



Population Ageing and its Implications for the Australian Labour Force

Peter McDonald

Australian Demographic and Social Research Institute
and Deputy Director, CEPAR



National Seniors Australia

Productive Ageing Centre

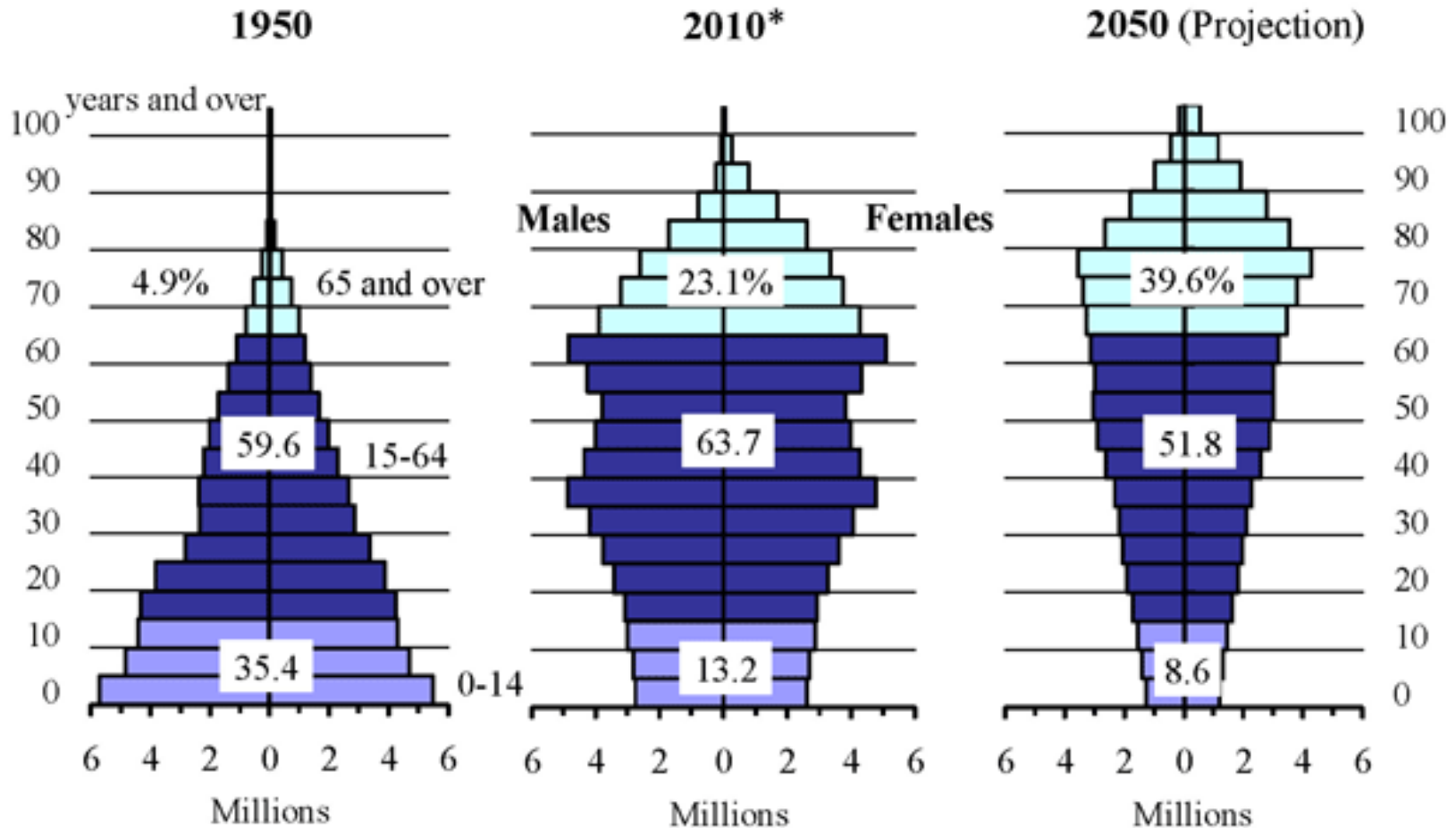
Population Ageing

- Population ageing examines ageing from the macro-perspective.
- The essential argument is that, as a population ages, the proportion of population in the working ages falls and the average age of the labour force rises. This is perceived to be a potential problem because:
 - 1. Labour productivity is higher for those of working age. This means that, all else being equal, the growth rate of GDP per capita will fall as the population ages.
 - 2. Younger workers are seen to be more innovative and dynamic and they are the assimilators of new technology. Ageing in Japan has been referred to as a demographic malaise.
