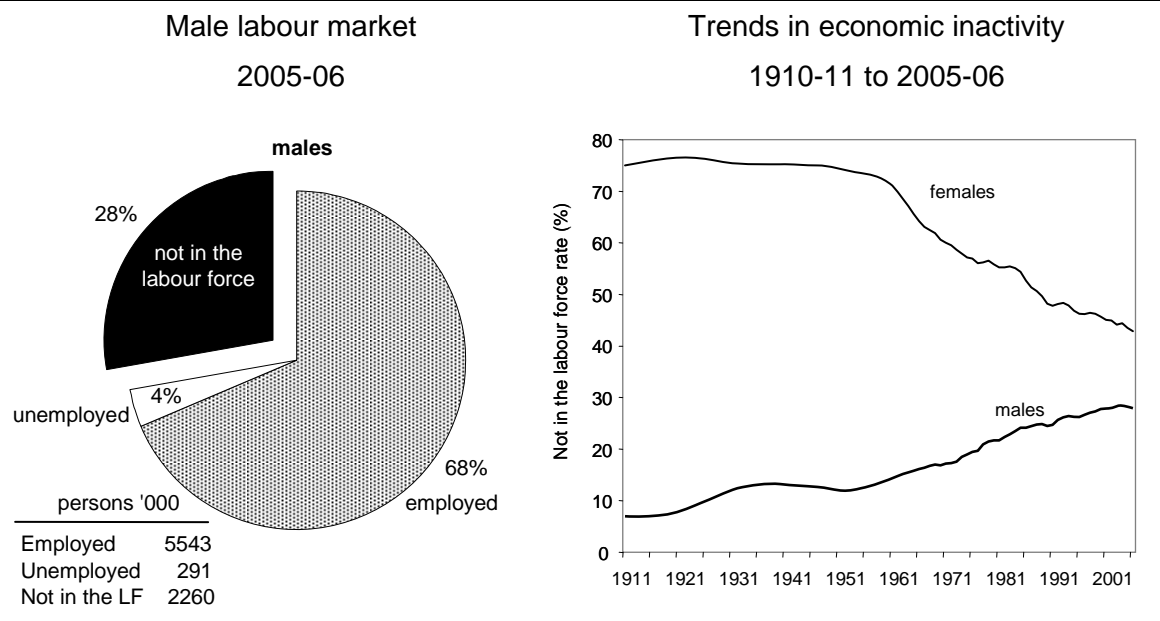

OVERVIEW

Overview

They have been called the invisible men. Of the 8 million Australian males in the adult male civilian population in 2005-06, at any one time over 2.2 million or nearly 30 per cent were outside the labour force (economically ‘inactive’) — neither working nor looking for work (figure 1). These are people whose engagement with the labour market has ceased, in many cases for the rest of their lives. (In contrast, the unemployed are still counted as economically ‘active’ because they are looking for a job and their search activities have effects on the labour market as a whole.)

Some economic inactivity is desirable, as people invest in education when young or seek leisure when older. But a large share of economic inactivity in Australia cannot be traced to retirement or education. Many prime aged males leave the labour force due to injury, ill-health, disability or premature ‘retirement’ and some people never enter the labour force during their lives at all. This imposes adverse economic and social impacts on the men concerned, requires costly social welfare support and has wider consequences for Australian society.

Figure 1 **Many men are outside the labour force**



This study examines who these men are, where they live, the trends in inactivity, the impacts of inactivity on them and Australians more generally. More critically, it considers the question of why, over the long run, there has been a four times

increase in the propensity for men to be outside the labour force, at the same time that female engagement in the labour force has dramatically increased (figure 1). While this working paper does not make policy recommendations, it does look at two areas of policy interest that may have a significant bearing on patterns of male disengagement from the labour force. The first of these is disability and the associated effects of the Disability Support Pension (DSP). The second are education policies targeted at the young, which have the intention of changing the life trajectory of men who might otherwise face high future risks of leaving the labour force.

Why men only? It was considered too unwieldy to attempt to cover both sexes in the one report when their experiences can be so markedly different. A subsequent working paper will consider female labour participation issues.

