



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

**HOUSE OF
REPRESENTATIVES**

STANDING COMMITTEE ON EMPLOYMENT AND
WORKPLACE RELATIONS

Reference: Employment: increasing participation in paid work

WEDNESDAY, 8 OCTOBER 2003

CANBERRA

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

INTERNET

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **<http://www.aph.gov.au/hansard>**

To search the parliamentary database, go to:
<http://parlinfoweb.aph.gov.au>

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON EMPLOYMENT & WORKPLACE RELATIONS

Wednesday, 8 October 2003

Members: Mrs De-Anne Kelly (*Chair*), Mr Bevis (*Deputy Chair*), Mr Dutton, Ms Hall, Mr Hartsuyker, Mr Lloyd, Ms Panopoulos, Mr Randall, Ms Vamvakinou and Mr Wilkie

Members in attendance: Mr Bevis (*Acting Chair*), Mr Dutton and Mr Hartsuyker

Terms of reference for the inquiry:

To inquire into and report on:

Employment issues in both rural/regional and urban and outer suburban areas, with particular reference to:

- Measures that can be implemented to increase the level of participation in paid work in Australia; and
- How a balance of assistance, incentives and obligations can increase participation, for income support recipients

WITNESSES

**GARDNER, Mr Robert, Senior Adviser, Labour Market Participation Unit, Social Policy
Division, Department of the Treasury 1**

**TAYLOR, Mr Dehne Alexander, Manager, Labour Market Participation Unit, Social Policy
Division, Department of the Treasury 1**

TUNE, Mr David John, General Manager, Social Policy Division, Department of the Treasury 1

Committee met at 11.23 a.m.

GARDNER, Mr Robert, Senior Adviser, Labour Market Participation Unit, Social Policy Division, Department of the Treasury

TAYLOR, Mr Dehne Alexander, Manager, Labour Market Participation Unit, Social Policy Division, Department of the Treasury

TUNE, Mr David John, General Manager, Social Policy Division, Department of the Treasury

ACTING CHAIR—I declare open this public hearing of the committee's inquiry into employment and increasing participation in paid work. I welcome the three representatives from Treasury. Thank you for coming along to see us today. Gentlemen, the proceedings here today are formal proceedings of the parliament and warrant the same respect as proceedings in the House. I invite each of you to make some preliminary comments about the issues you think are important to this inquiry before we move to some questions. I should also say at the outset that this will be a truncated meeting, for which I apologise. Two of us have commitments at 12 o'clock, which is less than satisfactory given that we have just been called out for a division. Without any more comment from me, I invite you to make some opening remarks.

Mr Tune—I will be very brief. The submission we provided is basically intended to provide the committee with a bit of background on some work we have been doing in Treasury following the Intergenerational Report that was published with last year's budget, the 2002-03 budget. As you will see in the submission, it picks up some of the summary conclusions from the IGR. The work we have been doing subsequent to that involves trying to think through some of the policy consequences of the IGR. In particular, if you take the IGR's conclusion that there would be a projected fiscal gap of about five per cent of GDP by 2042, what can we do to try to address that. The analysis we have been doing is really looking at the economy from a supply side view and looking at the factors that influence GDP. It has become what is known as the three Ps. Secretary Ken Henry has given a number of speeches on this issue and diagnosed it in a fair amount of depth. But the three Ps are population, which is of course an ageing population, as we all know; the second one is productivity, which can generate increased economic growth; and the third one is labour force participation. When you put those three together, they provide a supply side view of GDP.

The conclusion we have come to is that, to address a five per cent fiscal gap, it is difficult to focus too much on population because the population itself is ageing and a high proportion of government expenditure is directed towards assisting people when they are older with things like the age pension, health care, aged care itself and those sorts of things. You would have to have a very high level of net immigration intake to address the issues. The fertility rate is low and has been declining. There is a low replacement rate now in Australia and it has been declining for a number of years. It would take a very major turnaround in that fertility rate to address the problems. Whilst not dismissing population as being part of the solution, the analysis we have done suggests that you cannot just rely on population.

Productivity is the second aspect. The projections included in the IGR were based on the 30-year average of productivity growth in the economy of about 1¾ per cent. If you can do better on

productivity, that would obviously assist in generating more growth and hence provide a greater capacity to service the fiscal gap and, of course, generate increased wealth for the community at large. So there are possibilities there. We canvassed some of those things in a statement we put out with the budget in this year's budget papers—Budget Statement No. 4—which talks about productivity in a fair amount of depth and how we compare against the rest of the world. Whilst we have had improved productivity performance in Australia in the last 10 years, for example, better than most other countries in the Western world, we still have a productivity gap vis-a-vis countries like the US. So there is scope hopefully to do more on productivity over the next period of time. That would help as well. That would generate more growth if we can do better than the 1¾ per cent that is projected in the IGR based on history.

