



Who is not participating in Tasmania's labour force?

Summary Paper

July 2007

This Paper has been prepared by the Demographic Change Advisory Council for information purposes

The Council is a Tasmanian Government initiative, in conjunction with the Local Government Association of Tasmania, Tasmanian Chamber of Commerce and Industry, Tasmanian Council of Social Service, Unions Tasmania and the University of Tasmania

Introduction

The proportion of people participating (or not participating) in the labour market is an important measure of the supply of labour in an economy¹. Labour supply, in turn, is an important determinant of long-term economic growth.

Tasmania's labour force participation rate is lower than the national average and over the past three years has shown only a modest increase, despite strong economic and employment growth during that time. One contributing factor has been Tasmania's ageing population. However, several other important factors account for the difference.

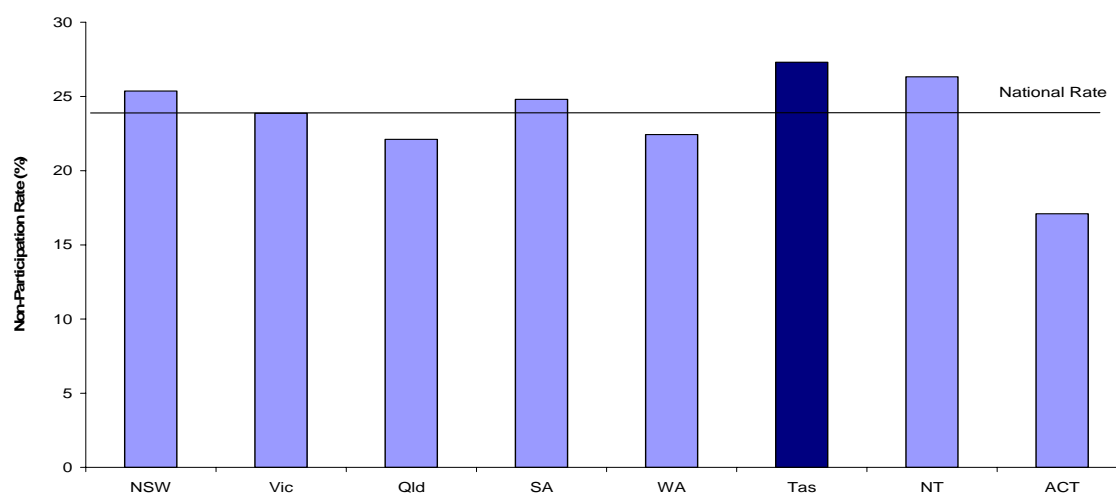
As Tasmania's population is ageing faster than any other state or territory, this is likely to further increase Tasmania's non-participation rate relative to other jurisdictions in the future.

This paper provides a summary of a report, titled *Who is Not Participating in Tasmania's Labour Force?*, which examines the number and characteristics of Tasmanians who are not participating in the labour force and identifies some reasons for this higher level of non-participation. The full report is available on the Demographic Change Advisory Council website, www.dcac.tas.gov.au.

How do we compare?

In the year to April 2007, 27.3 per cent of Tasmanians aged 15 to 64 years did not participate in the labour market. This was 3.4 percentage points above the national rate of 23.9 per cent (Figure 1).