The ‘dynamics’ of inactivity

Ageing of the population has been part of the reason for climbing aggregate male inactivity rates. The pattern of inactivity by age follows a predictable lifecycle pattern, with considerably more inactivity at ages under 25 years (as males attend educational institutions) and then relatively low inactivity rates until age 55 years, after which exit from the labour force begins to drive up inactivity rates steeply (figure 2). By age 70 or more years, only about one in twenty men have any engagement with the labour force. The ageing of the male population has pushed more men into ages in which inactivity rates are high. But other factors still explain about three quarters of the long-run increase in the aggregate inactivity rate.

Changes in *age-specific* inactivity rates control for the effects of population ageing and show how substantially the labour market fortunes of men have shifted since the shocks hitting the Australian economy in the 1970s (figure 3). Prior to that only those males aged 65 or more years experienced any significantly increasing disengagement from the labour market over time — and that was due to the greater (arguably beneficial) capacity for retirement.

While these figures show how inactivity rates (and by deduction, labour force participation rates) of males have changed over time, they do not provide a picture of what has happened to the cohorts of males (the projected lifetime labour market engagement of people born in specific years). Lifetime economic inactivity can be derived residually as lifetime expectancy less work expectancy (average number of years spent in the labour force over a lifetime).

Figure 2 Age does weary us
Economic inactivity rates by age, males, 2005-06

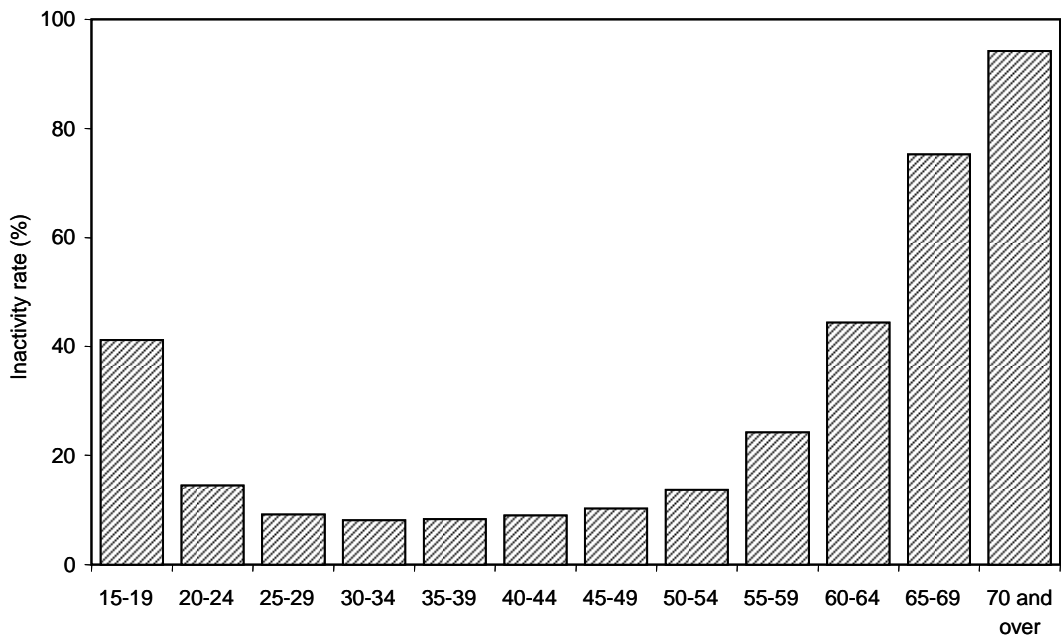
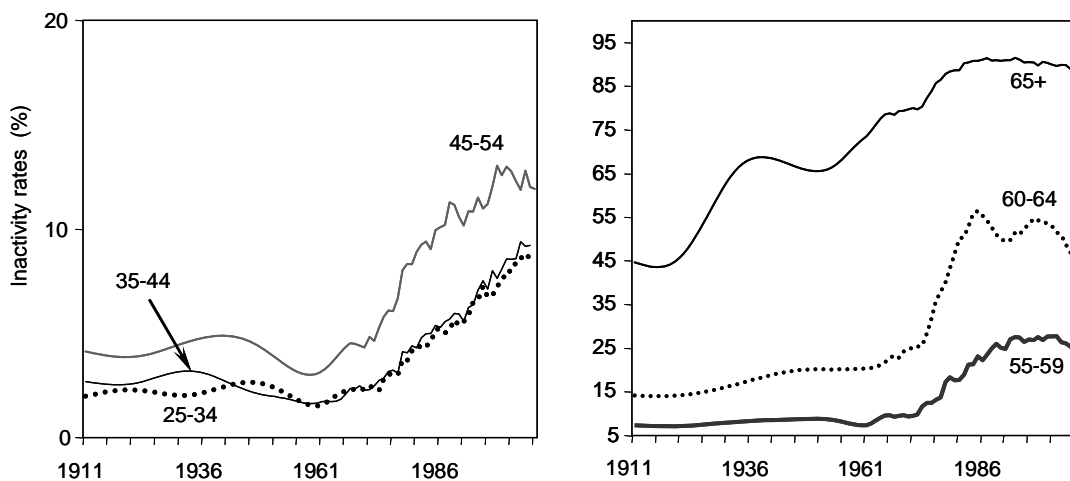