 - 3. Older people may have higher public costs, especially health costs. This is addressed in the Australian Treasury's Intergenerational Reports.

Japan

A country following the trajectory below will literally disappear, and it doesn't take long.

Figure 2.3
Changes in the Population Pyramid



Source: Statistics Bureau, MIC; Ministry of Health, Labour and Welfare.

Australia

IGR reports: projected fiscal deficits

	Population (millions)	Deficit as % of GDP
IGR1: 2002	25.3 (2042)	5
IGR2: 2007	28.5 (2047)	2.7
IGR3: 2010	35.9 (2050)	1.3

The higher fertility and higher migration assumed in the 2010 projection leads to a relatively younger population and a lower fiscal deficit. Higher labour force participation at older ages also reduced the deficit.

Sources

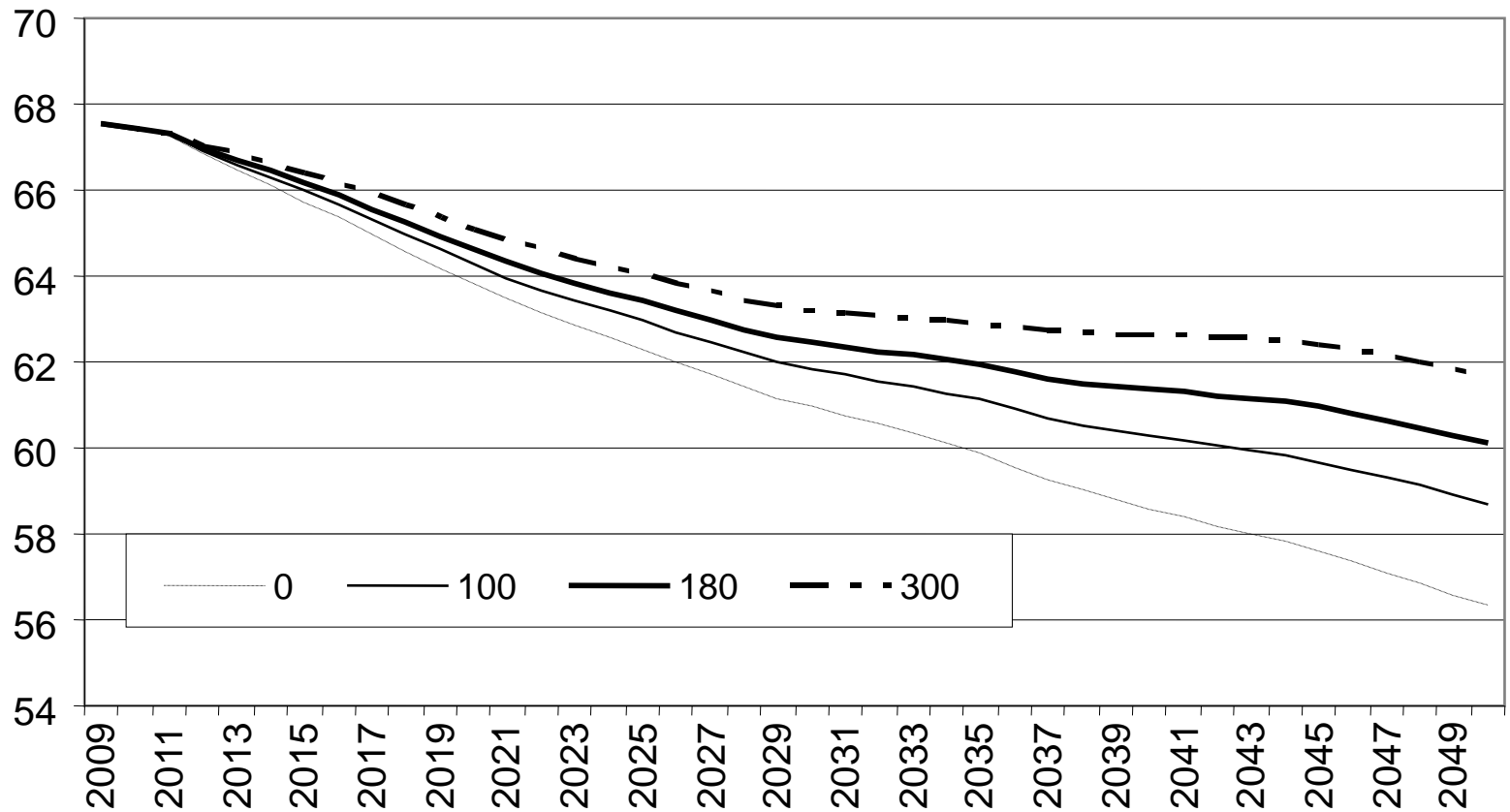
McDonald, P & Temple, J. 2008. Demographic and Labour Supply Futures for Australia. Department of Immigration and Citizenship, Canberra.

