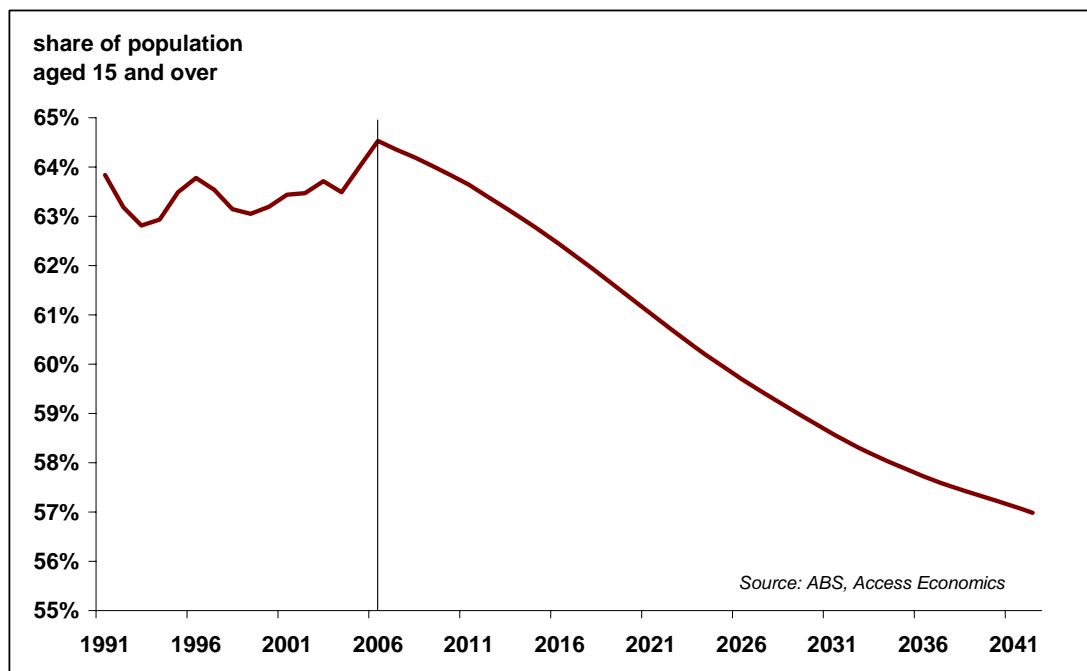
- ❑ **Economic growth will slow** as a smaller share of the community will be of working age, reducing overall workforce participation.
- ❑ **Government finances will come under pressure** as pension and health care subsidies extended by society to the aged will pose a heavier burden in the future than they do at the moment.

2.1 ECONOMIC GROWTH AND THE 'THREE PS'

Economic output – or the size of the national 'pie' – has three basic drivers:

- ❑ **Population:** How many people are available to the economy.
- ❑ **Participation:** How many of those potential workers choose to work.
- ❑ **Productivity:** How much each of those workers can produce.

CHART 1: TOTAL PARTICIPATION RATE PROJECTIONS



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In one sense, population provides a basic proxy for underlying *demand* growth in the economy. The *supply* growth implied by those overall population numbers will depend on how many Australians seek work in coming decades.

Overall participation rates are traditionally defined as the share of those in the working age population (those aged 15 and over) who are in work or looking for it. The chances are that increasing rates of retirement among the boomers may see Australia's participation rates fall over time (see Chart 1).

To that impact of ageing on likely numbers of workers may be added the effect of the expected slowing in overall population growth, with both factors implying that the first two 'Ps' – population and participation – may wane over coming decades.

2.2 THE AUSTRALIAN GOVERNMENT'S 2002 INTERGENERATIONAL REPORT

Life cycles can be usefully divided into three: childhood, working age and retirement.

These *three ages of life* are important because, as a society, we treat them differently.

In essence every society makes an intergenerational compact with itself. It subsidises investment in children by subsidising the education costs of children, and also their health costs. Society also subsidises retirement, by paying pensions to the less well off and by subsidising the healthcare costs of the ill and aged. Society pays for these subsidies to the young and the old by taxing the incomes of workers. There is therefore a budget government balance over the life cycle, as workers subsidise the young and the old.

However, as the Australian Government's *Intergenerational Report* (IGR) effectively noted, key **quantity** and **price** effects will change the nature of Australia's current intergenerational compact with itself.