The third aspect, which we have focused on very much in this submission, is the participation rate. The projections indicate through the ageing of the population that the participation rate and the growth in our labour force will actually slow to about zero by about 2042. I think we are generating increased numbers in the labour force of 160,000-odd each year. That will gradually slow to zero, so we will have no growth in our labour force based on current participation rates. So that is what is in the projections. Obviously, if we can improve that participation rate, we will generate more growth and hence we will be able to deal with the fiscal gap inherent in the projections in the IGR.

That is the sort of basic analysis we are bringing to bear on the way we are thinking about these issues. The question then becomes in a policy sense what you do about participation and what steps you can think about taking to enhance labour force participation. We have mentioned five key things in the paper on which we think there is some scope to address the issue. I would not say we have come to definitive conclusions about any of them. We think we are in the right ballpark in terms of the issues that are likely to be important.

The first of those is education and skills. We have some information in the submission on page 8, where there is a series of quite detailed graphs. In essence, they are showing that the level of skills matters in terms of participation. People with lower levels of skills have lower levels of participation and vice versa. Those with higher levels of skills have higher levels of participation. So that causality seems to indicate something to us about the importance of high skill levels in the economy and the importance, of course, of adequate education systems to ensure that skills can be developed post school and post tertiary and whatever. So that is the first area we think is important.

The second one is the links with the income support system. There is a discussion paper that the government has issued regarding a single work force age payment. It is looking at the structure of the income support system. There are a couple of issues there around effective marginal tax rates and the structure of the system itself. There is a high proportion of people, for example, of work force age on income support at the moment who are not required to look for work—people who are receiving disability support pensions and a high proportion of people receiving parenting payments single, which used to be known as the sole parent pension. There are issues about whether the system is providing sufficient incentives for people on income support to enter the labour force and hence increase the participation rate. So there may be policy issues emanating from that that are worth exploring.

I will ask my colleagues to remind me if I forget any of these. The third one is workplace relations. There is a series of things before the parliament at the moment. I guess the view we are taking there is that a more flexible workplace relations culture would help to ensure that participation is maximised. The greater the degree of flexibility you have in the labour market, the more likely you are to be able to find a job. That will also help participation.

The fourth one we have mentioned is health. This is a difficult one because research is probably in its infancy here. It is an issue we have asked some researchers to start to look at for us. We have challenged them to look at it because we think it is an important issue. There seems to be a link between health status and labour force participation. We are not sure of the causality—whether poor health leads to lower participation or whether poor participation leads to poor health. The issue is to try to untangle that to see what might be done in terms of improving health status, particularly for older people. When I talk about older people, I guess I am talking post age 50 and whether we can do more to ensure that they are leading healthy lives and, hence, maintaining their labour force attachment for a longer period of time than they otherwise may be able to.

The fifth one we have mentioned there is issues around retirement income. The retirement income system is important in itself because there are large government costs associated with retirement incomes, whether through the tax concessions provided for superannuation or through the age pension itself. Therefore, the ageing of the population is gradually going to lead to an increased cost to government through those particular avenues. But there are issues around the retirement income system and its structure that relate to participation that could be important as well. The one we have mentioned in particular there is the preservation age and whether the preservation age itself is a factor that needs to be looked at if we are going to try to enhance labour force participation, particularly amongst older people and maintaining them in the labour force for a longer period of time than currently.

In saying all of that, I do not think we are leading to a conclusion where we are actually wanting to say that people should have to remain in the labour force. What we are trying to ensure is that there are adequate choices available for people. To the extent that government policies or the structures we have inherent in society, and the attitudes we have in society for that matter as well, are constraining people's free choices, maybe they are the areas that policy could focus on over the next 15 or 20 years or so.

In a nutshell, that is where we have got to, the sort of structures there are and the way that we have analysed the issues. We are continuing to analyse them within that structure. Hopefully, that was a quick foray. We have given a brief overview of where we are coming from.

ACTING CHAIR—Thank you very much. Does anyone else wish to make any comments?

Mr Gardner—No.

Mr Taylor—No.

ACTING CHAIR—There is plenty of meat in what you have said, certainly more than we are going to deal with, I suspect, in the next 25 or 30 minutes. Do either of my colleagues want to pursue questions?