FIGURE 1: NON-PARTICIPATION RATE, AUSTRALIAN STATES AND TERRITORIES, 15 TO 64 YEAR OLDS, YEAR AVERAGE TO APRIL 2007

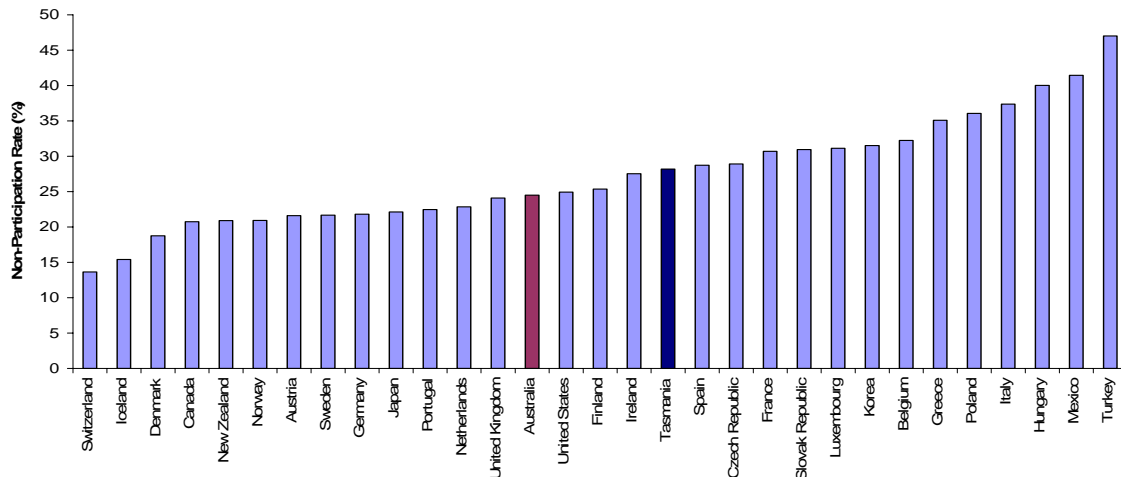


Source: *Labour Force Australia, Detailed – Electronic Delivery, ABS Cat No 6291.0.55.001.*

¹ The labour force participation rate is defined by the Australian Bureau of Statistics (ABS) as the proportion of the civilian working age population (those aged 15 years and above) who are in the labour force (ie employed or unemployed). Hence the non-participation rate comprises all people aged 15 years and over who are not employed or unemployed.

Compared to Organisation for Economic Co-operation and Development (OECD) countries, Tasmania's participation rate is about mid-range, though in most high income OECD countries a smaller proportion of those aged between 16 and 64 do not participate (Figure 2).

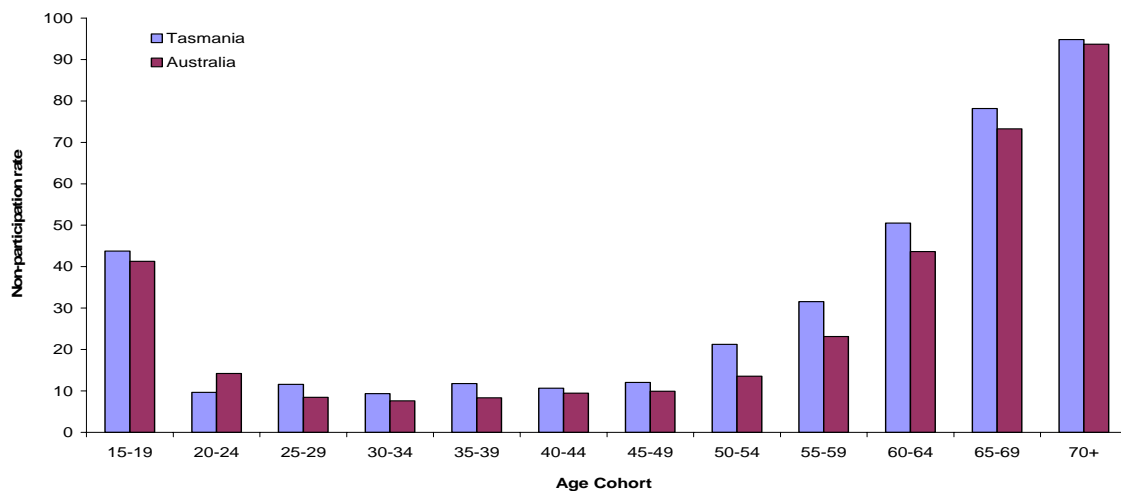
FIGURE 2: NON-PARTICIPATION RATES, PERSONS AGED 15 TO 64, OECD COUNTRIES AND TASMANIA, 2005



Source: OECD Economic Outlook No 79, June 2006 and Labour Force Australia, Detailed – Electronic Delivery, ABS Cat No 6291.0.55.001.