In May 2002 the IGR noted our intergenerational compact was at risk in coming decades:

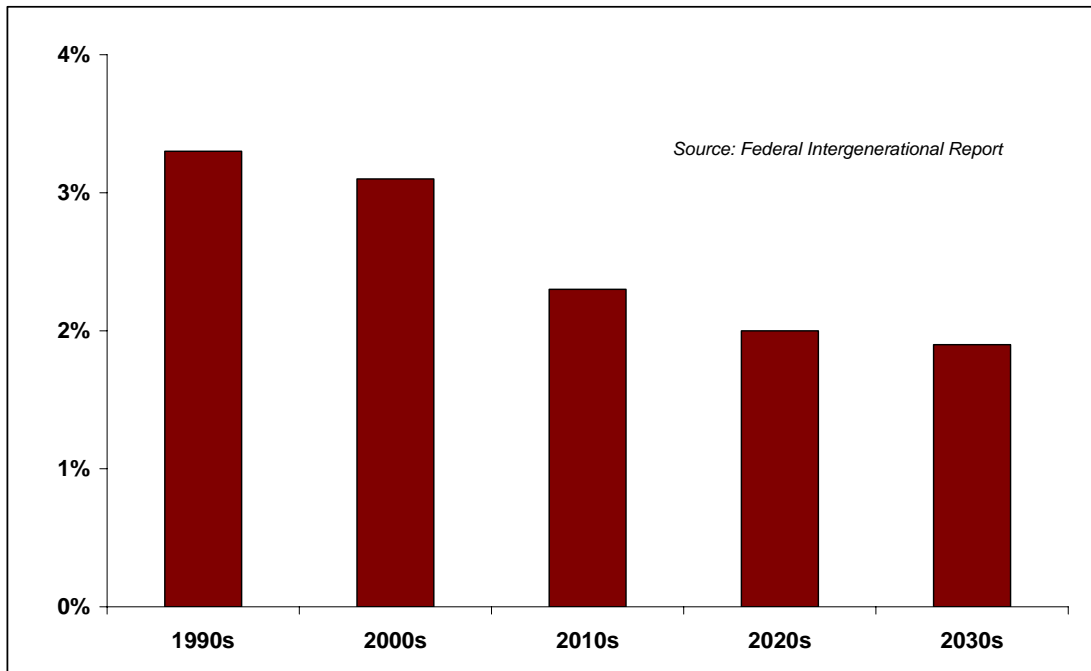
- ❑ **First from a quantity challenge:** Australia's ageing population means there will be a big increase in numbers of the aged relative to numbers of workers.
- ❑ **And second from a price challenge:** As the Australian Government heavily subsidises health spending for the aged in particular, the fact that the cost of delivering health care tends to rise over time relative to other costs in the economy means an additional strain.

Those twin challenges are projected to slow the rate of economic growth in coming decades. As shows, economic growth is tipped to slow by close to a third (see Chart 2), with potential growth rates to peak in the near future.

Alongside that slowdown in potential output growth, there will be considerable pressure on government finances. With greater quantities demanded of various goods and services implied by an ageing population structure in Australia, there are also relative price effects at work. The 2002 *Intergenerational Report* noted that health care costs, which make up a large proportion of Australian Government subsidies to the aged (and other age groups), have tended to grow at a faster rate than economy-wide prices in recent decades.

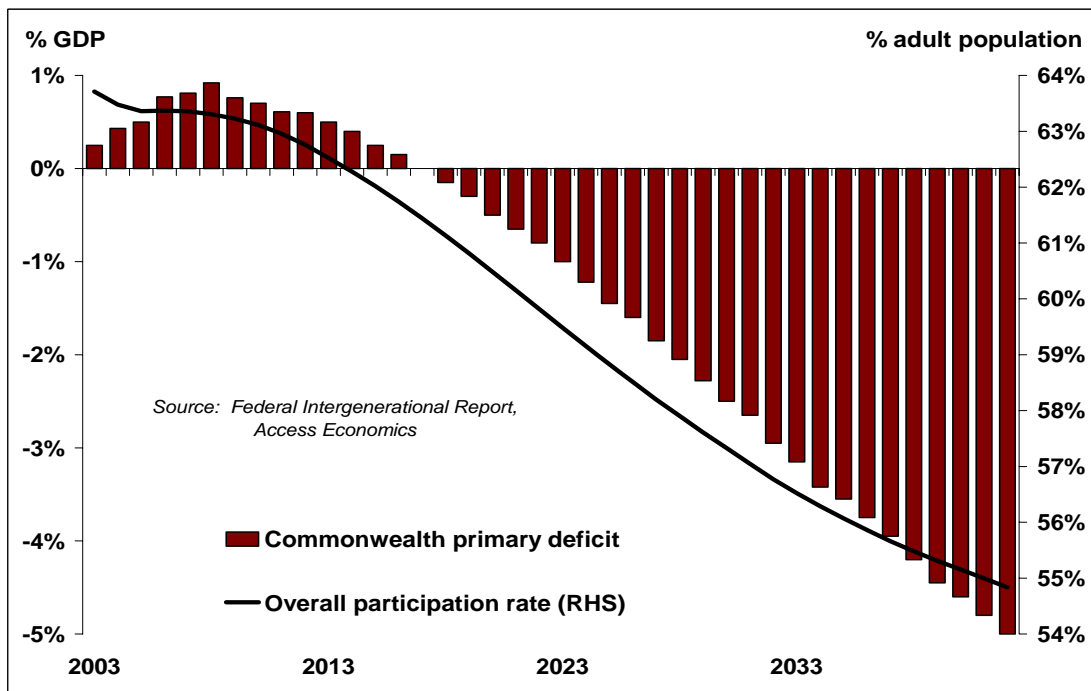
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CHART 2: AVERAGE ECONOMIC GROWTH RATES BY DECADE – IGR PROJECTIONS



Or, in other words, both quantity and price effects are set to operate to raise the cost of society's subsidies to the aged, leading to large, rising and ultimately unsustainable Australian Government deficits.

