



Australian Government

**Department of Employment and
Workplace Relations**

Productivity Commission Research Report

Economic Implications of an Ageing Australia

**SUBMISSION BY DEPARTMENT OF EMPLOYMENT
AND WORKPLACE RELATIONS**

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1. Introduction

The Australian Government has recognised the fiscal implications of the ageing population and made a serious commitment to deal with the challenge of demographic change. A key facet of the Government's response is to put in place policies which increase participation in the labour force. The Government has also underlined the importance of increasing labour force participation by appointing a Minister for Workforce Participation.

The Department of Employment and Workplace Relations (DEWR) believes that the Productivity Commission (PC), in *Economic Implications of an Ageing Australia: Productivity Commission Draft Research Report*, does not give sufficient recognition to the scope for growth in effective labour supply and the overall effect of policies to improve labour force participation on improving the projected rate of economic growth.

This is exemplified in the following quotes from the PC's *Draft Research Report*:

- “Substantial increases in participation rates for older Australians alone do not make a large difference to overall participation rates” (page 3.27).
- “For example, if male participation rates for workers aged 55 or more increased by 10 percentage points for 2044-45, the aggregate participation rate would still only rise by approximately two percentage points.” (page 3.28).

However, while the PC concludes that “Substantial increases in participation for older Australians **alone** do not make a large difference to overall participation rates – and policies that elicit such increases cannot **by themselves**, realistically be a panacea for the sluggish labour supply arising from ageing.” the PC also acknowledges that such policies “may also be **part of a suite of policies** aimed at better growth prospects” (page 3.27 - our emphasis).

In this submission, we contend that the aim of encouraging employers to hire mature-age job seekers and retain mature-age workers should be accorded a higher priority in the final version of the report. In addition, the PC should acknowledge in the final version of its report that increasing the labour force participation of people on passive welfare payments (such as people with disabilities and parents) will also play a role in efforts to address the ageing challenge.

2. Structure of the Submission

In this submission, DEWR begins by re-examining the PC's analysis of labour force participation and other aspects of the labour market. DEWR contends that there is more scope for increasing total and effective labour supply than is recognised by the PC. There are a number of reasons for this, including scope for a stronger contribution from the encouraged worker effect than the PC recognises, the potential for policies and programmes to boost participation and effective labour supply and to reduce skill shortages and the possibility that in the long term, the Government's product and labour market reforms might enable the achievement of an unemployment rate below the long-term rate of 4.8 per cent assumed by the PC. These are discussed in more detail in the next part of our submission.

However, achieving such a boost to labour supply and labour outcomes will not be straightforward and DEWR outlines the policies and programmes that have been implemented so far, the direction of the Government's legislative programme and the continuing need for employers to respond to the implications of an ageing Australia by hiring and retaining mature-age workers later in this submission.

Finally, DEWR explains the potential contribution of workplace relations policies to improving labour productivity and discusses some of the analytical issues in the discussion of labour productivity and ageing in the PC's *Draft Research Report*, before concluding this submission.

3. Analysis of Labour Force Participation

The scope for increasing labour force participation rates (LFPRs) for mature-age people could be greater than the PC recognises in Chapter 3 of its *Draft Research Report*. In addition, the PC downplays the scope for increasing LFPRs for young and prime-age people in our view.

In the near term at least, the PC's projections could be pessimistic – recent actual LFPRs have been high partly as a result of encouraged worker effects that the PC does not appropriately acknowledge (as explained below), while LFPRs are growing for older men and women, partly as a result of policy changes that are not fully recognised in the PC's *Draft Research Report*. Recent developments in LFPRs by gender and age group are discussed in the Appendix.

Over the longer term, the PC projections, which are based mainly on time trends and dynamic cohort effects which are not fully explained in the report, could also be pessimistic, for similar reasons as in the short term.

Some other aspects of labour supply (effective labour supply and skill shortages in particular) are also incompletely analysed in the *Draft Research Report*. These aspects of the PC's report are discussed in this section.

3.1 Encouraged/discouraged worker effects

The PC has misunderstood the encouraged/discouraged worker effect in a number of important ways.

The PC has analysed them as a function of the unemployment rate (Box 3.3, Figure 3.4 and the surrounding description in the PC *Draft Research Report*), but they are more appropriately modelled as a function of the employment/population rate, or labour demand/population rate (where labour demand is determined by employment and job vacancies).

This is because whether people participate in the labour force or not largely depends on the employment opportunities available, rather than the lower probability of missing out on the employment opportunities available. In other words, with an unemployment rate of around five per cent as at present, many potential labour force participants would look at the 95 per cent of the labour force that is represented by employment rather than the five per cent of the labour force that is represented by unemployment. Another reason for representing the encouraged worker effect as a function of the employment/population ratio is that many people (particularly women

and male part-time workers) move directly from outside the labour force into employment, rather than from outside the labour force into unemployment, and then into employment. This is shown in gross flows data from the ABS monthly Labour Force Survey. DEWR's calculations of detailed unpublished gross flows data purchased from the ABS shows that in the year to January 2005, the average flow per month from outside the labour force into employment was 188,500, while the average flow per month from unemployment into employment was only 100,000. This is consistent with people responding directly to the employment opportunities available, rather than people deciding whether to join the labour force by initially joining an unemployment queue on the basis of how many other people are already in that unemployment queue.

The PC actually presents a chart (Figure 3.12) further on in Chapter 3 of the *PC Draft Research Report* where the authors plot the labour force participation rate against the employment/population ratio, and it can be seen that there is a closer relationship between these two series than there is between the unemployment rate and the labour force participation rate in Figure 3.4.

Consistent with the reasoning presented above, the primary way that the encouraged worker effect is modelled in some of the major Australian macroeconomic models is by expressing the labour force participation rate as a function of the employment/population rate. This is done in Treasury's TRYM model (Stacey and Downes 1995). In the Murphy Model (Powell and Murphy 1995), the labour force participation rate is modelled as a function of the ratio of employment to the underlying trend in the labour force.

Research by DEWR staff has shown that the encouraged worker effect is likely to be stronger than the discouraged worker effect for the full-time labour force. A stronger encouraged worker effect than the discouraged worker effect increases the scope to increase labour force participation rates in future. As long as cycles in the economy continue, this asymmetry will tend to increase labour force participation rates.

Apart from this aspect of cyclical effects on the labour force participation rate, the PC's claim that encouraged/discouraged worker effects are a cyclical phenomenon and that the discouraged worker effect does not appear to be important in shaping long-term trends (page 3.9) is flawed. Apart from the above-mentioned flaw¹, such a claim conflicts with a substantial amount of other research by DEWR staff showing a long-term relationship between labour force participation rates and encouraged/discouraged worker effects. The results of such statistical testing routinely confirmed that there is both a long-term and a short-term relationship between the labour force participation rate and the employment/population ratio (combined with other explanatory variables).

Encouraged/discouraged worker effects differ among groups in the labour market and encouraged worker effects appear to be higher for the part-time than the full-time labour market. Provided that part-time employment continues to grow over the longer term at a faster rate than full-time employment, this disparity in responsiveness will

¹ That is, the lack of consideration for the main indicator of encouraged/discouraged worker effect (the employment/population ratio).

tend to increase labour supply, especially as there is anecdotal evidence that many mature-age workers would prefer to switch to part-time employment before they retire.

3.2 The Effects of Policies on Projected Labour Supply

The PC's discussion in Chapter 3 of the *Draft Research Report* of the likely effects of policies and programmes on the labour force participation rate is incomplete, and contains at least one technical flaw. It appears to understate the role of policies and programmes in boosting labour supply in future.