Figures 3 and 4 below show that the non-participation rates for prime working-age Tasmanians is relatively low. However, the level of non-participation begins to increase significantly after age 55 and reaches almost 100 per cent for those aged 70 years and over.

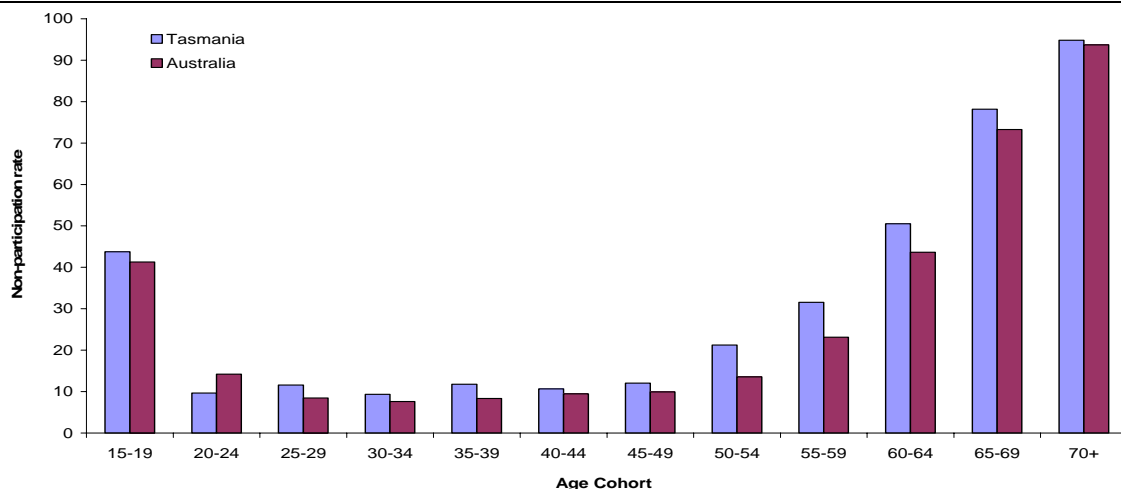
FIGURE 3: NON-PARTICIPATION RATES BY AGE COHORT, MALES, TASMANIA AND AUSTRALIA, YEAR AVERAGE TO APRIL 2007



Source: Labour Force Australia, Detailed – Electronic Delivery, ABS Cat No 6291.0.55.001

Males have a fairly stable rate of non-participation of around 10 per cent between the ages of 20 to 49 years. However, females, not surprisingly, have a higher rate of non-participation during the child bearing and rearing ages of 20 to 49 years. Section 2 of the full report provides further information on differences between male and female non-participation.

FIGURE 4: NON-PARTICIPATION RATES BY AGE COHORT, FEMALES, TASMANIA AND AUSTRALIA, YEAR AVERAGE TO APRIL 2007



Source: *Labour Force Australia, Detailed – Electronic Delivery, ABS Cat No 6291.0.55.001*

For both males and females and across almost all age classes, rates of non-participation are higher in Tasmania than for Australia as a whole. The differences tend to be greater for those aged 50 and over. This shows that factors other than the age distribution of Tasmania's population account for Tasmania's higher overall rate of non-participation.

Why does it matter?

A higher participation rate (and therefore a low non-participation rate) is considered an important economic measure for the reasons set out below.

- The level of labour force participation is a key factor in determining the relative size of labour supply that is available for the production of goods and services in the economy.
- To the extent that the participation rate responds to changes in the level of demand for labour in the economy, an increased participation rate during times of economic expansion facilitates increased output without significant upward pressure on wages.
- The greater the number of people that participate in the labour force, the greater the potential for overcoming mismatches between labour supply and demand, particularly when the labour market is tight and there are many skill shortages.

- To the extent to which persons who participate in the labour force are successful in finding employment, a decrease in the non-participation rate reduces the number of individuals who are vulnerable to financial pressures, which provides social and welfare benefits.
- A higher participation rate (insofar as it leads to increased employment and economic activity) increases taxation revenues and reduces reliance on government benefits and other welfare services.