CHART 3: PROJECTED FEDERAL DEFICITS AND LABOUR FORCE PARTICIPATION



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So the 2002 IGR told Australians that, for this nation's intergenerational compact with itself to be sustained, either tax rates on workers will have to rise, or subsidy rates and/or the level of services to the young and the old will have to fall – or some mix of those two.

Adding to the problem faced by policymakers, the coming fiscal problems will mirror a wider slowdown in the Australian economy. Chart 3 shows that government spending will be rising at a time when the relative size of the workforce is shrinking.

HOW HAS THE IGR PICTURE CHANGED SINCE 2002?

The *Intergenerational Report* will be updated ahead of next year's Budget. Since the initial IGR was released in 2002, some factors have improved the basic figuring on longer term fiscal finances, while others have worsened the outlook. On the plus side:

- ❑ The last two years have seen a notable slowdown in spending growth under the Pharmaceuticals Benefits Scheme (PBS) – a key culprit in the expected blowout in Government costs over coming decades.
- ❑ Retirement ages are rising once more – after being relatively steady for some time, participation rates among older Australians are rising at a faster rate than expected in the IGR.
- ❑ Another plus for the future workforce is that official migration targets have risen since the IGR was released.
- ❑ And, finally, birth rates look like stabilising at a higher rate than envisaged back in 2002.

Against that:

- ❑ Productivity growth has faltered in recent years – failing to meet the benchmark assumed in the IGR – and there is a risk that 'reform fatigue' could keep productivity growth, on average, below that benchmark.
- ❑ Life expectancy continues to rise at a faster rate than the IGR expected (that is, people may be working longer, but they are living longer too).
- ❑ Spending and tax cuts announced since the 2002 IGR have been considerable. Indeed, net new policy announcements since 2001 are now running at \$41 billion a year, or 4% of GDP. That is not having a major impact on current Budget surpluses thanks to strong economic conditions (and, in particular, high global commodity prices), but the latter may yet prove to be rather shorter-lived than the demographic challenges Australia faces.

3. WOMEN'S WORKFORCE PARTICIPATION

So the potential problems are well known.

And so too are the potential solutions – **Australia needs to see a lift in its productivity growth and its participation rates.**

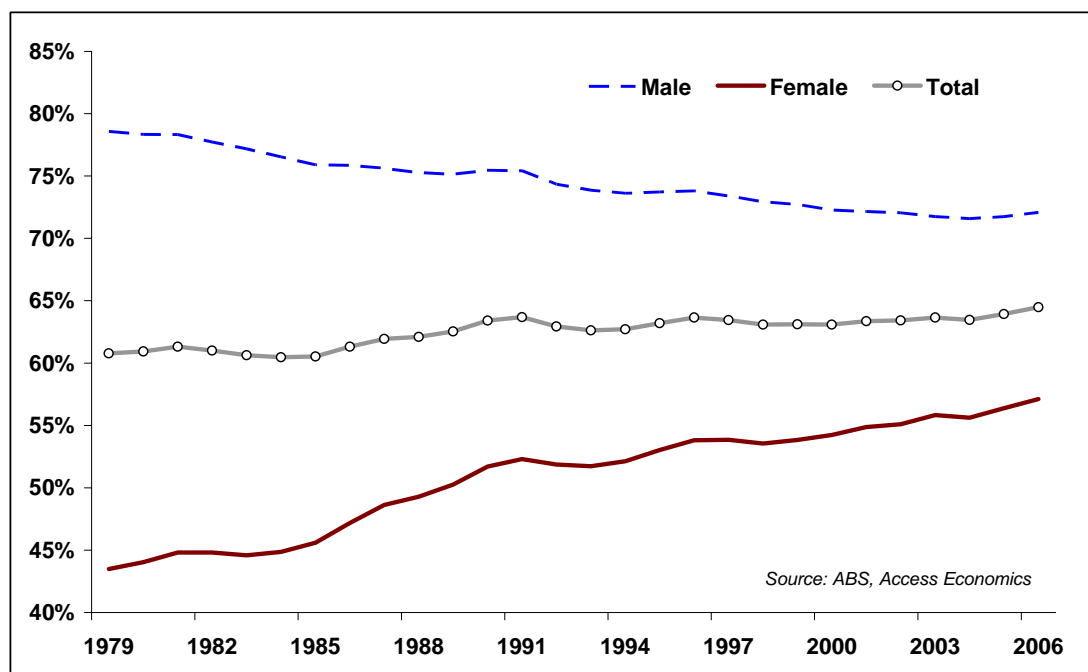
Over the past three decades there has been a rise in the overall participation rate in Australia. That rise has been driven by a dramatic shift of women into the paid workforce, and builds on increased availability of part-time employment, child care and a more flexible work-life balance.

3.1 PAST FEMALE PARTICIPATION TRENDS

The increasing tendency of women to be in the workforce has helped lift national participation rates across this period, even as male participation rates have declined.