The readily identifiable technical flaw relates to the labour force status of people on Disability Support Pension (DSP). The PC states (on page 3.24) that "People on DSP are classed as outside the labour force...". This is not strictly the case. Labour force status is determined in Australia by the answers that people interviewed for the ABS monthly Labour Force Survey (around 0.5 per cent of the adult civilian population are surveyed each month) provide to the interviewers, not on the payment category (if any) that they are receiving. While DSP is not an activity-tested category of income-support payment, those receiving DSP can voluntarily look for work and indeed, a proportion are employed. The latest available information from FaCS (2004) shows that in June 2003, 9.4 per cent of DSP recipients had declared earnings from work.

The PC appears to have understated the potential role of policies and programmes in boosting future labour supply, both in the areas it has identified and in the areas it has omitted. Regarding pension policy, it only mentioned one effect – the increase in the age pension age for women. However, there are a large number of other policies, relating to both pensions and allowances and explained in more detail later in this submission, that are already influencing labour force participation rates and/or are likely to influence future labour force participation rates.

Regarding the PC's discussion of trends in disability rates, while it acknowledges that "DSP rates are already dropping for males aged 50-64 years.." it anticipates that DSP rates will stabilise (rather than drop) for younger males and all females, and even then this is only "...over the longer run". However, as explained further on in this submission, there is the prospect of a substantially higher reduction in DSP rates than the PC expects, as the result of past and prospective policy changes, including broader implementation of the results of DSP servicing pilots conducted recently in DEWR.

The PC also appears to have neglected the influence of other policies and programmes on labour force participation. For example, the conditions attaching to ex-service pensions appear to have reduced full-time labour force participation rates for men aged 60-64 years in the past (Economic Conditions Section 2000) but this effect should no longer be as important as in the past since the cohort of people who served in World War II has now passed 65 years of age.

3.3 PC Labour Force Projections

The methods that the PC used to project labour force participation rates are not well explained in the *Draft Research Report* and it would be useful to have a fuller explanation of the methods and assumptions used to generate these projections as an

Appendix in the *Final Research Report*. This would enable other analysts preparing future labour force projections to understand what the PC has done in this exercise and to be better placed to replicate and extend labour force projections.

At least one of the labour force participation rates scenarios in Box 3.4 seems to be understated. In the scenario for “Less disability support”, it is assumed that changes in DSP policy and programmes would only have an effect on participation rates for males and not for females. The PC does not justify this assumption. The PC also queries whether reconnecting DSP recipients to the labour force would substantially alter the trends in employment rates by age group. As will be explained further on in this submission, the results of the DSP Pilots provide hope that this could actually be the case.

3.4 PC Unemployment Rate Projection

The PC is cautious in assuming that if it were not for ageing, the unemployment rate would be 5.2 per cent in 2044-45 (it is probably also cautious in projecting that the ageing of the population will only reduce the unemployment rate by 0.4 percentage points over the next 40 years). This is above the current seasonally adjusted unemployment rate of 5.1 per cent, which has been accompanied, to date at least, by low wage and price inflation.

The Australian Government has contended, in a number of places including Statement 4 of the *Budget Strategy and Outlook 2003-04*, that Government policies (in areas including workplace relations, welfare reform and taxation) can contribute to lowering the unemployment rate in the long term.

While a slightly different endpoint for the unemployment rate in 2044-45 (say, the 4.0 per cent that was used in one of the scenarios in the *Intergenerational Report* instead of 4.8 per cent) might not make that much difference to projected average annual rate of change of hours worked, a reduction of around this magnitude in the equilibrium unemployment rate over the next half decade or so as a result of Government policy changes could make a worthwhile contribution to overcoming the fiscal burden of an ageing population.

3.5 Total and Effective Labour Supply

The Australian Government’s labour supply and skills policies are aimed not only at increasing total labour supply, but also at the effectiveness of labour supply - that is, reducing unfilled job vacancies and skill shortages, reducing the unemployment rate in the long term and reducing involuntary part-time employment. In this context, “effective labour supply” is meant in a much broader sense than that used by the PC in Chapter 3 of the *Draft Research Report* (the total number of hours actually worked in a year).

3.6 Workforce Ageing and Skill Shortages

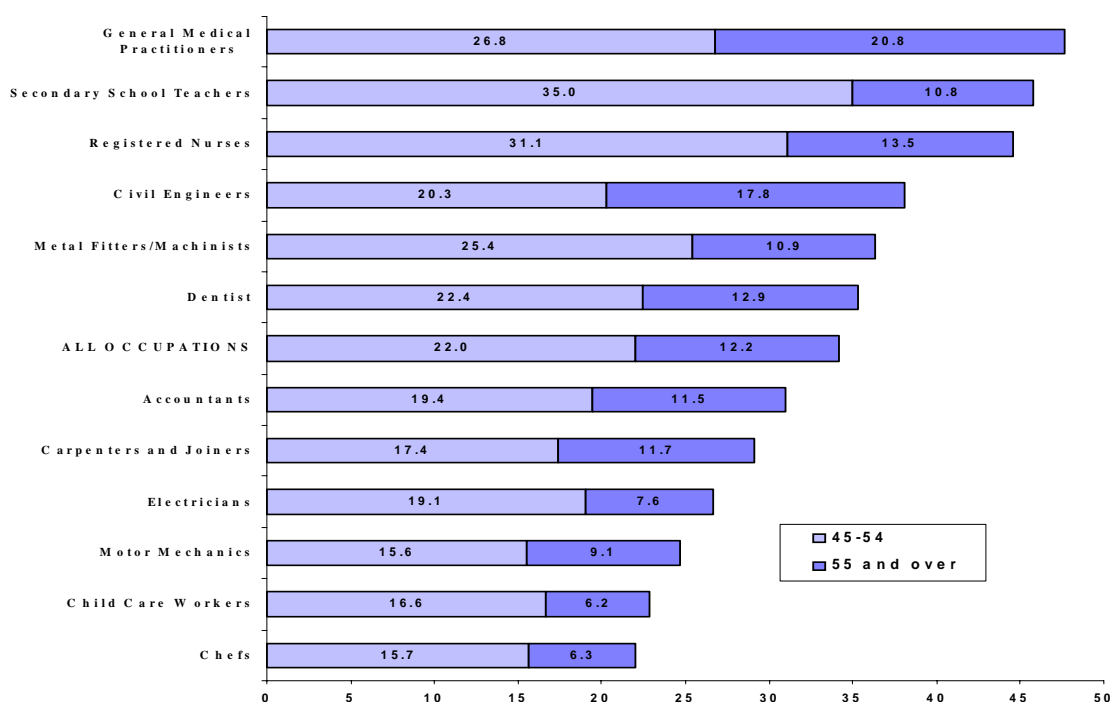
While the Productivity Commission *Draft Research Report* draws out the impact of workforce ageing on future overall labour supply, the report does not focus adequately on the skill mix: the outlook for specific occupations, especially occupations where skill shortages are already evident. There is, for instance, a marked difference in the impact of workforce ageing on professionals compared with trades occupations.

3.6.1 Age profile - skill shortage occupations

An examination of the age profile for selected occupations indicates that the workforce for some occupations where skill shortages already exist is skewed towards mature-age workers. Ageing of the workforce can be expected to exacerbate shortages in professional occupations such as General Medical Practitioners, Secondary School Teachers and Registered Nurses (see Figure 1) where almost half the workforce is aged 45 years or more.

- These concerns are particularly noteworthy for health occupations: demographic change will impact on both the supply of skills (workforce ageing will reduce the future supply of skills) and the demand for health care (an ageing population will, as the PC's *Draft Research Report* states, increase the demand for health care).
- Some professional occupations (for example, Accountants) have a younger age profile and are less vulnerable to workforce ageing in the next decade.