McDonald, P & Temple, J. 2010. Immigration, Labour Supply and Per Capita Gross Domestic Product: Australia 2010-2050. Department of Immigration and Citizenship, Canberra.

Working Age Population: Australia

% of Total Population

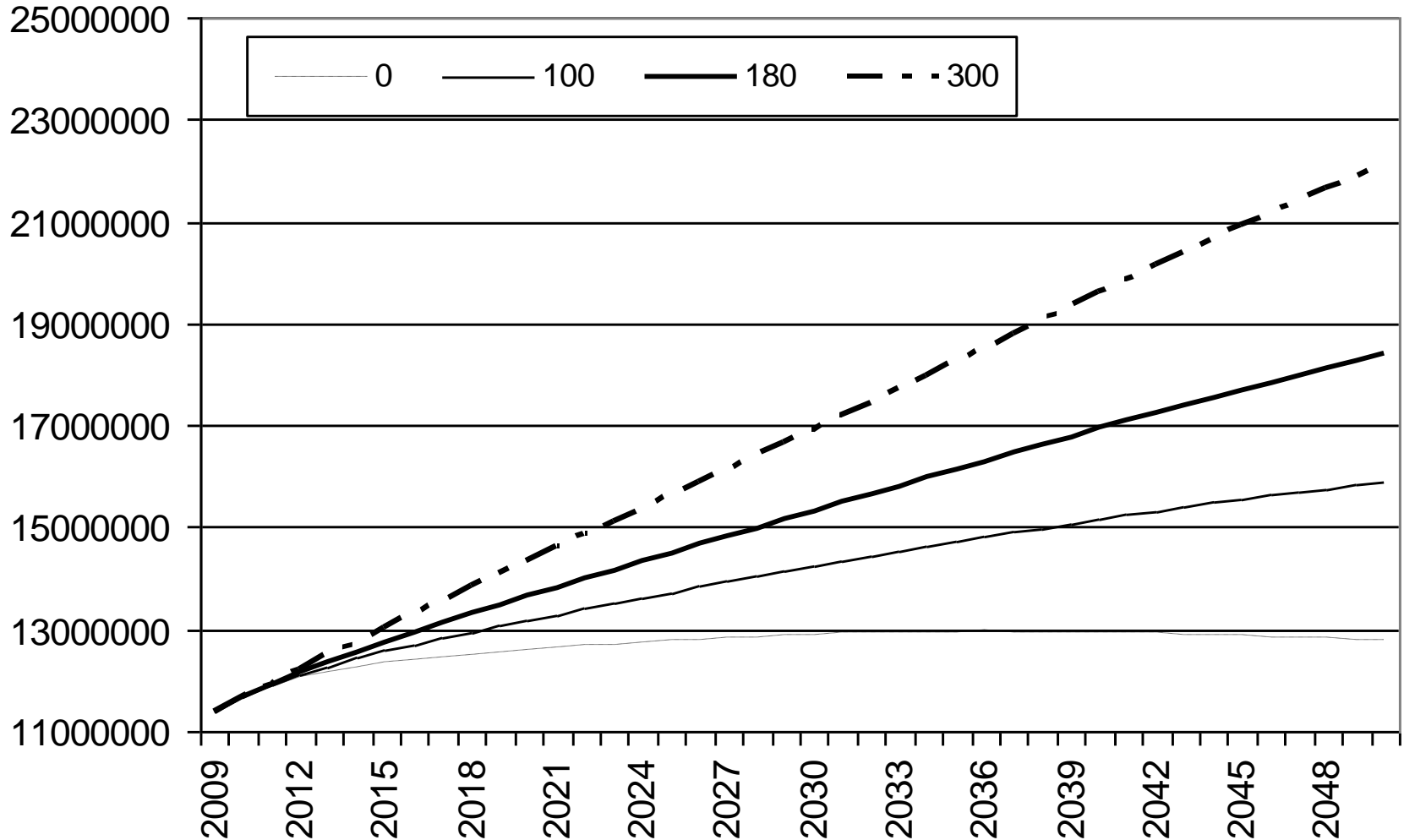
(by level of net overseas migration, 000s)