In other words, there has been a major shift in the gender balance of Australia's workforce. Workforce participation rates continue to differ between men and women, but the overall gap has been narrowing (see Chart 4).

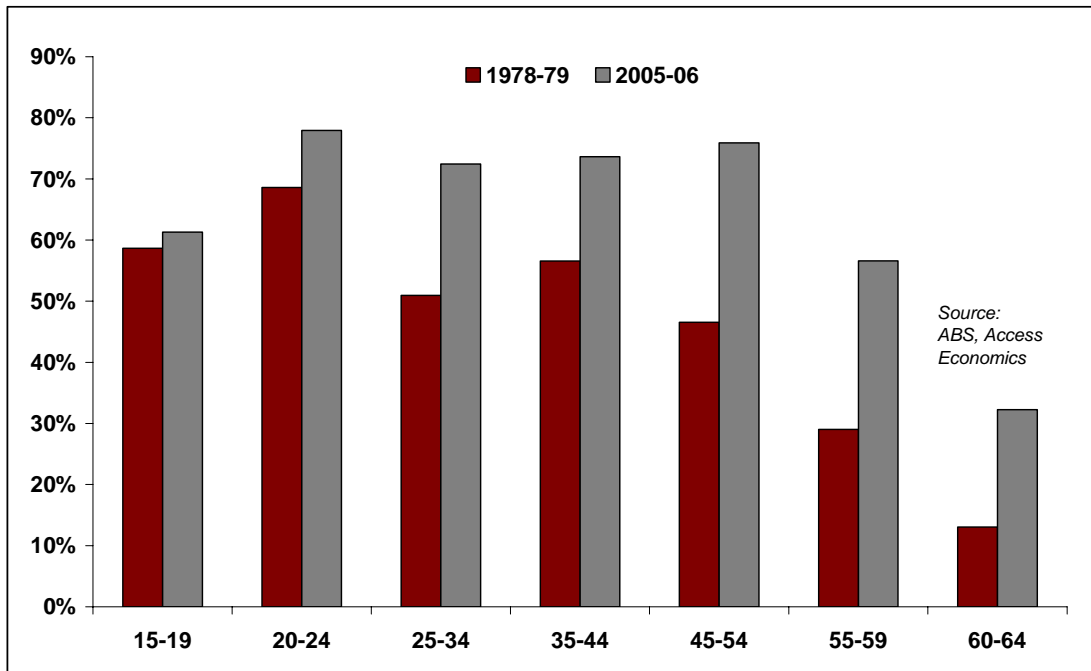
CHART 4: TOTAL WORKING AGE PARTICIPATION IN AUSTRALIA



The lift in women's participation has varied across age groups. Much of the overall lift in female participation has come from older women, and those of prime working age. In contrast, overall participation rates among women aged 15-24 have been relatively flat.

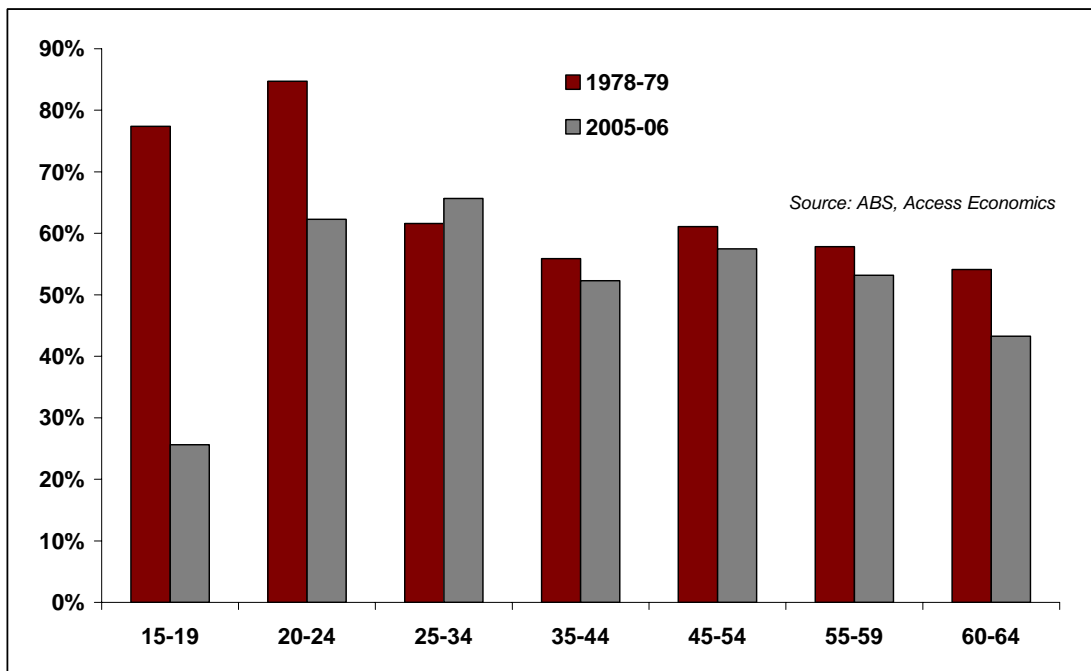
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CHART 5: FEMALE AGE-SPECIFIC PARTICIPATION RATES



Workforce participation rates for those aged 45-54 started the 1980s at a lower base than the younger cohorts, but have since caught up, standing at just over 70%. From age 55 upwards female participation drops off markedly, but it has been rising too: participation by women aged 55-59 has increased by more than 20 percentage points over the past 20 years.