Figure 1: Age profile - selected skill shortage occupations



Source: ABS Labour Force Survey (average for 2003)

For trades, many of which are 'younger' than average, the age profile does not tell the 'full story' and the data need to be interpreted carefully. Many trades have a younger than average age profile because most retire early or move to other occupations. In particular, there is a marked shift from employment into retirement/out of the labour force 30 years or so after qualifying (from around 50 years).

3.6.2 Ageing and the trades

As noted above, the trades in general have a younger than average age profile. Some 64.5 per cent of tradespersons are aged 20 to 44 years and 28.6 per cent are aged 45 years and over, compared with 58.7 per cent and 34.2 per cent respectively for all

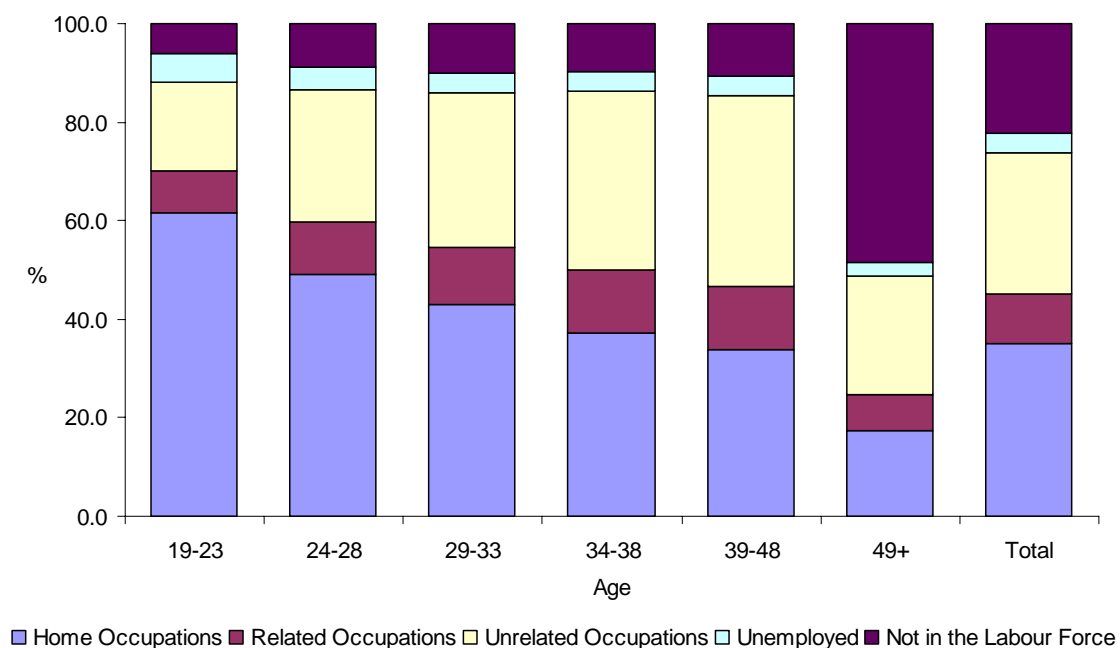
employed persons. Some trades do, however, have a high proportion of workers aged 45 years and over: for example, Clothing Trades (63 per cent) and Toolmakers (50 per cent).

To consider the likely impact of workforce ageing on skill shortages, it is useful to examine the career paths of tradespersons (how they use their qualifications and skills throughout their working life). The concept of ‘home’ occupation/s is used in this analysis, where home occupations are those occupations most appropriate to the particular qualification. Data from the 2001 Census show that on average, throughout their working life, 35 per cent of those qualified in the fields examined worked in their home occupations (see Figure 2).

- The proportion working in home occupations falls with age, with only around one in six tradespersons aged 49 years and over (17 per cent) working in ‘home’ occupations.

While some tradespersons are working in ‘related occupations’ where they would use some of their skills, only around one in four tradespersons aged 49 years or older are using their skills (see Figure 2). The movement of qualified tradespersons out of home occupations to other careers and out of the labour force contributes to the widespread shortages that persist in many trades.

Figure 2: Labour Force Status by Age (Years), Average for All Trades Field, 2001



3.6.3 Ageing and professionals

In contrast with the trades, for many professional occupations, including Specialist and General Medical Practitioners, Pharmacists and Dentists, a significant proportion works beyond 65 years. DEWR has examined the career paths for selected professional qualifications, including Law, Computing, Accounting, Social Work,

Civil Engineering, Medicine, Nursing, Pharmacy, Primary School Teaching and Secondary School Teaching (these are among the largest of the professional qualification fields).

- The proportion working in the 'home occupation/s' varies between qualification fields examined. At the time of the 2001 Census the proportion was highest for Medicine (72 per cent) and Pharmacy (61 per cent) and lowest for Accounting (45 per cent), Social Work (33 per cent) and Civil Engineering (31 per cent).
- For Primary School Teaching, Secondary School Teaching, Nursing and Civil Engineering, the proportion employed in home occupations fell consistently with time since the professional level qualifications were obtained, with a marked fall around the time of retirement (30 years or more after qualifying).

As for trades, there is a marked shift to other careers/out of the labour force 30 years or more after qualifying. Although a higher proportion of professionals remains in their home occupation(s) throughout their working life, there are marked variations between professional areas, from around 50 per cent for Medicine and Pharmacy down to 25 per cent for Nursing and Secondary School Teaching and 20 per cent for Civil Engineering and Primary School Teaching.

An analysis of the impact of workforce ageing needs to take account of how workers use their qualifications, and strategies for lifting the share of qualified workers who are employed in occupations that use their skills for all age groups, as one way of addressing future skill shortages. This is an especially important issue for workers aged 50 years or older, and even more so for trades occupations.

3.7 Conclusion of labour supply analysis

As explained above, there are a number of areas where there is more scope for increasing total and effective labour supply than the PC recognises. These include the encouraged worker effect, policy-induced increases in labour force participation, increases in the effectiveness of labour supply and the capacity to address skill shortages. We now turn to explaining the Australian Government's policies and programmes relating to labour supply in the context of population ageing.

4. Government initiatives to increase workforce participation

The Australian Government has a wide range of policies in place to respond to the challenge presented by the ageing population. Against a foundation of strong economic and employment growth, the Government has introduced policies including the New Tax System, welfare reform, workplace relations reform, labour market (including employment services) reform and education and training measures. The Government is constantly reviewing these existing policy settings and developing new responses.

These reforms are intended to increase labour force participation rates generally, but with a particular emphasis on improving the participation of mature-age people, people with disabilities and parents.

4.1 Policies to increase workforce participation of mature-age people

Increasing mature-age participation is a crucial part of the Government's response to the challenge posed by an ageing workforce. To this end, the Government has implemented strategies to encourage employers to employ mature-age people, to improve the assistance mature-age job seekers receive and to encourage mature-age people to stay in the workforce longer.

The Government offers a range of employment services to help mature-age job seekers move back into employment. The largest of these is Job Network, which delivers a number of assistance measures for mature-age job seekers, including:

- potential for early access to Job Network Intensive Support customised assistance services, which provide one-to-one assistance and support to help job seekers address specific barriers to employment (mature-age job seekers are allotted more points than younger job seekers under the Job Seeker Classification Instrument, which increases the probability that they will be eligible for early access to Intensive Support customised assistance);
- the option for early access to Job Search Training, a tailored fifteen-day training course designed to build up specific job search skills;
- access to a Job Seeker Account, which Job Network members can use to tailor assistance to individual job seekers;
- access to a Training Account for job seekers aged over 50 years, which can be used to purchase vocational education or training appropriate to the job seeker's skills and abilities and the labour market in which they are seeking employment;
- Job Network providers have access to a Mature Age Toolbox that assists them when working with older job seekers; and
- earlier access to Training Credits for mature-age Work for the Dole participants, which are available for job seekers who complete a certain number of hours in Work for the Dole or Community Work.