If the participation rate increases without an increase in employment, the result is simply more unemployment, which provides no economic benefits. However, across Australian states and territories the participation rate tends to be high where economic conditions are strong and unemployment rates are low. It is rare, therefore, for high levels of unemployment to be due to an unusually high participation rate.

While high participation rates deliver many benefits to individuals, businesses and governments, a low rate is not necessarily a problem, as it may simply reflect the preferences of individuals or households. For example, a certain proportion of people choose to allocate their time to full-time study, child rearing or leisure activities.

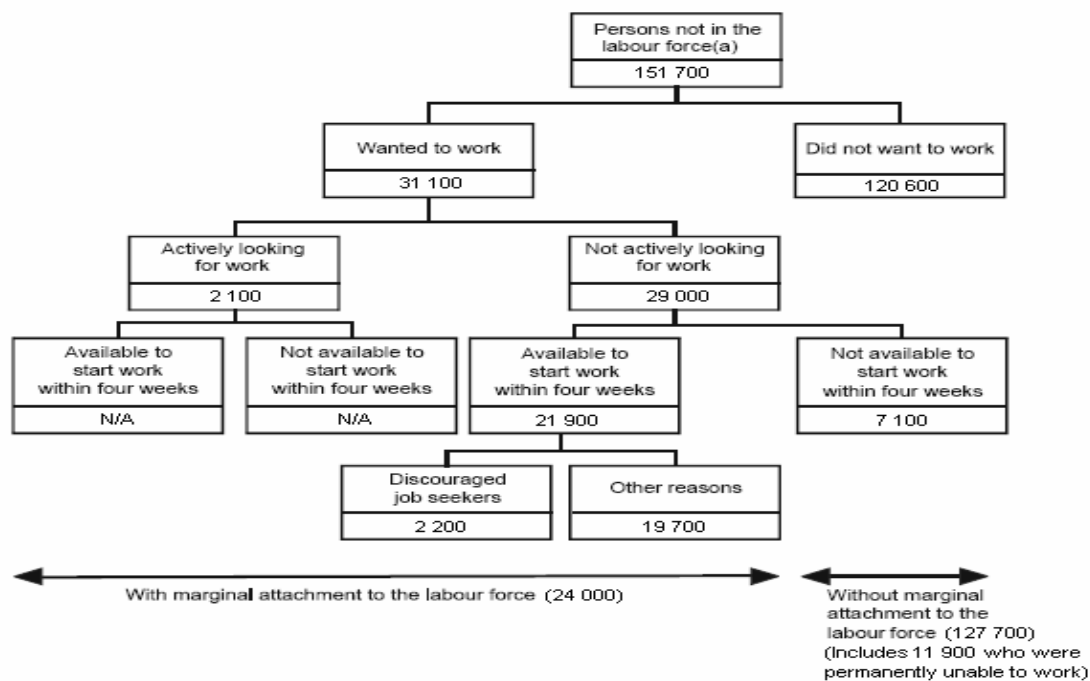
However, a high level of non-participation is a concern if it arises from high unemployment that discourages people who want to work from remaining in the labour force, or from perverse incentives created by tax, welfare and/or retirement incomes systems. Similarly, if non-participation is high because the skill levels of those outside the workforce are low (and hence are of low value and attraction to employers) this is likely to be a significant problem.

What are the numbers?

In the year to April 2007, there were around 393 900 people in the Tasmanian adult civilian population (those aged 15 years and over) and, of those, around 155 300 persons or 39.4 per cent were not participating in the labour force. By comparison, the proportion of the Australian adult civilian population not participating in the labour force over the same period was 35.2 per cent.

For the purposes of getting a more detailed breakdown of the people not participating in the labour force, it is necessary to use data from an Australian Bureau of Statistics (ABS) survey conducted in September 2006, the results of which were released in March 2007. According to the ABS estimates, there were 151 700 persons were not in the labour force in September 2006. Figure 5 shows how these are classed according to their desire and availability to work.