CHART 6: FULL-TIME SHARE OF THE FEMALE WORKFORCE



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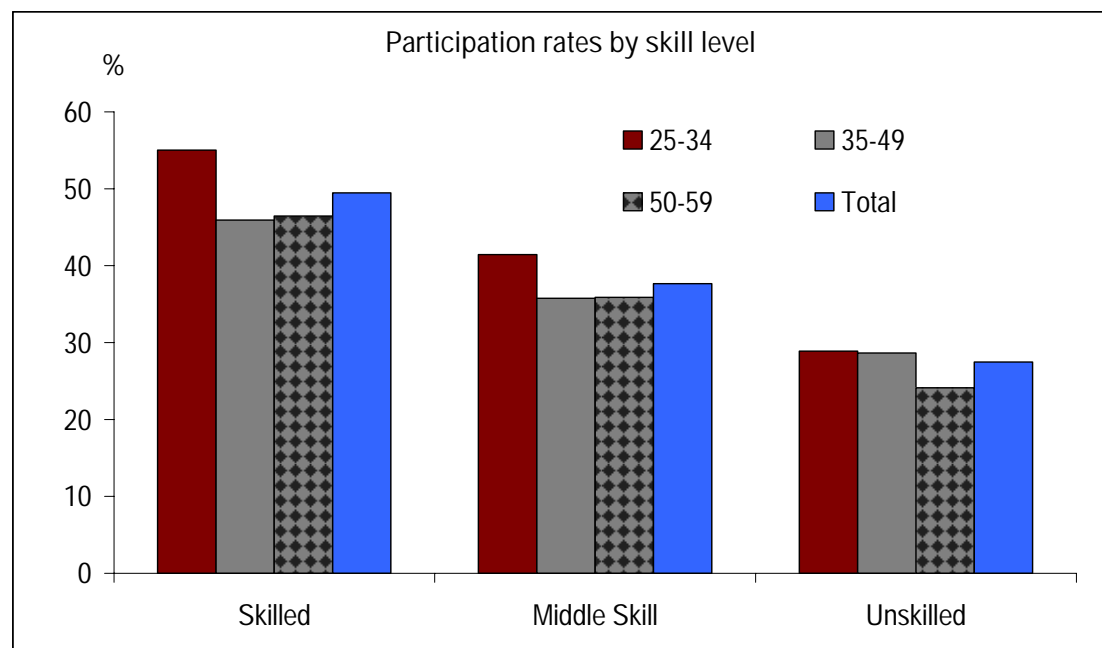
Relatively more women are now working part-time. The rate of full-time employment halved (as a share of total employment) in the 15-19 year age cohort between 1996 and 2001, and the increase in part-time work for women in their late-twenties in particular means that increases in absolute participation in this age cohort may not translate to a significant increase in the amount of hours worked.

This tendency almost certainly reflects an increasing move to completing secondary education and starting tertiary education. That is likely to be a key positive for future participation, particularly among women, as there is strong evidence that increasing education is a key driver of participation gains in the long term.

Higher education increases the wage an individual can command, giving them a stronger incentive to work, and reduces their likelihood of any spells in unemployment.

To the extent that higher skilled jobs tend to be less 'back breaking' and more interesting, it also means that older higher skilled workers are more likely to be willing and able to maintain a connection with the workforce than less skilled workers. There is ample evidence that increased educational attainment results in increased labour force participation – see Chart 7.

CHART 7: AUSTRALIAN PARTICIPATION RATES AND SKILL LEVELS



*Where Skilled represents a bachelor degree or higher, and unskilled no qualification

3.2 RECENT DEVELOPMENTS

That pattern is evident in Chart 8, which shows that female participation rates have fallen at younger ages and risen at older ages in the past four years.

This pattern is promising – it suggests women are gaining more education in their younger years, which will in turn see them working harder for longer as they age.

The Importance of Women's Workforce Participation

Importantly, recent increases in participation have been evenly split between full and part-time work, with today's women showing an increasing desire to work longer hours than their predecessors.