Job Network has been very successful in assisting mature-age job seekers into work. As at the end of January 2005, there were 193,158 mature-age job seekers (45 years plus) registered with Job Network, representing 23.5 per cent of the total caseload. There were a total of 117,400 job placements for mature-age job seekers during the 12 months to January 2005, a 52 per cent increase from the previous 12-month period. There were 36,800 long-term job outcomes achieved for mature-age job seekers during the 12 months to January 2005, more than double the long-term job outcomes for this age group for the previous 12-month period.

In addition to Job Network, the Transition to Work (TTW) programme provides mature-age job seekers with practical and individually tailored assistance including a one-to-one initial interview and skills assessment, access to courses to upgrade skills and career counselling. TTW is aimed at job seekers aged 50 years or over who are starting work for the first time or are returning to work after an absence of two years or more, and are not necessarily on income support.

The Department is currently in the process of implementing the Mature Age Employment and Workplace Strategy, announced in the 2004-05 Federal *Budget*. The Strategy provides \$12.1 million over four years to assist in addressing mature-age employment issues and takes a holistic approach by focusing on employers, mature-age job seekers and mature-age workers. The Strategy is working to overcome negative attitudes to mature-age employment, improve the awareness of mature-age Australians to the changing demographic environment and broker solutions to skill shortages in key sectors.

The Department is actively working with employer bodies and other interested parties to promote awareness of the benefits of recruiting and retaining mature-age workers. This is taking form in a number of ways, for example: through facilitating discussion of the issues amongst employers, recruitment professionals and academics; by promoting mature-age focussed workforce planning to employers and employer bodies; and by developing mature-age employment strategies within specific industries. The ultimate aim is to create an ageless workforce – a workforce based not on age, but on talent, skills, experience and willingness to work.

The Department is working with major employers in formulating the Mature Age Workplace Guidelines, a component of the Mature Age Employment and Workplace Strategy. The Guidelines will provide a practical set of voluntary standards that can be used by employers to devise and implement mature-age employment policies at their workplaces. The Guidelines will cover good practice, case studies and templates in a number of key areas, such as training and occupational health and safety.

The Department is encouraging individual employers to plan effectively for an age-diverse workforce, and to develop strategies to attract and retain mature-age workers. Employers with a strong record of successfully implementing age-positive policies are being assessed for public recognition as Mature Age Workers' Employer Champions.

There are other Government initiatives that will have an impact on mature-age workers, including:

- The Mature Age Worker New Apprenticeships Incentive scheme, under which an employer of a mature-age worker may attract a special \$825 Mature Aged Worker Commencement incentive and an \$825 Mature Aged Workers Completion incentive;
- The enactment of the *Age Discrimination Act 2004* which prohibits age discrimination in a number of areas including recruitment, training, promotion, redundancy and retirement;
- The phased increase of the female age pension age from 60 to 65 years;
- The Pension Bonus Scheme which is designed to encourage people over age pension age to defer claiming Age Pension and continue in the workforce, if they are willing and able to do so;

- Changes to superannuation such as increasing the fully deductible amount for personal contributions by the self-employed from \$3,000 to \$5,000 and providing a '1 ½ for 1' Government co-contribution;
- Increasing the superannuation preservation age to 60 years by 2024; and
- The Mature Age Worker offset, which aims to encourage and reward mature-age workers who stay in the workforce. This will provide a maximum \$500 tax offset to people over the age of 55 years who have earned income (within certain limits).

4.2 Policies to increase workforce participation of people on passive welfare payments

Another component of the Government's agenda is to increase the workforce participation of working-age Australians relying on passive welfare payments such as the Disability Support Pension (DSP) and Parenting Payment (PP). The Department has had significant success in helping people on these payments find work, and believes that the potential to increase the participation rate of these groups should not be understated.

4.3 Increasing participation for people with a disability

DEWR is responsible for the administration and management of workforce-age income-support payments including those for people with disability, illness or injury. These include DSP, Newstart Allowance and Sickness Allowance.

DSP recipients currently number over 705,000 and programme expenditure is estimated to reach about \$8 billion in 2004-05. This represents a major social and economic cost. A number of Australian Government Departments are working together to improve participation by people with disabilities in education, training and employment.

Disability Open Employment services play a valuable, specialist role in assisting people with disabilities who need ongoing assistance to obtain and or retain employment in the open labour market. Nationally, there are 227 organisations providing open employment services from 324 outlets. Last financial year, disability Open Employment services assisted 45,700 job seekers with disabilities of whom 18,297 were in receipt of DSP. In 2004-05, the Government will provide \$189 million in funding and a further 1500 places for disability Open Employment services reflecting the Government's commitment to ensure that available funding is used effectively for the benefit of job seekers with disabilities.

CRS Australia provides vocational rehabilitation services to people who have disability or injury and need rehabilitation assistance to gain or retain unsupported paid employment or to live independently. In 2003-04, CRS Australia assisted some 41,354 customers, nearly 29 per cent of whom experienced a mental illness. Over this same period, nearly 25 per cent of customers had an employment outcome.

All Job Network Members provide assistance to people with disabilities. In addition there are 37 Job Network sites providing specialist support to job seekers with a disability. In 2003-04 over 77,000 job seekers with a disability participated in Job

Network. For job seekers who exited Intensive Support customised assistance from 1 July 2003 to 30 June 2004, positive outcomes (i.e. employment and/or education outcomes) 3 months after exiting assistance were 46 per cent for job seekers with a disability compared to 53 per cent for all job seekers. This has increased from 44 per cent in the previous year.

A DSP Pilot was conducted with 12 disability specialist Job Network members between December 2003 and June 2004 to test strategies on how best to engage and service DSP recipients who want to work and who volunteered for employment assistance. Under the pilot, DSP recipients who were looking for work were able to register directly with a participating Job Network member to get the highest level of support available under the *Active Participation Model*.

The pilot has delivered promising results. By 14 January 2005, almost half the participants (296 participants, representing 44 per cent of the total) in the pilot had found a job with Job Network help. By this date, 152 Interim Outcomes (13 weeks retention in employment or education) had been achieved as a result of the pilot, 140 of which were employment outcomes.

A significant proportion (37 per cent) of pilot participants had been dependent on DSP for five or more years and 12 per cent for more than ten years. Pilot participant characteristics were broadly similar to the DSP population in Job Network, presenting with a wide range of medical conditions, the most common of which were psychological/ psychiatric conditions (35 per cent), musculoskeletal (24 per cent) and sense organ conditions (13.4 per cent).

As part of the broader participation agenda, DEWR is working on a range of activities to improve access to employment opportunities for people with disabilities, including DSP recipients, through participation in Job Network.

Activities include:

- promulgating better practice resulting from relevant projects funded from the Employment Innovation Fund;
- raising awareness of the benefits of employing people with a disability with employers and the broader community;
- dispelling myths and misinformation about people with a disability;
- promoting employment services available to people with a disability;
- developing, enhancing and promoting enabling tools for service providers, job seekers and employers, such as the JobAble web site which contains positive information about employment assistance services; and
- facilitating networks and better links between disability services providers to optimise services and job opportunities for people with a disability.

In addition, Disability Open Employment Services will continue to play a valuable, specialist role in assisting people with disability who need ongoing assistance to obtain and or retain employment in the open labour market.

4.4 Increasing participation of parents

People on Parenting Payment (PP) are eligible for the full suite of assistance available through Job Network. Services are provided flexibly and are designed to take into account parents' needs to care for their children. Strategies are being implemented to increase the number of PP recipients who volunteer for Job Network and other employment services. As at January 2005, there are 26,708 Parenting Payment recipients in Intensive Support employment services, an increase from 26,202 in May 2004.