Assumes constant rates of labour force participation

Labour Supply: Australia

(by level of net overseas migration, 000s)

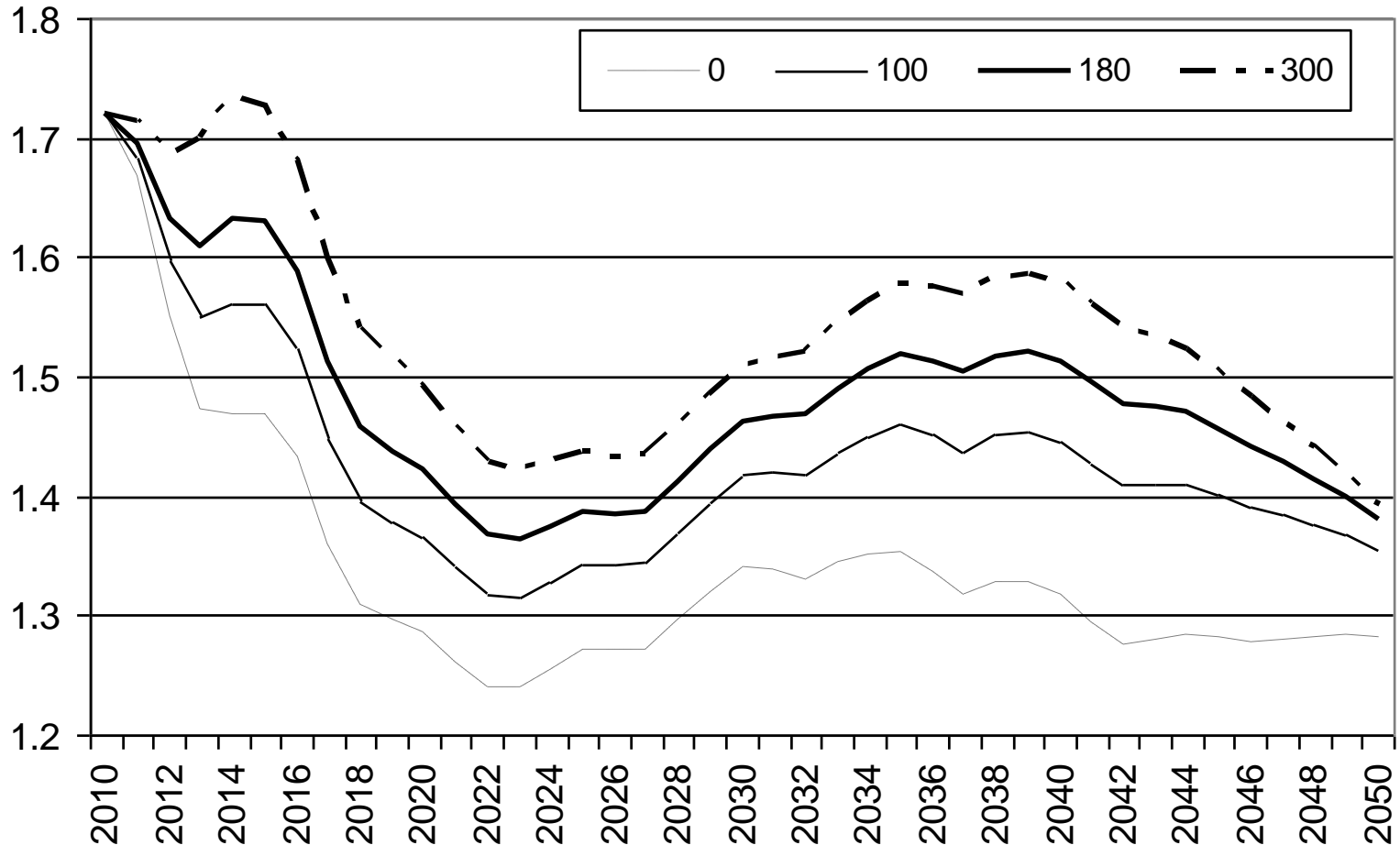