CHART 8: CHANGES IN FEMALE PARTICIPATION RATES, 2001-02 TO 2005-06

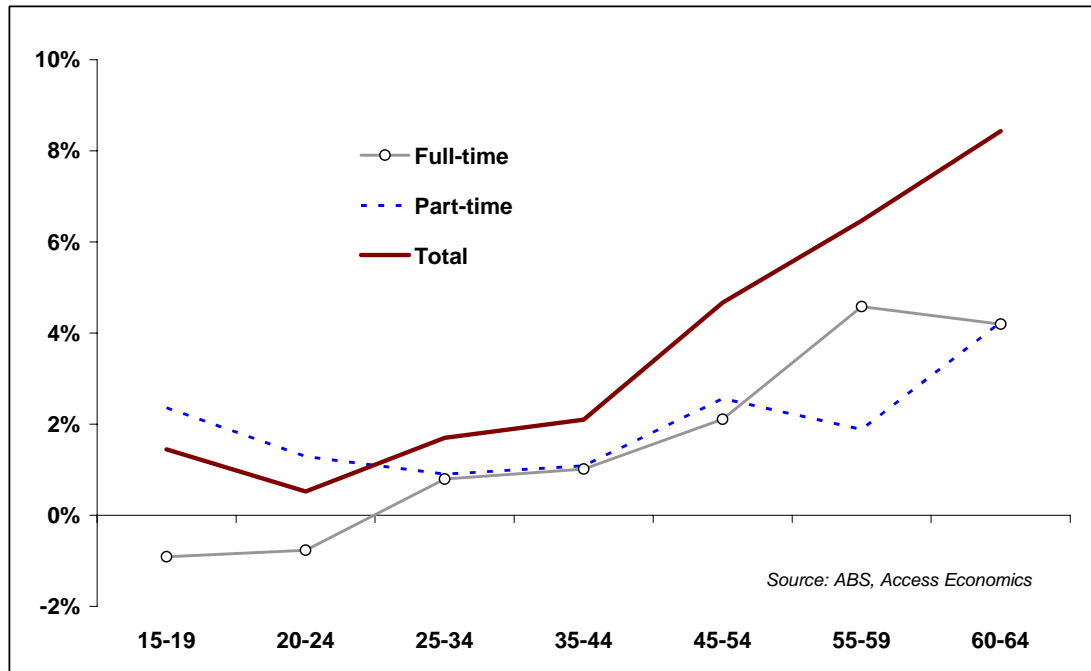
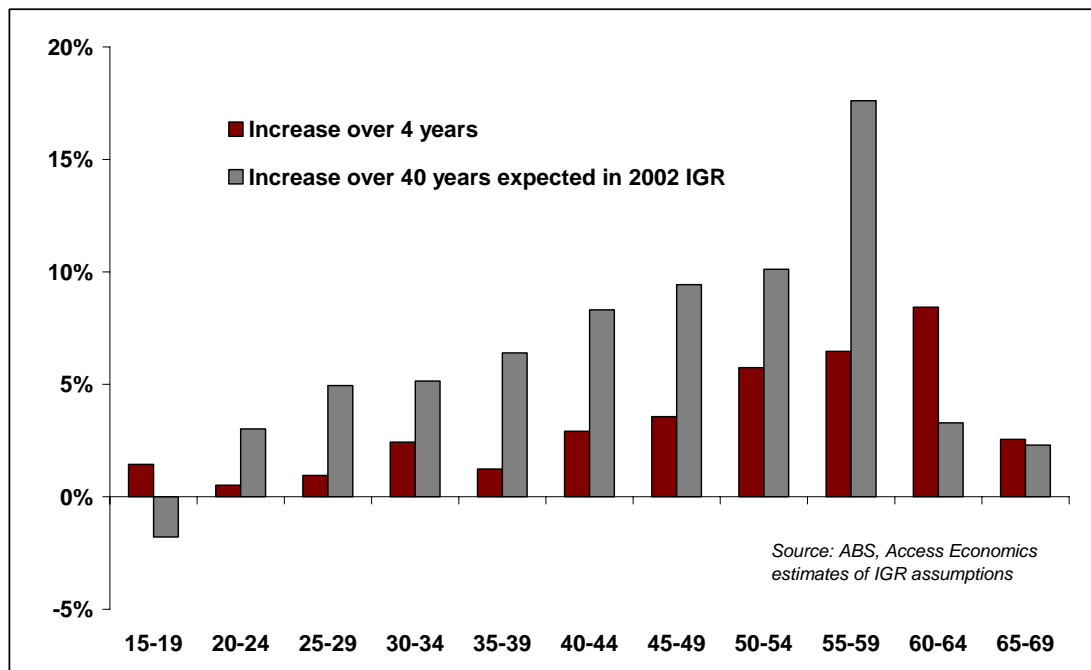


CHART 9: FEMALE PARTICIPATION RATES – IGR ASSUMPTIONS AND RECENT CHANGES



The Importance of Women's Workforce Participation

It is worth noting that gains in female participation since 2002 have outpaced the assumptions underlying the IGR projections. In particular:

- ❑ **Teenagers** have increased their workforce participation. Participation in this age group was expected to fall slightly over coming decades.
- ❑ **Younger workers** have seen slower gains than the IGR predicted, in part reflecting a greater increase in educational commitments.
- ❑ **Older workers** have produced the biggest surprise, with the last 4 years seeing a dramatic acceleration in the number of women choosing to work longer rather than opt for an early retirement.

While the outcomes of the past four years are over a far shorter period than the projected changes in the 2002 IGR, they mean that a significant proportion of the predicted gains in female employment have already been achieved.

They also highlight rapidly changing attitudes to retirement among older women which may help to achieve a sustainable lift in overall participation rates.