Parents can also receive assistance through TTW. TTW provides a range of individual and flexible services, especially tailored to parents, including training, financial assistance and advice on ways to get into the job market. Around 55 per cent of lone parents who completed and exited TTW got a job or entered education or training.

To further build on this success, a TTW Parenting Payment pilot ran for three months to 30 June 2004. The aim of the pilot was to target people on PP, particularly single parents who have not been in employment for two years or more, to assist them to enter or re-enter the workforce. This involved innovative marketing strategies to attract potential clients into TTW, an early assessment of client service needs, preparation of client Vocational Profiles, and provision of support to job seekers on referral to Job Network. The pilot was successful in engaging parents and supporting their labour force participation. While outcome data are not yet available, early indications for employment and education outcomes, and referrals to Job Network, are positive.

A strategy is currently being implemented to promote greater participation in employment of jobless parents, in a way that takes into account their caring responsibilities. The approach to engage parents will draw on the lessons learned from existing service delivery arrangements and the PP pilots conducted by DEWR, Family and Community Services (FaCS) and Centrelink, including:

- creating better synergies between TTW and Job Network;
- improving information sharing between Centrelink Personal Advisers and Job Network Members including enhancing local partnerships;
- improving services for PP recipients including having parent-friendly Work for the Dole projects;
- improving information available for parents, including information on the impact of work on their payments and access to other entitlements, and liaison with lone parent peak bodies; and
- having demand-led strategies to connect parents to industries and occupations experiencing high job growth.

4.5 Contribution of Workplace Relations Policies to Participation

DEWR, in its Submission to the House of Representatives Standing Committee on Employment and Workplace Relations Inquiry into “Employment – Increasing Participation in Paid Work” (September 2003), made a cogent case that the introduction of the *Workplace Relations Act (1996)* (the *WR Act*) and promotion of workplace flexibility through DEWR’s Office of Workplace Services, has introduced a substantial amount of flexibility into workplace relations. This is assisting people to combine participation in paid work with other responsibilities (such as caring for elders or children) or wants (for example, easing the workload of a mature-aged person prior to full retirement).

The *WR Act* has set up a framework in which workplace matters can be determined more directly by employers and employees at the workplace level. It has allowed workplaces to tailor a range of working conditions which assist employees to balance their work and family commitments. The flexibility of agreement making encourages the take up of employment options such as part-time work, while other family friendly employment arrangements enable people to engage in the workforce in a manner which suits their individual circumstances.

The *WR Act* provides a range of bargaining options, recognising that different workplace arrangements will suit different employers and employees. Agreement-making is now the primary focus of the Australian workplace relations system with individual and collective agreement-making streams that place primary responsibility for negotiating terms and conditions of employment with employers and employees at the workplace level.

While the Government is pursuing further reform, the opportunities for agreement-making have helped Australian workplaces become more efficient and competitive. Employers and employees are more conscious of their mutual interests and are increasingly reflecting those interests in innovative agreements. The flexibility provided in the *WR Act* has seen an increase in the range of provisions appearing in agreements in Australia.

It is now commonplace to see some of the following provisions in workplace agreements:

- variable start and finishing times;
- averaging hours over weeks, months and a year;
- flexible working time arrangements;
- greater adjustability in utilising rostered days off;
- cashing out of some leave entitlements;
- annualised salaries incorporating penalty rates and overtime components;
- flexibility in rest and meal breaks; and
- provisions to assist with balancing work and family responsibilities.

Flexible forms of employment offer opportunities to the unskilled, re-entrants to the labour market, and mature-aged workers to gain a broad range of skills, experience and exposure to different working environments. It also gives those who wish to work on a casual basis due to family or study commitments the opportunity to do so. It can help young people gain entry to the labour market, and provides a method for ageing workers to phase their withdrawal from the workforce

As of 31 December 2004, 83 per cent of federal certified agreements contain at least one family-friendly or flexible hours provision. This equates to 93 per cent of employees covered by certified agreements having access to at least one of these entitlements. Also in current federal certified agreements, 60 per cent of employees have access to family/carer's leave and three quarters of employees have access to part-time employment provisions.

The *WR Act* prescribes allowable award matters which include a range of provisions that can assist employees to meet their work and caring needs including personal/carer's leave, hours of work and various types of employment such as casual employment, regular part-time and shift work (s.89A(2)(r)). Growth in casual employment has contributed to increased participation of persons who otherwise may have not looked for work or may have remained unemployed for extended periods of time.

The Government is of the view that all awards can accommodate a clause for regular part-time work. As part of the Family Provisions Case, the Government supported the employer contentions that part-time and casual employment should not be subject to unnecessary award restrictions in terms of hours of work or days of work.

Under the unlawful termination provisions of the *WR Act*, an employer cannot terminate an employee's employment for a range of reasons, including family responsibilities and absence from work during maternity leave or other parental leave (s.170CK(2)(f) and (h)).

4.5.1 Flexible workplaces and mature-age workers

Flexibility in the workplace and in the bargaining framework is a key to increased participation by mature-aged employees. The current framework assists individual older workers but also drives increased employment, productivity and economic growth necessary to sustain an ageing population.

The introduction of the *WR Act* has provided employers and employees the opportunity to adapt their workplace arrangements to best suit their circumstances, provided a simplified set of minimum standards is observed.

Under the agreement-making provisions of the *WR Act*, agreements, and Australian Workplace Agreements in particular, provide the opportunity to establish tailored arrangements that can assist and encourage older workers to remain in the workforce longer. Agreements may provide, for example, flexible arrangements for job sharing, phased retirement, home-based work, flexitime and variable hours, carers' and family leave and contract employment. Flexible working arrangements can facilitate changing work patterns for older workers in the transition from full-time employment to full-time retirement.

The *WR Act* also includes an extensive range of provisions intended to help prevent and eliminate discrimination at the workplace on numerous specified grounds, including age.

The importance of preventing discrimination is stressed in the principal object of the *WR Act*. The object refers to respecting and valuing the diversity of the workforce by helping to prevent and eliminate discrimination on the basis of age and various other specified grounds (s 3(j)).

Under the *WR Act*, the termination of employment on any of the specified discriminatory grounds, including age, is unlawful (s.170CK(2)(f)). These provisions apply to all Australian employees, and generally mean that employers cannot require employees to retire at a particular age. However, there are some exemptions that relate to the inherent requirements of the job and to religious institutions.

4.6 Further Workplace Relations Reforms

A key objective of the Government's 1996 programme of workplace relations reform was to enhance employment opportunities through a workplace relations system based on enterprise-level bargaining and freedom of choice. The Government has been pursuing legislative measures aimed at building on the 1996 reforms and further enhancing employment opportunities. As shown above, an increase in employment opportunities is likely to lead to an increase in labour force participation through the encouraged worker effect.

Key elements of the legislative programme introduced to date are:

- further reducing the burden of unfair dismissal laws on business, particularly small businesses;
- extending the federal unfair dismissal jurisdiction to cover employees in all incorporated entities;
- requiring a secret ballot before protected industrial action can be taken;
- providing a mechanism for resolving transmission of business complexities in relation to certified agreements;
- providing improved protection against unacceptable industrial behaviour;
- improving compliance by unions with orders and directions of the Australian Industrial Relations Commission and Federal Court;
- further simplifying awards;
- ensuring that adjustments to the award safety net are made with appropriate recognition to the needs of the low paid; and
- simplifying agreement-making procedures.

Many of the Government's proposed workplace relations reforms have been blocked in the Senate.

4.7 Additional efforts required to boost mature-age employment

Despite all of these policies and programmes, more will need to be done in coming years to increase labour force participation and employment of mature-aged people and members of other special groups. While the Australian Government has taken a lead role in addressing the challenge of an ageing workforce, other levels of government, the community, and business must also respond. In particular, employers can play a crucial role by employing mature-age people. While the impact of demographic change is not yet apparent, action is needed now to ensure the age structure of the workforce does not limit the potential for growth the Australian economy.