Assumes constant rates of labour force participation

GDP Per Capita: Australia

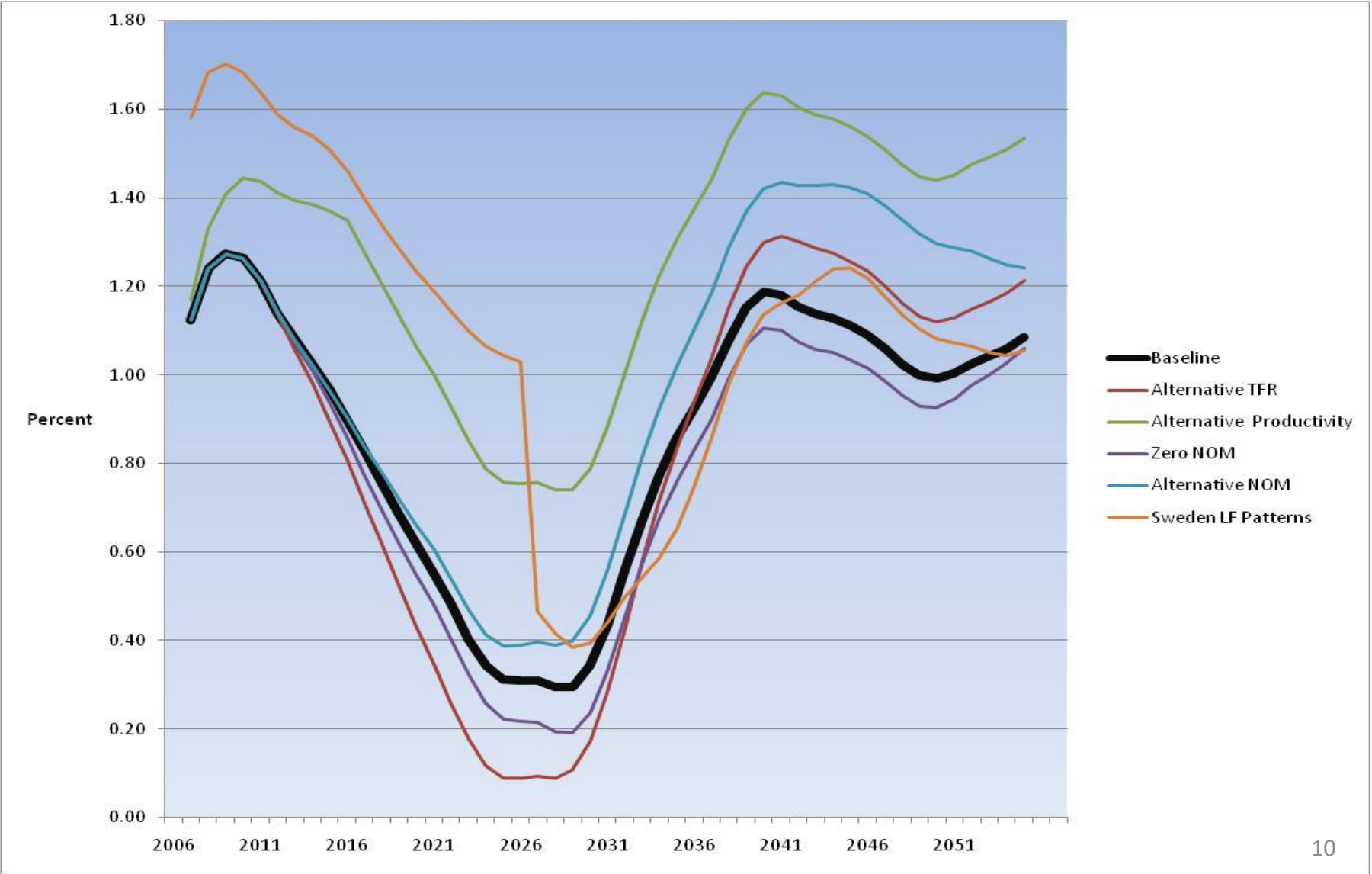
% Annual Growth

(by level of net overseas migration, 000s)