If these recent increases prove to be a lasting phenomenon, future changes to participation may start from a higher base than that envisioned at the time of the first IGR.

3.3 THE POTENTIAL FOR FURTHER GAINS

Increased workforce participation is the only real counter to the effect of low growth in the working age population on economic growth – and therefore national income. Potential for raising participation further over time varies by gender and age group:

- ❑ For 15-19 year-olds of both genders, education is likely to be a priority and any increases in participation limited. Even if these cohorts were willing to sacrifice education to work, for many occupations, they would not yet have gained the skills required to participate.
- ❑ For men aged 20-54, participation is already at very high levels, and may not be able to increase much further, especially given stated preferences for less work by younger people.
- ❑ Participation by women aged 20-54 seems to have reached a plateau during the 1990s, particularly in the younger cohorts. This may have to do with time taken off to have and look after children. If that were the case, government policy to improve access to childcare may increase participation.
- ❑ Increases in participation by mature Australians in the 55-70 age range have perhaps the greatest potential to dampen the effects on the economy of an ageing population, both because of the size of these cohorts and their relatively low starting positions. With a change in policy and attitude, participation could build on recent increases to lift further still in these cohorts.

It should be noted that, even with increasing **specific** participation rates in older age groups, the **overall** rate of participation in Australia will decline as the population ages. Even if a 60 year old is far more likely to be working in 20 years than a 60 year old today, that same 60 year old is still far less likely to be working than a 40 year old is today.

4. ALTERNATIVE ECONOMIC PROJECTIONS

ACCESS ECONOMICS' INTERGENERATIONAL MODEL

Underlying the results in this chapter is Access' Economics model of the economic and fiscal implications of an ageing population. The methodology and assumptions in this model are broadly consistent with those in Treasury's IGR modelling, as are the major outputs.

Economic projections are based on the 'three Ps' framework outlined above. That framework emphasises Population, Participation and Productivity as the building blocks of long run economic growth.

In order to examine the role of workforce participation in the long run, this chapter outlines some key long run economic outcomes under a range of scenarios.

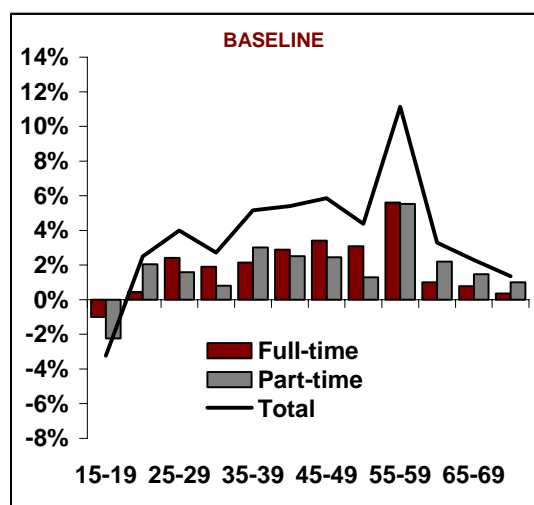
The first of these is a '**baseline**' scenario, which updates the participation assumptions in the 2002 IGR to reflect recent trends.

As noted above, changes to participation rates mean that the starting points for participation seen here are somewhat different from those envisioned in the first IGR. As a result, the changes implied by the long run targets may differ from those in the original IGR modelling.

Levels of workforce participation among older women also differ from IGR assumptions. In particular, these projections allow for higher long run participation rates among 60-69 year old women, where recent changes have already exceeded the expectations of the first report.

In the baseline scenario seen here, participation rates for women aged under 60 move towards their final positions in the 2002 IGR from their 2005-06 averages. Participation rates for 60-69 year old women see the same absolute increase, but from a higher base. A constant share of women participate in paid work choose to work full-time.

CHART 10: FEMALE PARTICIPATION ASSUMPTIONS – LONG RUN CHANGE FROM 2005-06 RATES



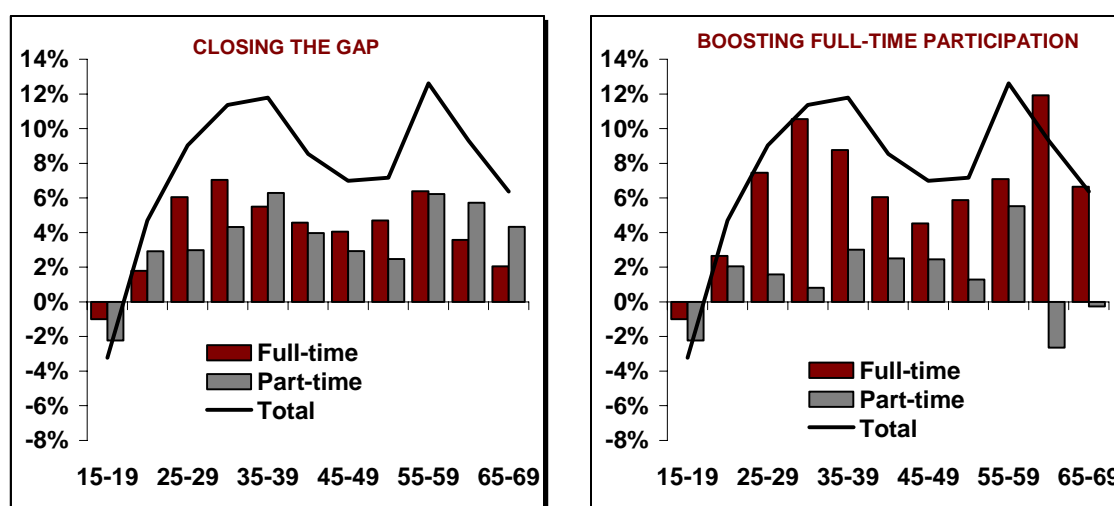
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4.1 FURTHER GAINS IN FEMALE PARTICIPATION