5. Ageing and productivity

The PC highlights the importance of labour productivity growth in maintaining and increasing living standards as well as the economy's ability to withstand the pressures of population ageing.

The PC seems to make sensible assumptions about the economy-wide productivity trends. It takes the past as the most reliable guide to future labour productivity growth trends. Cyclically adjusted data reveals that from 1966-67 to 2003-04, the average annual growth rate of labour productivity was 1.76 per cent, which is close to the central projection used for simulation of 1.75 per cent. An optimistic scenario of 2.05 per cent and a pessimistic scenario of 1.45 per cent average annual growth are considered.

The authors also raise a methodological issue which arises because of the way that the output of some of the non-market sector is measured (in terms of labour inputs). This is the equivalent of imposing zero productivity growth in this sector of the economy. Other authors, such as Day and Dowrick (2004), Loundes, Tseng and Wooden (2003) and Dowrick (1993), espouse the use of market sector measures over measures for the aggregate economy to take account of this artificial restriction. In all of their studies, they have used an assumption that market sector productivity growth is the growth rate for the whole economy. Quiggin (2001), on the other hand, argues that because output from the property and business services industry (not included in the market sector) is a major source of inputs into the market sector, productivity growth in the market sector may be overstated because the extra labour inputs into the property and business services industry are not accounted for. Therefore, if market sector productivity growth rate is assumed to be the growth rate for the overall economy, aggregate productivity growth may be overstated. The Australian Bureau of Statistics (ABS) has made a number of improvements to measurement of non-market sector output, in particular, the health and community services and education industries. Thus it is reasonable to assume that the true rate of labour productivity growth in the past may be in between the economy-wide and the market-sector-only measures. On that basis, the PC scenarios about economy-wide labour productivity are logical and reasonable.

The effects of ageing on labour productivity growth are not clear-cut as there are a number of distinct effects at work. The PC considers an assumption that productivity of a worker exhibits a quadratic relationship with age. In other words, the PC

considered the proposition that an individual worker's productivity rises until middle age (around 40 years of age) when a peak is reached and then declines afterwards. The PC rejects this assumption on a number of grounds. Firstly, the PC makes a distinction between *capabilities*, *experience* and *educational attainment*. Older workers seem to have a comparative advantage over younger workers in experience, while they seem to suffer a comparative disadvantage in capabilities, due to age related decline. Whilst educational attainment for the current generation of mature workers is lower than for younger workers, as younger, more educated cohorts of workers age, educational attainment of older workers is anticipated to rise over time. Because the magnitude of the differences of these characteristics between age groups and the ability of the economy to structurally adjust to these changes is unclear, the PC's assumption that productivity growth rates across age groups are equal is a sensible approach.

Research by DEWR staff has shown that there is considerable scope for Australian labour productivity to be increased. The researchers estimated that increasing the proportion of employees covered by Federal enterprise agreements, increasing the proportion of skilled employment within total employment, increasing the capital to labour ratio, increasing the share of information and communications technology in the overall capital stock and increasing the share of Gross Domestic Product devoted to business research and development are possible avenues through which labour productivity could be increased. Also, given the fact that the researchers estimated a returns-to-scale parameter for all inputs to be greater than one, the ability to grow the economy is also greater than assumed by the PC. With the percentage of employees covered by federal agreements, it is possible that an increase in this variable will induce increases in other inputs, which in turn, will increase labour productivity by more than anticipated. It should be borne in mind that these econometric results relate to marginal changes in the explanatory variables and there would be a danger in trying to extrapolate the results to large changes in the percentage of employees covered by federal enterprise agreements and Australian Workplace Agreements.

There is also an issue of endogeneity of labour inputs. In the labour productivity formulation of an aggregate production function, since the labour input term appears as an explanatory variable and also as part of the dependent variable, a fall in the labour supply generates a rise in the capital to labour ratio, which lowers output but increases labour productivity. Empirically, analysts have found that a one percent fall in total hours worked will decrease output by around 0.5 per cent but will increase labour productivity by around the same amount. Therefore, in the case of an ageing population which causes a slowing in the growth of labour supply, an endogenous rise in labour productivity would be generated. This contrasts to the assumption (page 4.22 of the *Draft Research Report*) that the capital to labour ratio will stay constant and hence investment demand will fall.

In addition to population ageing, the Australian labour market will need to continue to respond to the pressures of globalisation. This has had profound implications for organisations, in terms of skills and training requirements. Most importantly it has brought about the need to adopt new and more flexible workplace practices. Flexible labour market arrangements are one of the crucial determinants of an economy's capacity to take advantage of growth opportunities in the information technology age.

In an environment in which Australian industry is being exposed to ever increasing levels of international competition, and where technological change is accelerating, it is crucial that governments examine how they can provide a policy and legislative framework most conducive to creating efficient, flexible and competitive businesses.

Variety and flexibility in the types of working arrangements available to workers and businesses is an important contributor to labour productivity and the removal of impediments to the adoption of the most appropriate working arrangements for the particular business remain an important policy priority.

In addition to boosting labour productivity by replacing awards with enterprise and individual agreements, the Government's legislative reform programme for workplace relations should boost labour productivity in other ways, including through providing improved protection against unacceptable industrial behaviour, further simplifying awards, further reducing the burden of unfair dismissal laws on business (particularly small business) and extending the Federal unfair dismissal jurisdiction to cover employees in all incorporated entities.

6. Conclusion

In conclusion, DEWR considers that there is more scope to improve participation (both for mature-age people and for other special groups including people with disabilities and sole parents) and productivity than was recognised by the PC in its *Draft Research Report*.

The Australian Government's labour market policies are contributing to greater productivity and participation, which is helping to counteract the effects of population ageing. Nevertheless, employers need to do more to employ and retain mature-age people.

LABOUR FORCE PARTICIPATION RATES FOR PERSONS OF WORKING AGE

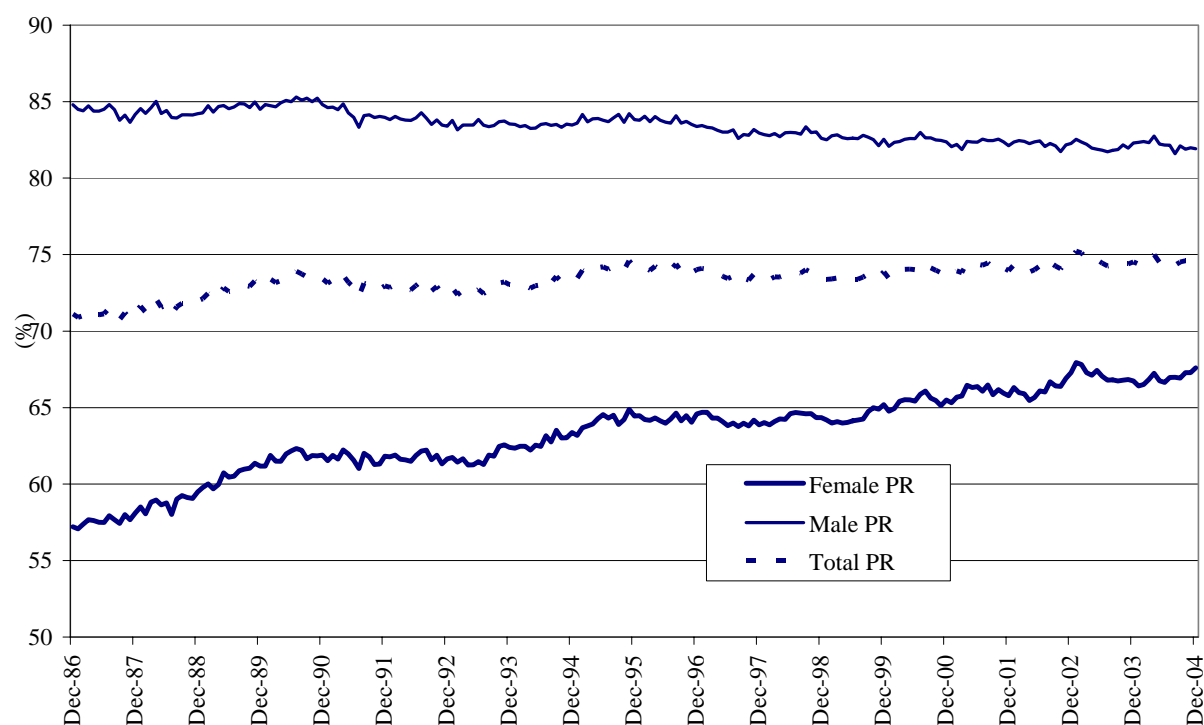
The standard definition of the labour force participation rate is used in this appendix and the rest of the Submission: that is, the combination of those employed and unemployed as a percentage of the (working age) population.