Figure 3 The 1970s had a protracted effect on the Australian labour market
Economic inactivity rates by age group, males, 1910-11 to 2005-06



Lifetime economic inactivity for those aged 15 years is projected to increase roughly threefold (from 9.4 to about 28 years) for males born in 2005 compared with the 1901 cohort — reflecting greater survival into old age and longer retirement periods (table 1). Work expectancy (from age 15 years) is projected to fall marginally from about 44 years to 42 years. Of the generations born after 1925, the ‘baby boomers’ are projected to have — by a small margin — the greatest

average number of years spent participating in labour markets from when they first could enter jobs at 15 years old.

The small changes in the number of years of work expectancy in successive generations may seem surprising given the large decreases in age-specific participation rates shown above. But these changes have been nearly completely offset by strong rises in survival rates — many contemporary males live to work another day.

The big change is in lifetime inactivity rates from 15 years, which have risen appreciably and have continued to rise with successive generations (table 1). For instance, ‘Generation Z’ is projected to have around eight more years of inactivity than the War generation.

These are *average* effects, which disguise an underlying polarisation of labour market experiences among men. What appears to have happened is that many men now have longer working lives than past generations, but that another group — the key interest group for this paper — have sporadic attachment to the labour force, even at the prime of what should be their working lives.

Table 1 Economic inactivity through the generations

<i>Birth cohorts</i>	<i>Average work expectancy at age 15 years</i>	<i>Average life expectancy</i>	<i>Average inactivity</i>	<i>Inactivity share of life</i>
	years	years	years	%
1901 Federation	44.2	53.6	9.4	17.6
1925–1946 War	42.6	62.8	20.2	32.1
1946–1964 Baby Boomers	43.3	67.1	23.7	35.3
1965–1979 Gen X	43.1	68.8	25.7	37.4
1980–2003 Gen Y	42.3	69.9	27.6	39.5
2004–2025 Gen Z	42.5	70.6	28.1	39.8

Who are they?

Economically inactive males represent a diverse group. Clearly age plays a big differentiating role in inactivity rates, as shown above. But what factors other than age are influential?

Unpartnered men are much more vulnerable to labour market withdrawal

Sometimes factors that appear to be drivers of male economic inactivity are really symptoms of other less readily observable features of the men concerned. A good

example is the apparent association between men's family status and engagement in labour markets. Those men who are single parents, live alone or, when older, still live with their parents or in a group house, have much higher rates of inactivity. For example, a man aged 45–54 years living alone is about four times more likely to be outside the labour force than an equivalently aged man who is married or has a partner. The same story holds over time. Since the late 1970s, the inactivity rate of non-partnered males has increased by more than 7 percentage points, whereas the rate for partnered males changed by only about 2 points.

However, marriage status per se is unlikely to cause economic inactivity rates:

- Males with better labour market prospects and more desirable traits are more likely to be chosen by female partners and to maintain a stable relationship.
- The incentive to work imposed by household-based asset and income tests used to determine eligibility for welfare benefits are greater for partnered males. Men with working partners or good household asset bases have strong incentives to work compared with their unpartnered equivalents.