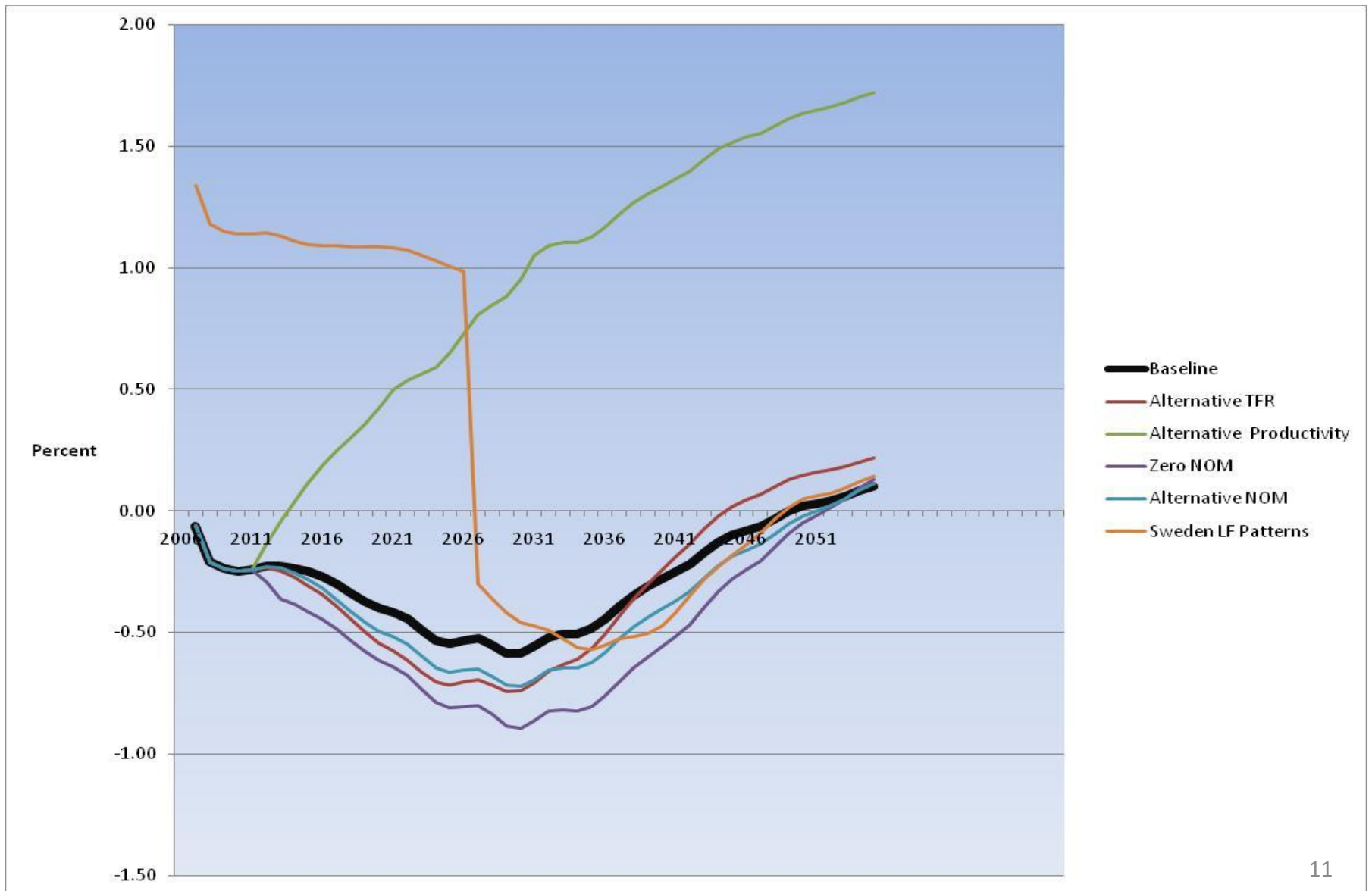


Assumes labour productivity growth of 1.6% per annum constant

Germany: Annual GDP per capita growth



Italy: Annual GDP per capita growth



Labour force participation at older ages

- McDonald and Kippen (1999) argued that labour force participation rates at older ages would increase in Australia irrespective of any policy interventions because:
 -
- Education levels were increasing with each cohort and education is correlated with continued employment at older ages.
- Each successive cohort was less likely to have been employed in industries that had been subject to restructuring in the 1980s and 1990s (especially manufacturing). In particular, those at older ages who were not in the labour force because of retrenchment from these industries would age out of the main working ages.
- Each successive cohort is more highly endowed with the skills required for a knowledge-based economy and these skills are increasingly important in continued employment.
- Each successive cohort will have commenced work at a later age on average and therefore can be expected to work longer.
- The nature of employment is moving away from physically demanding jobs.
- Successive cohorts have more experience of changing jobs across their lifetimes and this may assist them to move into transition-to-retirement jobs in older ages.

And ...

- Labour demand would be strong and this would encourage higher rates of participation at older ages. An implicit argument here is that employers prefer younger workers to older workers (discrimination) but that, in a tight labour market, employers' choices are more limited.
- The lives of Australians are increasingly work-defined so that leisure alternatives would be less attractive for some. Multi-skilling also meant that for many people jobs were more interesting and more satisfying.
- With the delay of child-bearing, many people would still have responsibilities for children at older ages.
- The fall in the age difference between husbands and wives would mean that women were less likely to retire early because their (older) husbands had retired.
- Health status was improving and this would enable people to work longer.
- For women, labour force participation would rise at older ages because it had already been rising when the same women were at younger ages – a cohort effect.
- McDonald, P. and Kippen, R. 1999. 'Ageing: the social and demographic dimensions', in *Policy Implications of the Ageing of Australia's Population*, Canberra: Productivity Commission and Melbourne Institute of Applied Economic and Social Research. Pp 47-70.