Labour force participation is affected by a number of factors including:

- the strength of the economy and labour market (which can either encourage or discourage labour force participation);
- financial incentives and disincentives (such as the level of real wages; mortgage interest repayment burden, tax rates and unemployment allowance payment rates; and the impact of effective marginal tax rates as child care, family allowances and unemployment allowance reduce with extra income earned);
- government policies (e.g. towards activity-tested versus non-activity-tested pensions and allowances);
- educational participation and attainment;
- **for women** - the availability and affordability of child care; and age and number of children;
- re-structuring of the economy which has encouraged growth in part-time jobs in service industries and reduced full-time employment opportunities for youth and the mature-aged; and
- social, industrial and technical changes.

The relative strength of the labour market in recent years has encouraged more people who were formerly not in the labour force to look for work. As can be seen in Figure A.1, the overall and female labour force participation rates for civilians aged from 15 to 64 years have generally been increasing over the past two decades. While the labour force participation rate for men has been falling over this time, the rate of decline appears to have slowed over recent years.

Figure A.1: Participation Rate seasonally adjusted for men, women and persons aged 15 to 64 years



Source: ABS (2005), *Labour Force, Australia, Spreadsheets, January 2005* (Cat. no. 6291.0.55.001). Original data from the ABS *Labour Force Survey* for civilians aged between 15 and 64 years have been seasonally adjusted by DEWR².

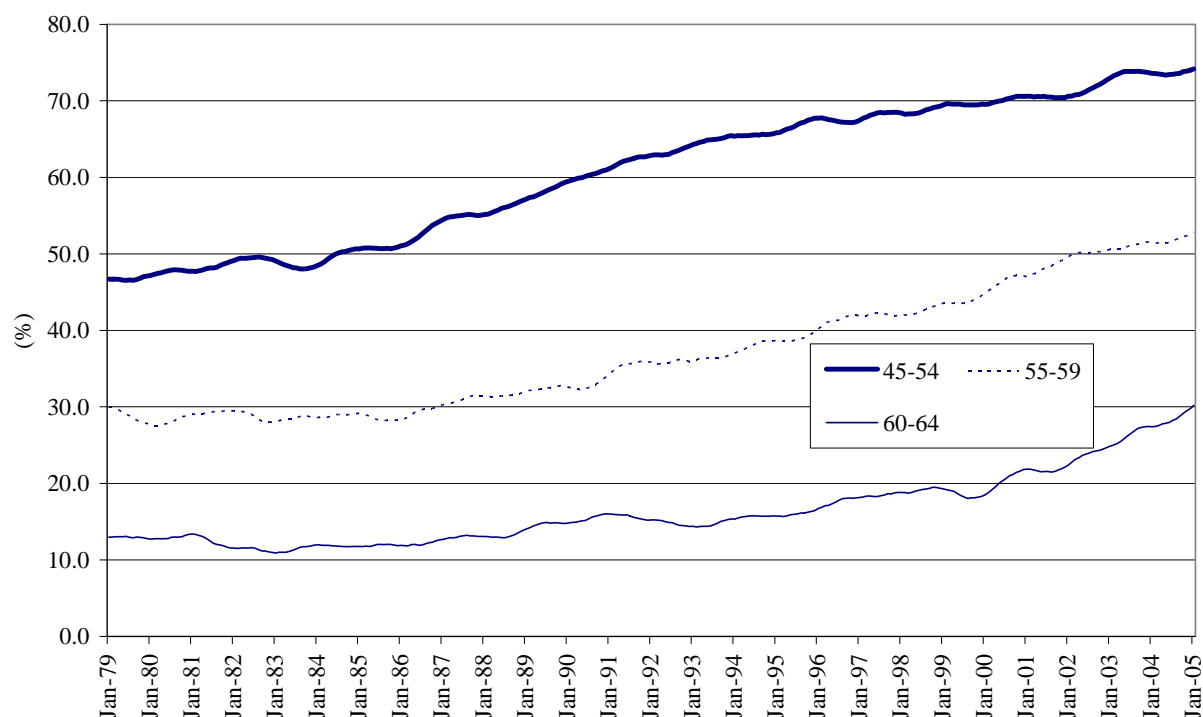
Potential for increases in participation for mature-aged, young and prime-aged persons

Mature-aged

The re-structuring of the economy in the past decade and a half has particularly favoured women, given the strong growth in employment in service industries such as Retail Trade and Health and Community Services. Strong growth in more flexible forms of employment such as part-time and/or casual employment, contract work and more flexible employment arrangements have also contributed to the raising of employment rates for women of all age groups and particularly mature-aged women (see Figure A.2). Employment rates and labour force participation rates for older women have also been raised through policies such as raising the age-pension threshold for women from 60 years in 1995 to 65 years in 2013 and other income support changes.

² The process used was to subtract seasonally adjusted data for persons aged 65 years plus from seasonally adjusted data for all persons aged 15 years plus.