Mr HARTSUYKER—I am very interested in participation at the later stages in life and the transition from full-time employment to part-time employment and ultimately retirement and taking on roles that are less demanding. Have you done modelling on what stretching the working life for each 12 months does to our position, particularly in relation to various mixes of skill levels as you step down towards retirement?

Mr Tune—We have not actually modelled it. It would be a quite detailed modelling exercise and would involve a lot of assumptions, I guess. You would have to throw in the assumption that you could vary those assumptions. I would be brave enough to say, though, that it would be positive. Just on the plain demographics of the issue, the numbers coming through over the next two decades show that we are going to have this larger proportion of people in that age 50 to age pension age group. There will be so many people there. The participation rate for males has been in decline for quite a period of time now; for females it is not so bad. If you can maintain their labour force attachment, you would actually have quite an impact, I suspect, on the overall participation rate. We could do a very quick calculation to show, if you improved it by X, what that will mean to the overall labour force participation rate. That would be reasonably easy for us to do. If the committee would like that, I think we could organise it. We will give you a ballpark calculation at least.

Mr HARTSUYKER—Obviously there are a lot of assumptions, as you say, that you have to make. It would be an interesting exercise to know that for each additional year in the work force the impact is X or Y, or whatever the figure is.

Mr DUTTON—I want to ask a question about the other end of the market, about participation by women who have been out of the work force raising children, for argument's sake. What are we doing there and how could we improve the circumstances for those people to re-engage in the labour market?

Mr Tune—One of the things I did not say in my introductory comments is that we are looking at target groups. Where we see the biggest potential for increased labour force participation is in the older group we have just talked about and women. Whilst women's participation rates have improved quite dramatically over the last 20 years or so for a variety of reasons, they are still lower than men's in every age group. I think I am right in saying that.

Mr Taylor—Yes.

Mr Tune—Therefore, there is some scope. In terms of the detail of your question, there are a couple of aspects, I suppose, that are of interest to us. An increasing and relatively significant proportion of women with children these days are, of course, sole parents. I think in the order of 23 per cent of families with kids are now parented by a sole parent. Many of them are in receipt of income support. It is a high proportion of them. Over 80 per cent, I think, are in receipt of income support. Measures to assist them into the labour market would seem to have some potential. So that is one group.

Of course, there is the other group where you have mum and dad and the kids. Labour force participation tends to increase gradually as the age of the youngest child increases. So you will have reasonably low participation rates for married women when the youngest kid is under one and it gradually increases up to five and then starts to stabilise a bit. So measures to enhance the

links between work and family, for example, can be important in that regard. If you can ensure that there are adequate child-care facilities available and affordable child care, that will help female participation. Helping the balance of assistance between one- and two-income families is also an important factor. Some analysis we have done suggests that the balance of assistance between one- and two-income families in terms of government assistance is probably about right. There are broadly equal levels of support whether a mother is staying at home looking after her child or whether the mother is working when you add it all up, including child-care assistance, the family tax benefit, the way the tax system operates and so forth. So in that sense, there is probably not a lot more you need to do in terms of the balance of assistance, although I guess there are issues about the overall adequacy of that assistance that could be looked at as well. They are the key things I would mention.

Perhaps one other aspect worth mentioning briefly is flexibility in the labour market, which I referred to earlier. Family friendly workplaces, for example, will be a positive aspect in terms of participation for married women in particular and sole parents.

ACTING CHAIR—I will ask a couple of questions to pick up on some of those things. You mentioned one of the options being increased productivity, which obviously would assist. Then you get to the question of how you distribute the wealth generated by that increased productivity. My experience is that the people who actually contributed to the increased productivity tend to think they deserve to get the benefit of the increased productivity, which is probably not an unreasonable thing, whether it is their investment in capital or their work habits or whatever. I assume that to get the benefit distributed would require us to look at our taxing policies. Are you assuming that the current rate of tax taken out of that productivity would produce the results?

Mr Tune—Yes. Basically it is assuming revenue is a constant proportion of GDP. That is implicit in the assumptions in the IGR. So in your situation, if there was an increase in productivity and wages reflected that increased productivity, you would expect that to be reflected in more tax revenue as well. I think the question you are getting at is whether you want to redistribute that in some way. Well, that is an open question, I suppose. I guess if you take away more of that gain in productivity than the individual worker has provided, you may affect the incentives that that worker has and hence that may have a negative impact on your productivity. So there is a balancing act going on between the redistribution goal and your productivity goal. I do not know the answer to that. Inherently, it is a political question, actually.