The more you know, the more you can work

In snapshots at a given time (and for given ages), greater educational attainment rates are associated with higher participation rates and lower unemployment risk. For example, about one in twenty men with a postgraduate degree are not in the labour force, compared with around one in five men with year 10 or below educational attainment.

As discussed later, the linkages between educational attainment rates and labour force status have to be carefully interpreted. Some of the differences in labour market engagement can be ascribed to education, but some are due to the effects of the characteristics of people who choose (or are able) to acquire more education.

Indigenous Australians fare badly

Indigenous Australians fare particularly badly, especially in older prime age groups. For example, in comparison with other Australians, around one in three Indigenous men aged 45–54 years are out of the labour force, a rate about three times more than non-Indigenous Australians. The figures actually understate Indigenous Australians' real disengagement from the formal labour market, since people participating in Community Development Employment Projects are counted as in the labour force. High Indigenous inactivity rates mainly reflect lower educational attainment, limited access to jobs in remote areas combined with low mobility, poorer language skills and some other enduring socio-economic disadvantages.

Migrants are more vulnerable to labour market disengagement

Male migrants make up around 30 per cent of the Australian male population aged 15 years and over, so the extent to which they engage in the labour market has significant aggregate effects. They currently face nearly a ten percentage point higher level of economic inactivity than Australian-born males. Part of the reason for the participation gap is age, not ethnicity — migrants are, on average, older than the Australian born. But even at given ages, migrants have lower participation rates than the Australian born.

The inactivity gap has widened over time. Indeed, in the late 1970s, male migrants had lower inactivity rates than Australian-born males. There are several factors behind this widening gulf:

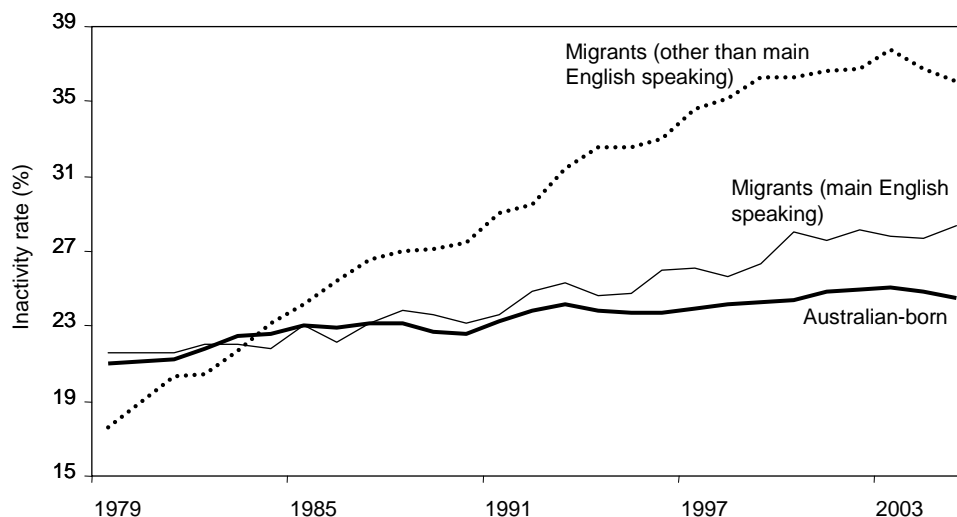
- Given their different age structures, population ageing has affected migrant males more than Australian-born males.
- At the age-specific level, the main factor is the reduced tolerance of Australian labour markets for poor English proficiency, inexperience or low educational attainment, which are more commonly characteristics of migrants. For example, in 2001 the labour market participation disadvantage associated with poor English proficiency increased by nearly 30 points between 1986 and 2001. It is this factor that, to a large extent, explains the languishing labour market fortunes of migrants from countries where English is not the dominant language (figure 4). Structural changes in the economy away from lower skill jobs where English proficiency is not required may explain their greater vulnerability.

Where do they live?

Economically inactive men are not distributed evenly throughout Australia, but tend to be grouped together spatially. Despite the potential for significant labour mobility between States and Territories, there remain significant variations between jurisdictions in the share of males who are economically inactive. At the extremes are the smaller jurisdictions — Tasmania with about one third of its male adult civilian population outside the labour force, and Western Australia and the Australian Capital Territory with less than one quarter. About half of the differences reflect the varying age structures of the populations, but other factors, like educational attainment rates and State growth patterns are also likely to be important. (The variations between the States were much smaller 25 years ago.)