FIGURE 5: PEOPLE NOT IN THE LABOUR FORCE, TASMANIA, SEPTEMBER 2006



Source: *Persons Not in the Labour Force, Australia, ABS Cat No 6220.0.*

The ABS estimates reveal that around 31 000 or 20 per cent of Tasmanians not in the labour force in September 2006 wanted to work. The vast majority therefore of those who do not participate in the labour force do not want to work. Removing those who were neither actively looking for work nor available to start work within four weeks leaves 24 000 persons – around 16 per cent of the total number not in the labour force – who are referred to as “marginally attached”².

It is important to gain a better understanding of those who are marginally attached, as they are likely to be the most responsive to government policies and different business practices to increase participation. Indeed, of the marginally attached, 41 per cent of males and 32 per cent of females had worked within the previous three years.

Figures 3 and 4 suggest that the greatest opportunity for increasing the labour force participation is with males and females aged 55 to 64 years and females aged 25 to 44 years.

² Persons who are marginally attached to the labour force may satisfy some, but not all, of the criteria to be classified as unemployed. People are considered to be marginally attached to the labour force if they want to work and: are actively looking for work but are not available to start work in the week of the ABS survey; or are not actively looking for work but are available to start work within four weeks of the ABS survey.

Table 1 illustrates that there are more men and women not in the labour force who are aged 55 to 64 years than women aged 25 to 44 years. However, there are far more women aged 25 to 44 years who are marginally attached and interested in working. This not only demonstrates where there is potential for raising participation rates but it also raises a number of issues for employers who are experiencing difficulties recruiting from the existing labour force — such as the skills of these women and what prevents them from applying for jobs.

TABLE 1: SUMMARY OF THOSE NOT IN THE LABOUR FORCE, TARGET GROUPS, TASMANIA, SEPTEMBER 2006

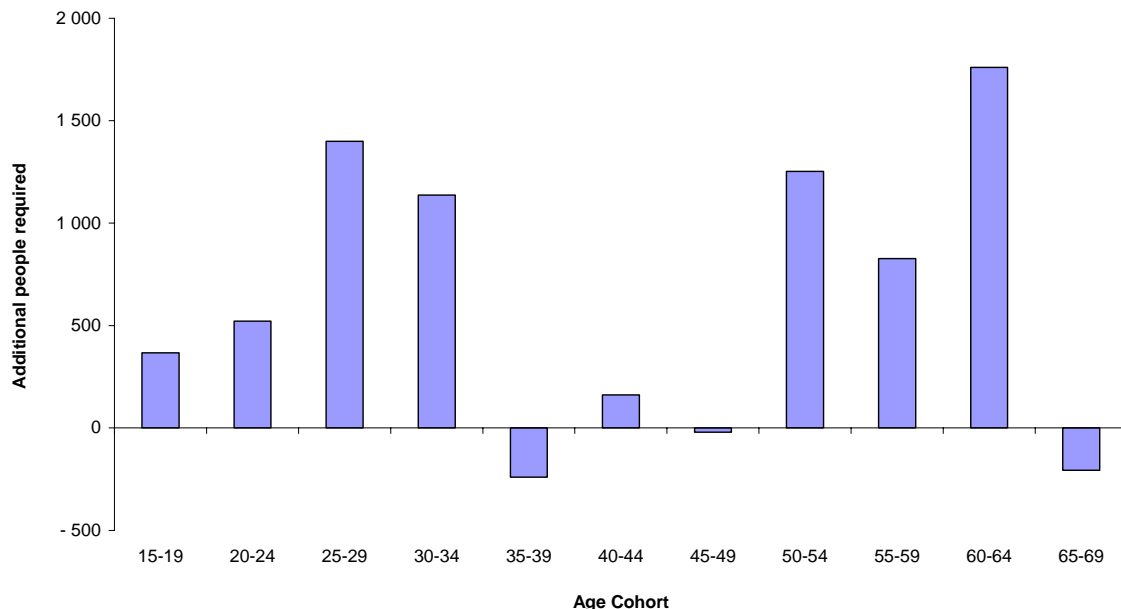
	<i>Persons aged 55 to 64</i>	<i>Women aged 25 to 44</i>
<i>Not in the labour force</i>	<i>30 100</i>	<i>17 000</i>
<i>Not marginally attached – did not want to work</i>	<i>21 000</i>	<i>6 900</i>
<i>Not marginally attached – other reasons</i>	<i>5 800</i>	<i>3 800</i>
<i>Marginally attached</i>	<i>3 300</i>	<i>6 300</i>

