

PM WON'T GET TWO MILLION MORE INTO JOBS THIS WAY

The Fair Work Act erodes workforce participation

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IT has become customary for the prime minister of the day to deliver an important economic speech early in the year. This year was no exception. Julia Gillard made a speech to a Committee for Economic Development of Australia audience on February 1 in which she outlined some of the components of her self-described year of delivery and decision.

She placed particular emphasis on lifting the rate of labour force participation: "To the maximum

extent possible, I want to ensure that every Australian who can work, does work. I want to ensure that the incentives of work always outweigh the attractions of staying on welfare."

She singled out underemployed part-time workers, 800,000 of them; the hidden unemployed, another 800,000; and disability support pensioners, some of whom should be capable of doing some work. Adding all this up — plus some mothers whose attachment to the workforce is expected to increase as a result of the paid parental leave scheme — a figure of two million people suddenly became feasible.

It is actually not clear what this figure refers to: it cannot be an additional two million full-time workers, which would be a boost to labour force participation of just under 20 per cent. After all, the part-time workers who would prefer to work more hours are now in the labour force and many want to work only a few more hours a week.

Similarly, there several reasons the so-called hidden unemployed

— those who are not looking for work at present but who would be prepared to take a job were one to become available — are unlikely to join the labour force in the near term.

Longitudinal studies of the hidden unemployed indicate that their intention to take up a job is rarely realised, even in the context of a strengthening labour market. Ask a hypothetical question and the answers are simply not reliable, it would seem.

Those receiving the DSP, especially those with a mild disability, have been seen as possible source of new workers for some time. Both the Howard and Gillard governments changed the rules governing entitlement to the DSP, but with little effect.

The reality is very few DSP recipients work, at least formally; they spend a considerable number of years on this type of pension; and the next step is death or the aged pension. Even though the financial penalties for DSP recipients working part time are very mild, very few opt to undertake any paid work.

Is it realistic, therefore, to expect those on the DSP to be making up some of the two million? According to analysis by Jessica Brown of the Centre for Independent Studies, there is very little likelihood of significant numbers of DSP recipients becoming part of the active workforce in the years ahead. Without large amounts of money being spent and some stick being applied, the government will be doing well to hold the overall numbers of largely non-active DSP recipients to where they stand at present.

So what then are the prospects of the labour force participation rate increasing rapidly in the next few years?

The first thing that has to be said is that, in point of fact, the overall labour force participation rate in Australia stands at a historical high. If we view Australia's record in an international context, our record is also pretty impressive, particularly for young people.

To be sure, women of child-bearing age in Australia participate at a lower rate than in many countries, particularly the Scandi-

navian ones. But whether we really want to be urging unduly our young mothers to stay in employment is a moot point.

Older people in Australia also participate at a lower rate than in many other countries, although this outcome for some of these countries is the direct result of the lack of generosity afforded to their retired citizens.

It is interesting to note that the participation of older Australians has grown significantly in the past decade, particularly among women older than 55.

There are two main elements to achieving the optimal rate of labour force participation.

The first is to ensure that combinations of tax and welfare payments do not interact in ways that make it worthless for individuals to accept jobs and/or to work more hours. While this is a very complicated area, there are still some poverty traps that prevent individuals in particular circumstances from taking up jobs, particularly low-paying ones.

The second element in the labour force participation equa-

tion relates to the demand side: the requisite flexibility for employers to offer jobs to low productivity workers.

In point of fact, the Prime Minister in her CEDA speech stated that "we need flexible markets with the right incentives and price signals to maximise the value of our people and capital resources".

It is not entirely clear whether she had the labour market in mind when she referred to flexible markets. But assuming she did have the labour market in mind, it is difficult to square this statement with the emerging reality of the Fair Work Act.

Be it the rigidities of the modern awards, the increasing number of claims for unfair dismissal, high and rising minimum wages and countless other provisions in the new act, labour market flexibility is clearly being eroded. And without this flexibility the most disadvantaged will remain outside the workforce.

So, Prime Minister, I have my abacus out but I am quite sure that we will not come close to the figure of two million people.