Figure 4 **Inactivity rates have doubled for migrants from non-English speaking countries**

Males, 1979–2005



A more disaggregated regional picture of inactivity rates for males aged 35–44 and 65+ years does not suggest any single factor shaping the spatial pattern of male economic inactivity across Australia.

- There is a limited association between remoteness and economic inactivity.
- There is a tendency for the non-metropolitan south eastern coastal fringes of Australia to have higher levels of economic inactivity among males of prime and ‘old’ ages. For prime age males this may reflect the fact that the impetus to move is lower for men outside the labour force if the local environment is attractive, while for older males it is likely to reflect retirement to the coast. Among old males, spatial variations are much smaller than among younger males, because most males over 65, wherever they are, have left the labour force.
- Areas of greater disadvantage (indicated by higher unemployment rates) have significantly higher inactivity rates — such as Western Adelaide in South Australia, Canterbury-Bankstown in Sydney, the Wide Bay-Burnett Statistical Region in Queensland, and the Southern Statistical Region in Tasmania. At the finer geographic level, the link between unemployment rates and high inactivity rates persists.

While there is a clear causal link between unemployment and subsequent high inactivity rates in men, the fact that the unemployed and inactive are often found together in the same locations — ‘pooling of the poor’ — is probably mostly a reflection of local housing markets (including public housing availability), school location and other local amenity values. Concentration of the disadvantaged has adverse impacts:

-
- Many community members will be receiving welfare payments as a major source of income (even after retirement benefits are excluded). There were a significant number of areas in Sydney alone where around one in seven *pre-retirement* adult residents derived their main livelihood from welfare payments rather than work in 2001. In several locations, this was closer to one in five.
 - Local community expectations about work may become distorted by widespread local receipt of such government benefits. The norms resulting from these, accompanied by community poverty generally, may erode social capital that is useful for acquiring jobs and for creating good communities.
 - Social problems associated with low income and poor prospects may be magnified through agglomeration. For example, children whose peers are delinquent are more likely to become delinquent and to experience longer periods of delinquency.
 - Educational opportunities may be worse because children are drawn disproportionately from disadvantaged backgrounds, which further increases the likelihood that families aspiring to better education leave such areas.

Why are men not in the labour force?

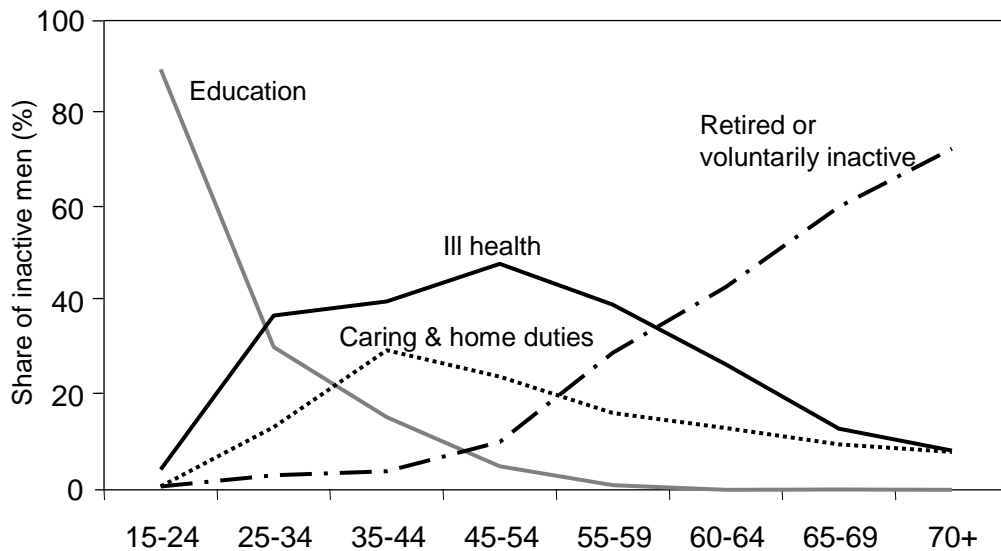
The reasons for economic inactivity vary with lifecycle needs and events (figure 5). Educational participation, ill health (own injury/illness and disability/handicap) and retirement are the major reasons for being out of the labour force, occupying respectively the first, middle and later parts of life respectively. For men aged 15-64 years — so excluding the main retirement ages — ill health is the major overall reason for economic inactivity (and has grown in significance over time).