ACTING CHAIR—I suspect it is a moving feast and whatever may be the correct answer today will not be the correct answer tomorrow, anyway. What is the rate of GDP that is assumed to go to revenue?

Mr Tune—It is the historical share. They have kept it constant going through.

Mr Gardner—I will just check it now.

ACTING CHAIR—Please check, if you have it handy. It is easy enough to pick up what the current rate is.

Mr Tune—It is certainly in the IGR. We will find it.

ACTING CHAIR—While that is being looked up, you did not mention the superannuation system in dealing with the question of the ageing population. Could you give us some advice as to the role that the superannuation guarantee system plays and the extent to which it meets the necessary target of providing financial security for that ageing population?

Mr Tune—I am not an expert in this area, but certainly the analysis that has been done by other people in Treasury suggests that when you put together the totality of the system—the SG, the tax concessions available to superannuation, hence encouraging private superannuation, plus the age pension—our system holds up pretty well on an international stage.

ACTING CHAIR—What if you delete the age pension, though? If we are looking at being able to sustain these people, the age pension comes out of the tax revenue, which comes out of the work force, which gets us back into participation rates and all those other things we are talking about. One of the factors that can actually fund that older age bracket is their own savings, which is the superannuation, which then does not impact on the question of participation rates et al.

Mr Tune—We have taken that through the projections, though, so we are looking at what happens to the SG as it matures over time. That gets fed into the projections that are done for age pensions, for example. A mature SG system generates higher superannuation incomes.

ACTING CHAIR—Can you define for me what you mean by mature?

Mr Tune—Well, people who have been getting benefits through the SG for a 40-year working life.

ACTING CHAIR—At what rate of contribution?

Mr Tune—The current rate. So they are starting now—

ACTING CHAIR—Have you done any modelling on increased rates?

Mr Tune—I am not aware. I would have to check with our modellers whether they have done that. I am not aware of it myself.

ACTING CHAIR—Could you do that. Secondly, have you looked at the impact in other countries that have effectively a national superannuation contribution, including those that have higher rates of contribution than our own?

Mr Tune—Yes. I think we have done that comparison. I think it might have been included in a Treasury submission to a Senate committee inquiry recently, so I will dig that out for you. We will forward that on to the committee.

ACTING CHAIR—I am right in my assumption that people in my age group and your age group who fit the cohort that is looking to retire when there are fewer people out there in the work force to pay for our pleasure—

Mr HARTSUYKER—To pay for your retirement.

ACTING CHAIR—That is right.

Mr DUTTON—With great pleasure.

ACTING CHAIR—But not in a hurry to. If in fact we can actually shift some of the responsibility on to the individual's shoulders, the equation you were talking about becomes much more favourable. You do not have to look for other answers as much. You do not have to rejig things in population productivity as much.

Mr Tune—To the extent that people increase their provision, yes, that would ease the burden on the age pension, for example. But it has a cost, of course, if they are providing for themselves and they are getting upfront tax concessions for that. So there is a balancing act going on. There is a temporal change. As for what the net effect is, I think you would have to look at the detail of what was being looked at. So it is not a straight-out positive. There is a negative up front because of the impact of the tax concessions there or forgone revenue, in effect, from not taxing super in a certain way.

ACTING CHAIR—I would be interested to know if any modelling has been done on different levels of the superannuation guarantee.

Mr HARTSUYKER—On the transition from the unemployment benefit into work, has Treasury got a rough rule of thumb with regard to variation in the unemployment rate into work and the impact on the budget bottom line?

Mr Tune—We do. I am just trying to think whether it is public or not. We have. I think in the budget there is some information—I am not sure; I will check for you—which indicates if unemployment comes down by a certain number what the impact on the bottom line of the budget would be. That information is available. It is the rule of thumb.

Mr Taylor—The IGR assumes it is down to five per cent.

ACTING CHAIR—I am going to have to interrupt proceedings because a division has been called. I suspect by the time this division is finished, we are going to have a lot of trouble getting back to doing anything meaningful by 12 o'clock. Again, I apologise for the disjointed hearing. There are a couple of other matters that I wanted to pursue. I am sure other members of the committee had some as well. We may have to line up another time. My apologies for the inconvenience. It is one of the unavoidable pitfalls of having these meetings while parliament is sitting.

Mr Tune—We understand.

Resolved (on motion by **Mr Hartsuyker**):

That this committee authorises publication of the proof transcript of the evidence given before it at public hearing this day.

ACTING CHAIR—I declare the hearing closed.

Committee adjourned at 11.47 a.m.