Economic and policy effects

- The increase in the pension eligibility age for women and possible flow-on effects to the retirement age of their husbands.
- The buoyancy of the labour demand and the shortage of labour supply and the implicit reduction of age discrimination
- The direct effects of the global financial crisis on retirements incomes of some people and the indirect effects of the crisis on retirement savings plans
- The increasing availability of part-time work opportunities and retirement transition strategies.
- More favourable tax treatment of superannuation taken after the age of 60 increases participation up to age 60.

Labour Force Participation Rates at Older Ages Australia 2000-2010 (month of July)

Year	Males			Females		
	55-59	60-64	65+	55-59	60-64	65+
2000	71.6	46.5	10.1	48.0	21.7	2.9
2001	70.2	47.0	10.2	49.2	21.8	3.4
2002	71.4	48.4	10.5	49.4	23.8	3.3
2003	72.3	50.5	10.5	51.7	27.8	3.2
2004	75.4	51.9	10.4	53.7	30.8	3.5
2005	76.2	54.8	12.2	55.8	30.6	4.4
2006	77.5	56.1	12.4	58.7	32.9	4.2
2007	77.1	56.6	13.4	59.1	36.7	5.2
2008	76.5	57.7	14.7	61.1	37.6	5.6
2009	79.2	58.4	15.8	63.0	41.5	5.9
2010	81.0	61.7	15.3	63.5	43.2	6.7
2011	80.5	61.0	15.9	65.8	44.4	6.8

Source: ABS Labour Force Surveys, July of each year.

Employment at Older Ages According to Post-School Qualification Level, 2006 Census

Age Group	Males: % of Age Group Employed			Females: % of Age Group Employed		
	Degree	Non-degree post-school qualification	No post-school qualification	Degree	Non-degree post-school qualification	No post-school qualification
55-59	83.3	77.8	66.4	75.6	67.3	48.0
60-64	65.4	58.1	48.8	53.4	44.3	27.3
65-69	42.3	26.8	22.6	26.9	19.3	9.9
70-74	24.5	11.4	10.2	12.2	8.7	4.0
75-79	14.7	5.9	5.9	6.8	4.0	1.9
80-84	8.7	3.4	3.5	4.3	2.4	0.9

Employment at Older Ages by Disability Status, 2006 Census

Age Group	Males			Females		
	% Employed, No Assistance Required	% Employed, Assistance Required*	% of Age Group Requiring Assistance	% Employed, No Assistance Required	% Employed, Assistance Required	% of Age Group Requiring Assistance
55-59	76.7	10.4	4.9	58.5	9.9	4.2
60-64	57.9	7.2	6.7	35.3	5.3	5.1
65-69	27.9	4.2	6.8	13.6	2.5	6.4
70-74	12.7	2.4	9.2	5.6	1.0	10.4
75-79	7.3	1.6	14.4	2.7	0.7	17.9
80-84	4.7	1.2	25.0	1.6	0.4	31.8

Percentage Self-Employed Employed Older Persons by Sex and Age Group

Age Group	Employed Persons: Percentage Self Employed	
	Males	Females
55-59	31.2	17.6
60-64	35.3	21.5
65-69	43.7	30.5
70-74	49.5	37.0
75-79	52.0	41.0
80-84	52.4	39.8

Percentage Employed by Government Employed Older Persons by Sex and Age Group

Age Group	Employed Persons: Percentage Government Employees*	
	Males	Females
55-59	14.4	20.3
60-64	11.3	17.6
65-69	8.5	13.2
70-74	6.2	8.7
75-79	4.7	6.5
80-84	3.0	5.5

*Commonwealth, State/Territory and Local Government



National Seniors Australia

Productive Ageing Centre