But the growing role played by men in unpaid ‘domestic’ duties (home duties and childcare; and looking after ill or disabled people) is not well known. In September 2005, there were around 160 000 men aged 15–69 years engaged in this role. Males engaged in such domestic tasks accounted for nearly 30 per cent of the absence of males aged 35–44 years from the labour force and about one quarter of the absence of those aged 45–54 years. The greater male role in this area represents a marked shift from even the recent past.

One factor is missing from the official measures of inactivity — hidden activity. There is a widespread belief that many notionally ‘inactive’ people are really very active indeed, but in the uncounted, informal part of the economy, where their income is untaxed or does not affect the receipt of welfare benefits paid to them. Some estimates have put the size of the ‘shadow’ economy at 14 to 15 per cent of GDP, which would soak up many of the ostensibly inactive. However, these

estimates do not withstand rigorous scrutiny — the true size of the shadow economy is probably about one tenth of these high estimates and is unlikely to play a major role in explaining the significant numbers of inactive men in Australia.

Figure 5 **Why do men say they are inactive?**
2005



Some of the reasons for inactivity are benign or positive. People want leisure, education has long-term benefits for individuals and societies, and men can perform valuable caring roles. On the other hand, there are some problematic features of even these apparently benign aspects of economic inactivity.

- Time spent in education may sometimes really reflect lack of labour market opportunities. For example, enrolments swell during recessions.
- Retirement is affected by incentives not to work, such as high marginal tax rates after receipt of retirement benefits or difficulties in finding jobs for mature aged men. It also disguises other more stigmatised reasons for labour market disengagement, like disability and illness, which is known to increase significantly at older ages, though not appearing to be important in self-assessed reasons for inactivity. The implication of this is that were retirement incentives to be reduced, it would improve participation, but it would also call into play the displaced effects of disability, which would then provide a bigger constraint on participation than suggested by figure 5.

Overwhelmingly, the most socially and economically challenging aspect of economic inactivity by males is the significance of illness and disability as the motivation for detachment from the labour market. Disability is particularly enduring as a reason for detachment compared with other reasons. More than

90 per cent of males citing disability as the reason for not being in the labour force had experienced a spell out of the labour force of over a year. And the importance of disability and illness as the reason for labour market detachment has doubled over the last 30 years. In the early 1970s, less than 3 per cent of all men aged 15–69 years were outside the labour force for this reason, while it was around 6 per cent in 2005.

Impacts of economic inactivity

The key to understanding the net economic costs of labour market inactivity is a comparison of outcomes under current inactivity rates with a realistic alternative that takes account of the fact that it will not be possible to re-engage all inactive men, nor for them to achieve the productivity rates of existing labour market ‘insiders’. It must also take account of the fact that re-engagement will take many years to materialise, reflecting the gradual effects of policies aimed at current and future cohorts of boys and young men to reduce their lifetime inactivity rates. This is why a long timeframe has been used in the analysis. Nevertheless the gains from re-engagement and, therefore, the costs of inactivity are substantial.

- Simulations suggest possible forgone economic output of male inactivity over the next 45 years of cumulatively around \$2150 billion (in non-discounted form). In 2050-51 alone, the loss of output associated with male inactivity would be around \$95 billion or about \$3300 per capita.
- There would be budget savings associated with reduced welfare payments, as DSP rates fell. For example, in one reasonable simulation the budget saving (relative to the base case in that year) would be around \$4.5 billion in 2003-04 prices in 2050-51 alone and an economic saving due to reducing the inefficiency burden of taxes of around \$ 0.9 to \$1.4 billion in that year.

However, an equally important dimension of impact is social. On average, economically inactive men, especially those on benefits, face a more severe range of socio-economic disadvantages compared with their employed counterparts: poverty, family breakdown, poorer physical and mental health, lower wellbeing, and skill loss. They are more likely to have come from disadvantaged families.