Source: Persons Not in the Labour Force, Australia, ABS Cat No 6220.0.

The relatively small size of the labour force in Tasmania compared to the total population can be shown by estimating how many additional people would have to participate for the State to have the national participation rate for each age group. The additional participation required is shown in Figure 6.

Approximately 7 000 additional workforce participants between the ages of 15 and 69 would be required for Tasmania to match the national participation rate in each five year age group. Just over half (3 800) is due to the relatively lower participation of those aged 50 to 64 years. However, a considerable share of the shortfall (around 2 500 persons) is due to Tasmania's lower participation rates for those aged 25 to 34 years.

FIGURE 6: CHANGES IN TASMANIA'S WORKFORCE THAT WOULD PROVIDE THE SAME PARTICIPATION RATES AS NATIONALLY, 2005–06



Source: *Labour Force Australia, Detailed – Electronic Delivery, ABS Cat No 6291.0.55.001* and *Population by Age and Sex, ABS Cat No 3201.0*.

Reasons for non-participation

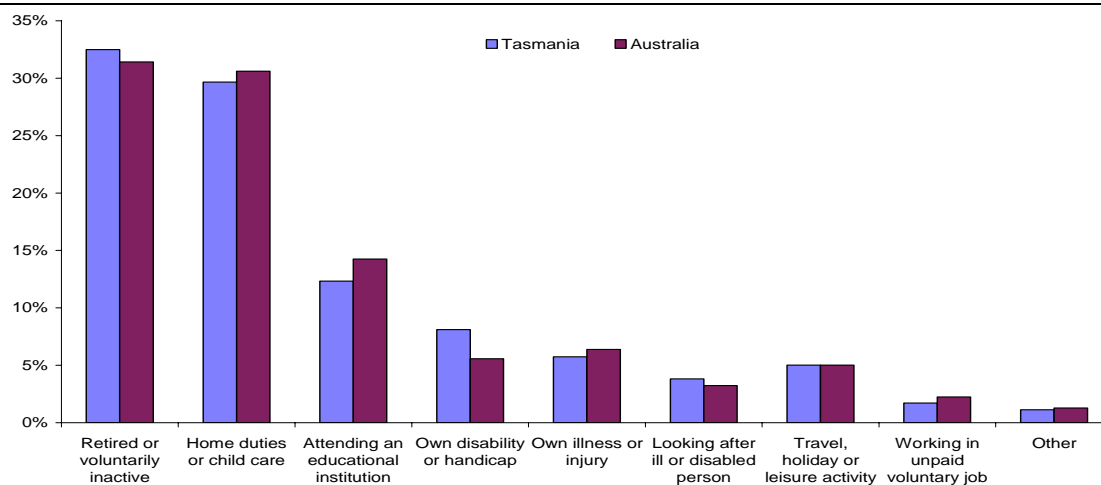
Understanding why people are not participating may identify which obstacles or disincentives need to be removed in order to encourage greater participation.

There are many complex and interdependent reasons why people do not participate in the labour force. In most instances, it is likely to be a combination of two or more reasons. One data source is the ABS series on the main activity stated by those who do not participate in the labour force.

The six main activities of those not participating in the labour force are:

- retired or voluntarily inactive;
- performing home duties or childcare;
- attending an educational institution;
- own illness, injury or disability;
- travel, holiday or leisure activity; and
- looking after an ill or disabled person.