Here two alternative scenarios for the future workforce participation of women are examined, while rates for men are unchanged from the baseline scenario:

- ❑ **Narrowing the 'gender gap' in participation rates.** In this scenario, female participation rates are increased so that the final gap between male and female participation rates is halved (excluding 15-19 where female participation rates are higher). The split between full- and part- time employment (as a percentage of female participation) is unchanged.
- ❑ **Boosting full-time participation rates for women.** Total participation rates for females rise as in the above scenario. However, part-time participation rates do not change, so that all the change occurs in full-time female employment.

CHART 11: FEMALE PARTICIPATION— LONG RUN CHANGE FROM 2005-06 RATES, HIGH CASES



Both of these scenarios represent a lift in the number of women in the workforce, and produce a long term boost for the Australian economy.

As Table 1 shows, both scenarios provide a large economic benefit, but increasing the share of women working full-time (and therefore the total number of hours worked) has the potential further boost future prosperity.

TABLE 1: ECONOMIC PROJECTIONS – INCREASED FEMALE PARTICIPATION

2041-42	Baseline	Closing the gap	Boosting full-time participation
Employment (000s)	13,442	13,910	13,910
Full-time	9,403	9,622	9,917
Part-time	4,039	4,288	3,993
Full-time equivalent	11,152	11,478	11,645
Real Output (\$bn)	\$2,226	\$2,291	\$2,324
per capita (\$)	\$76,524	\$78,761	\$79,909

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4.2 WHAT IF FEMALE PARTICIPATION GAINS STALL?

Again two alternative scenarios for the future workforce participation of women are examined, with rates for men unchanged from the baseline:

- ❑ **Constant female participation rates.** Where female participation rates are expected to rise, they instead remain constant (the 15-19 year age group sees a similar fall to that in the baseline scenario).
- ❑ **An increase in part-time participation, with no lift in full-time participation.** This scenario includes the increase in part-time participation as the baseline scenario, but holds full-time participation rates at current levels.

CHART 12: FEMALE PARTICIPATION— LONG RUN CHANGE FROM 2005-06 RATES, LOW CASES

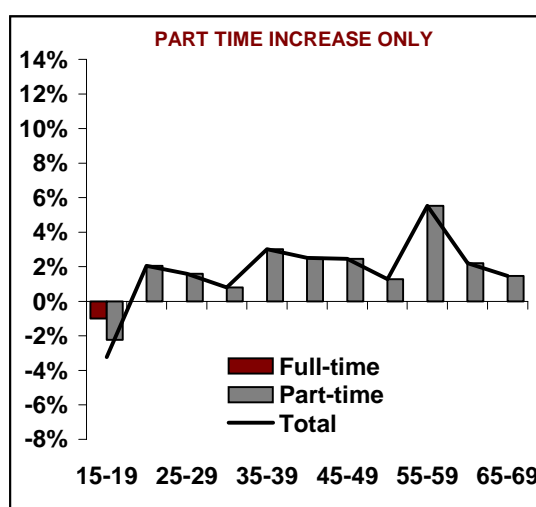


Table 2 shows the result of slowdown in - or an end to - increases in female participation. If participation were to level off at existing rates then the Australian workforce would be smaller still than that predicted by the IGR.

These results highlight the importance of encouraging women to take up roles in the paid workforce, and of boosting full-time participation in particular. Without the predicted boost to full-time participation, Australia may fall short of achieving even the modest long term economic outcomes identified in the 2002 IGR.

TABLE 2: ECONOMIC PROJECTIONS – SMALLER GAINS IN FEMALE PARTICIPATION

2041-42	Baseline	Part-time increase only	No further gains
Employment (000s)	13,442	13,229	13,008
Full-time	9,403	9,191	9,189
Part-time	4,039	4,038	3,819
Full-time equivalent	11,152	10,940	10,843
Real Output (\$bn)	\$2,226	\$2,183	\$2,164
per capita (\$)	\$76,524	\$75,066	\$74,401

5. REFERENCES

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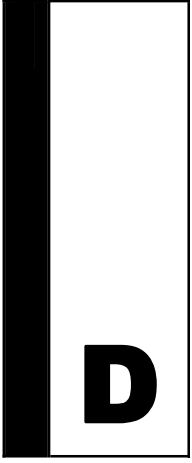
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Appendix D

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