Figure A.2: Labour Force Participation Rates for Women aged over 45 years

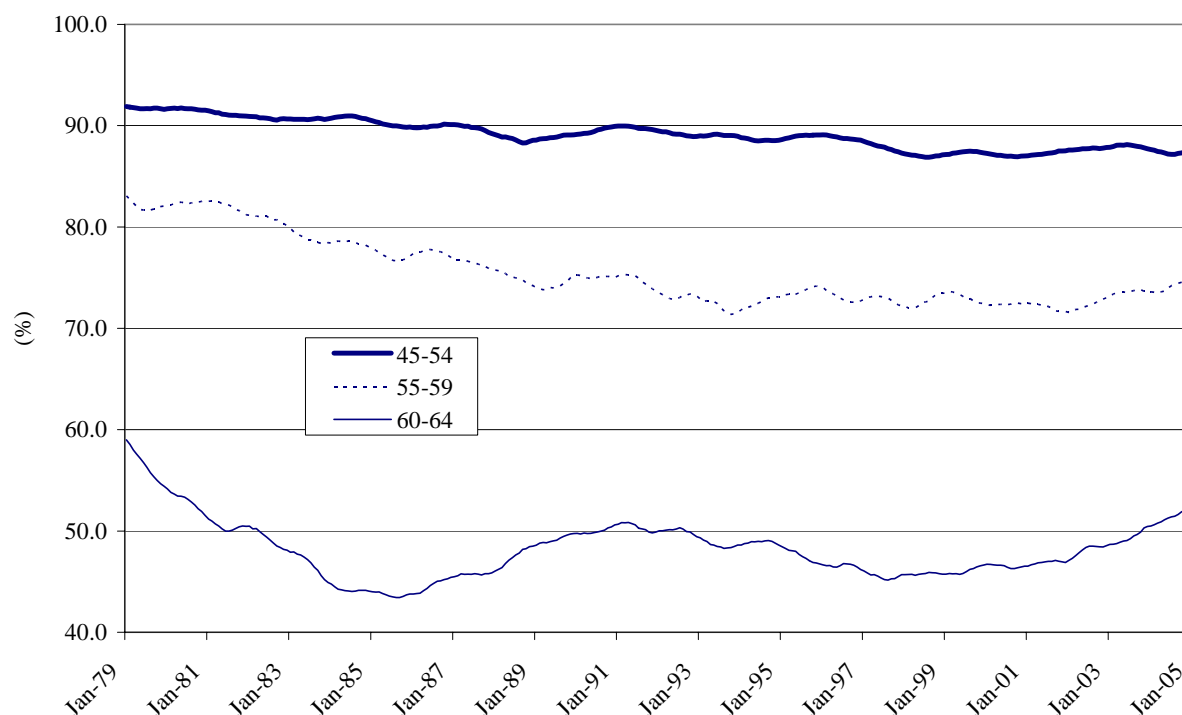


Source: ABS (2005), *Labour Force, Australia, Spreadsheets, January 2005* (Cat. no. 6291.0.55.001). Participation rates shown above are rolling twelve-month averages of original data.

LFPRs for mature-aged men have been falling over the past two decades mainly due to re-structuring in the economy in which traditional industries such as Manufacturing, Agriculture, Forestry and Fishing, and Transport and Storage have declined in relative importance in terms of their contribution to total employment. These industries are characterised by a predominance of full-time jobs for men. Full-time participation rates for mature-aged men in particular have fallen sharply in the last decade and a half, due mainly to the decline in full-time employment opportunities in traditional industries. While the likelihood of older men being unemployed is much lower than their younger counterparts, they have been more likely to leave the labour force if they fail to find work (as demonstrated by falling participation rates) often associated with a move to non-activity-tested forms of income support such as Disability Support Pension or Mature Age Allowance. However, as part of the *Australians Working Together* package, there have been no entries to the Mature Age Allowance since September 2003.

One positive development has been the increase in the LFPR for mature-aged men aged 60 to 64 years (see Figure A.3) in recent years which has been driven by cohort effects (with men in a higher participation cohort ageing and taking their job with them), a lower incidence of eligibility for the ex-service pension, the above-mentioned *Australians Working Together* policy change and other influences.

Figure A.3: Labour Force Participation Rates for Men aged over 45 years



Source: ABS (2005), *Labour Force, Australia, Spreadsheets, January 2005* (Cat. no. 6291.0.55.001).

Youth and Prime-aged

Many factors have influenced participation rates for younger persons in the past two decades including rates of educational attendance and particularly retention rates through to Year 12 and attendance at tertiary institutions. Other factors include growth in part-time and casual employment and decline in full-time employment opportunities.

While full-time employment incidence among persons aged 15 to 19 years has fallen from 82.1 per cent in the year to January 1979 to 37.9 per cent in the year to January 2005, this has been offset somewhat by strong growth in casual and part-time work which is particularly suitable for students. The employment to population ratio among 15 to 19 year olds has risen from 51.6 per cent to 53.3 per cent in the same interval. A number of studies suggest while it takes longer for non-tertiary educated youth to make the transition to full-time work the vast majority make the transition successfully within 5 years³. ABS data also indicates that 50.9 per cent of the population had a post-school qualification in 2004 compared with 39.0 per cent in 1994⁴.

While many teenagers have their involvement in the workforce limited by their full-time attendance at secondary and tertiary education, there is an increasing propensity of teenagers involved in full-time education holding down a part-time job. According to ABS *Labour Force Survey* data 38.3 per cent of teenagers (aged 15 to 19 years)

³ ACER report

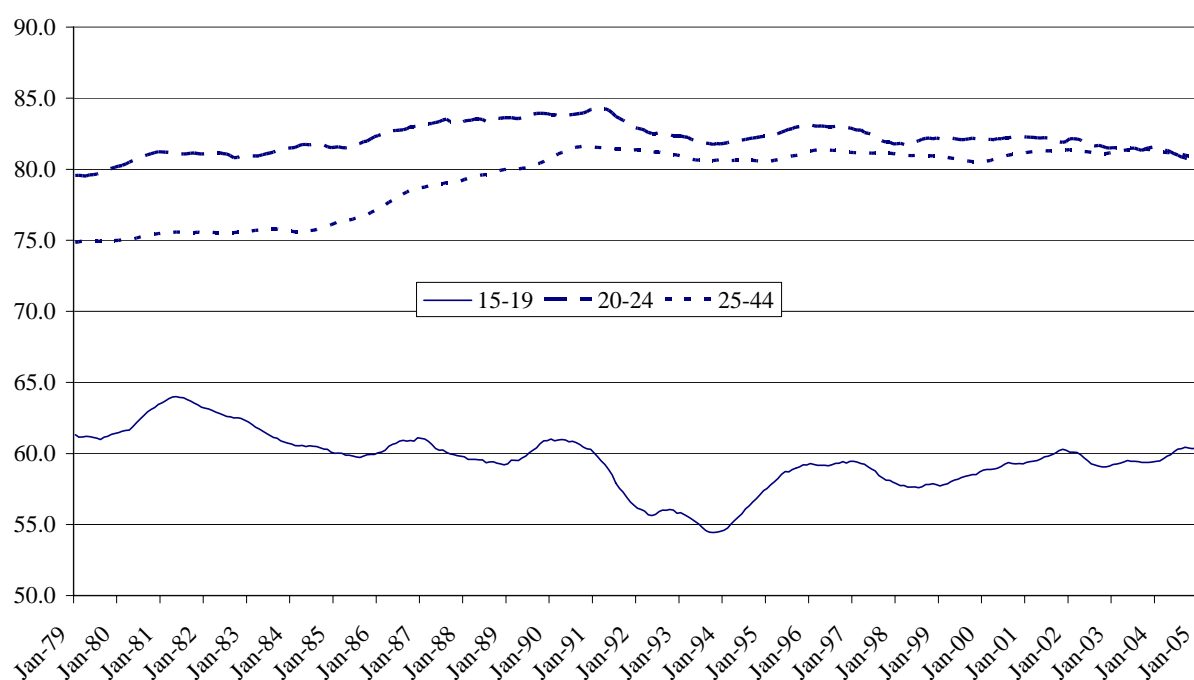
⁴ *Education and Work*, (ABS Cat. No. 6227.0).

engaged in full-time education in the year to January 2005 were involved in part-time work (in 12-month average terms) compared with 31.4 per cent in the year to January 1994 and 24.6 per cent in the year to January 1988.

Figure A.4 shows LFPRs for those persons aged under 45 years. While LFPRs for those persons aged 20 to 24 years and 25 to 44 years have been quite stable since the 1990s there may still be some scope for raising them further, particularly for those persons aged 20 to 24 years. The LFPR for persons aged 20 to 24 years was 79.6 per cent in January 1979, and subsequently increased to a peak of 84.3 per cent in January 1991 and has since fallen to 81.0 per cent in January 2005. Full-time employment incidence among persons aged 20 to 24 years has fallen from 91.9 per cent in the year to January 1979 to 70.7 per cent in the year to January 2005, while the employment to population ratio of persons aged 20 to 24 years has risen from 72.7 per cent to 75.1 per cent.

LFPRs for persons aged 15 to 19 years have been relatively volatile, peaking at 64.0 per cent in the year to April 1981, subsequently falling to a low of 54.4 per cent in the year to October 1993 before recovering to 60.3 per cent in the year to January 2005.

Figure A.4: Labour Force Participation Rates for persons under 45 years of age.



Source: ABS (2005), *Labour Force, Australia, Spreadsheets, January 2005* (Cat. no. 6291.0.55.001).

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