FIGURE 7: MAIN ACTIVITY REPORTED BY PEOPLE NOT IN THE LABOUR FORCE, TASMANIA AND AUSTRALIA, SEPTEMBER 2006



Source: *Persons Not in the Labour Force, Australia, ABS Cat No 6220.0.*

Tasmania has a higher share of those who are retired and voluntarily inactive, and have a disability or handicap, but a smaller share of those with home duties or undertaking child care, and still in education (Figure 7).

It is useful to compare the main activity of all those not participating in the labour force with the activities of the subset that are marginally attached to the labour force. The main differences are that marginally attached people are:

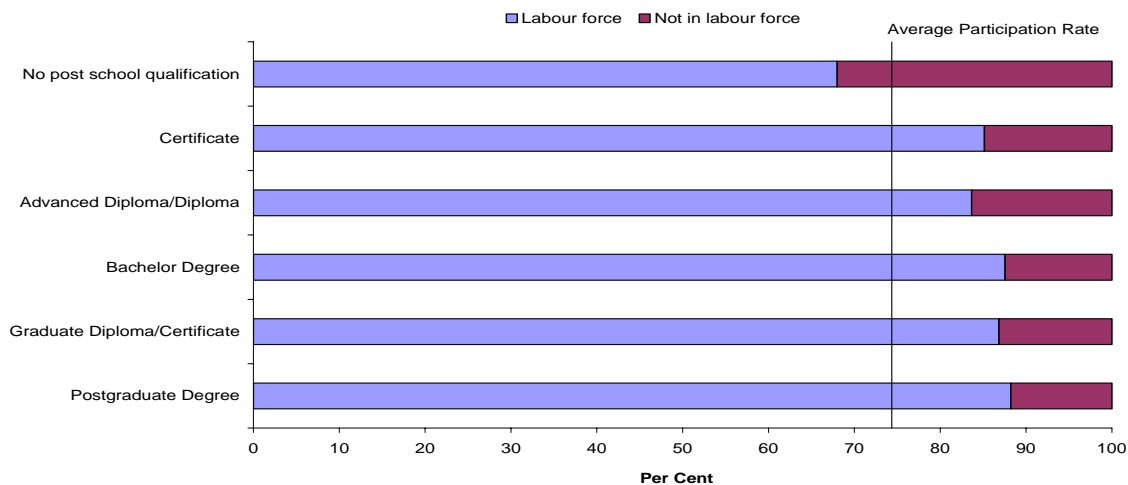
- more likely to be undertaking home duties or child care;
- more likely to be attending an education institution; and
- less likely to be retired or voluntarily inactive.

Education and skills

The activity of those not participating may not always fully explain the decisions people make that affect labour force participation. For example, home duties and child care may be a person's main activity while not participating in the labour force, but the underlying reason for not participating might be that the person lacks the necessary qualifications or skills to secure well paid employment, or high levels of job satisfaction.

It is therefore useful to examine the education and skills levels of those who participate and those who do not. Figure 8 illustrates that, at the national level, highly qualified people are more likely to participate in the labour force than lower qualified people. It also shows that a relatively low proportion of highly qualified people are not in the labour force.

FIGURE 8: LABOUR FORCE STATUS BY QUALIFICATION LEVEL, 15–64 YEAR OLDS, AUSTRALIA, 2006



Source: *Education and Work, 2006, ABS Cat No 6227.0.*

Conclusion

This paper has examined some characteristics of those who do not participate in Tasmania's labour market. The higher rate of non-participation in Tasmania, relative to Australia as a whole, is partly explained by the larger share of older Tasmanians. However, other factors are important in accounting for the difference in participation rates, such as the level of education and skills.

Other factors not examined in the paper, such as the availability and cost of childcare and the range of jobs available and the level of wages offered, may also be important.

While the low level of participation may appear as a problem for Tasmania, it also provides a very significant opportunity, as it provides the potential for Tasmania to increase its labour supply. This in turn, can stimulate economic growth and raise living standards, which is likely to become increasingly important in the context of Tasmania's ageing population.

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