What is less clear is the extent to which these traits are an effect of their economic inactivity. Instead, they themselves may cause (or be associated with other factors that precipitate) economic inactivity. In some circumstances, such as mental health, skill loss and poverty, there is reasonably clear evidence to suggest that involuntary economic inactivity is inimical to men. But it is also clear that the causal pathways go both ways. For example, many economically inactive men have pre-existing

traits that made them vulnerable to both labour market withdrawal and to lower levels of wellbeing.

Some policy levers

The high, growing and persistent rates of male inactivity have elicited major policy initiatives by governments around the world, including in Australia, to moderate their levels and effects. These take many forms, such as retirement, mature age training and health policies. This paper concentrates on two policy areas that may be particularly relevant to the poor outcomes for prime aged males in Australia:

- the rising significance of the Disability Support Pension, which mainly affects males aged over 40 years old; and
- at the opposite end of the age spectrum, the potentially scarring labour market effects of inadequate schooling of boys, which have debilitating effects during the rest of their lives.

The purpose here is obviously not to resolve these policy issues, but to provide analytical information that may be useful to policymakers in these areas.

The Disability Support Pension

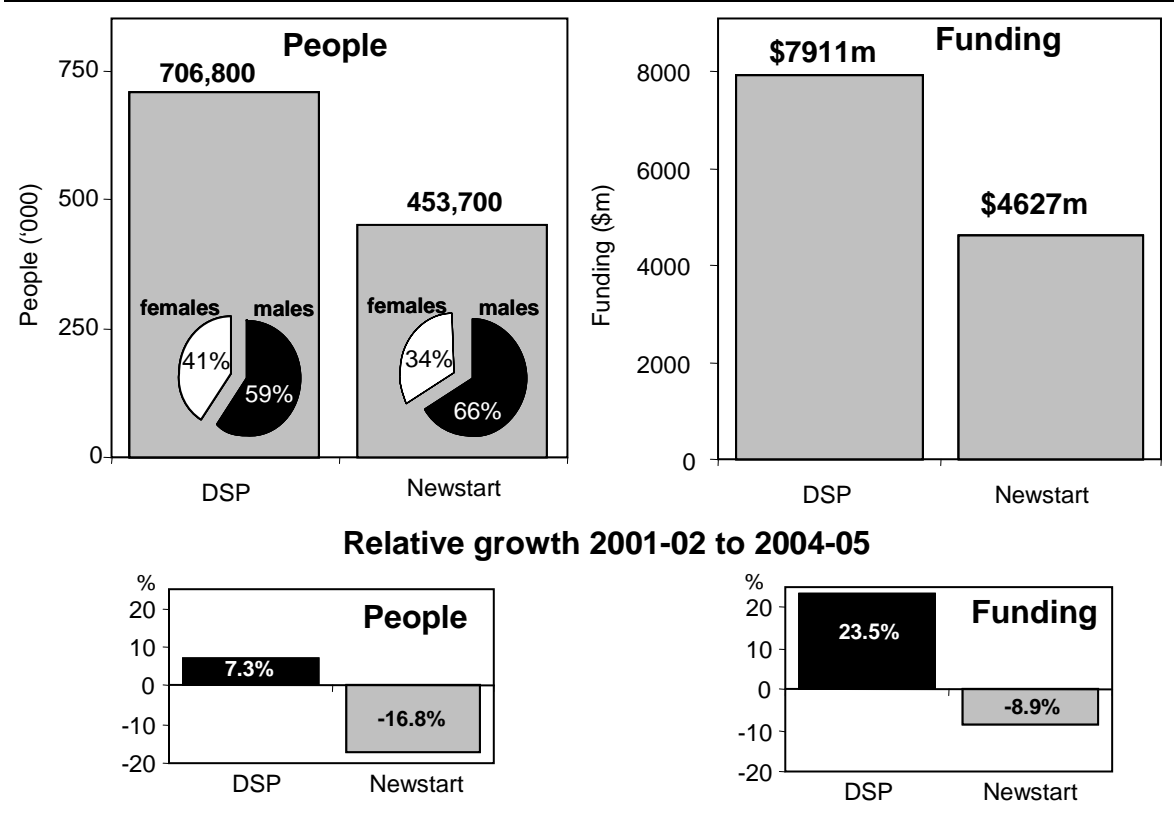
The Disability Support Pension has proved an increasingly major and, from a taxpayer perspective, costly destination for economically inactive men with disabilities:

- There were around 420 000 men aged 16 years and over on DSP at the end of 2005, significantly higher than female numbers (less than 290 000). While unemployment payments and numbers have fallen since 2001-02, DSP has risen strongly (though changes in eligibility and assessment from mid-2006 may arrest that trend).
- Around half of all inactive men aged 25–64 years old receive the DSP.
- The budgetary cost of providing the DSP to both sexes was nearing \$8 billion in 2004-05 (figure 6). This was significantly higher than the principal unemployment allowance (Newstart payments) of \$4.6 billion.

A major reason for the growth of the DSP is the long duration spent on benefits — about seven years, usually preceded by an average further two years on other benefits. The main reason for leaving the DSP is to access the Age Pension at age 65 years. Few leave the DSP to take a job and even fewer to actively search for a job (unemployment). In fact, leaving the DSP due to death is more likely than

leaving it through re-engagement with the labour force. This reflects the fact that age-standardised mortality rates among DSP beneficiaries are about four times those of the general population — underlining their seriously disadvantaged status.

Figure 6 DSP compared with Newstart Allowance
2004-05



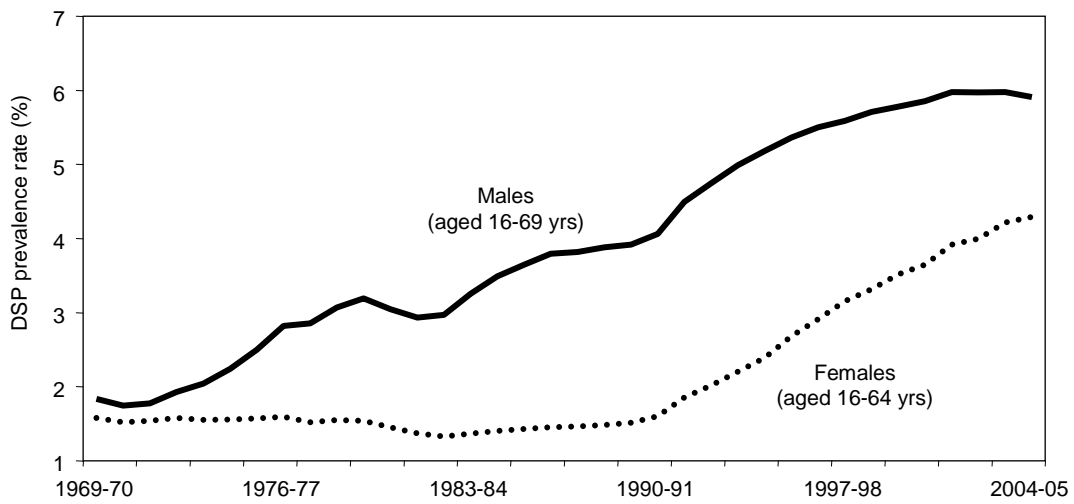
However, high DSP rates are not just about underlying health conditions. First, many people with disabilities can participate in the labour market if the social and work environment facilitates their involvement. That there is better potential for this is suggested by the fact that only about one-third of DSP beneficiaries have profound disabilities and the remaining two-thirds have moderate or lesser core limitations.

Second, people with disabilities in some OECD countries have much higher participation and employment rates than in Australia. And across OECD countries there is a weak relationship between disability prevalence and the share of the population on disability support.

Finally, rates of underlying age-specific disability in the Australian population do not appear to have risen over the long term, yet DSP rates have soared (figure 7). Population ageing does not explain the rise, since age-specific DSP rates have also risen strongly. This suggests that many men with disabilities currently on DSP must

have at one time been inherently employable, and something in the economic or social environment, rather than their disabilities per se, must have affected their job success. This is despite the fact that other social and economic changes, such as more sophisticated aids and anti-discrimination provisions, should have encouraged the greater integration of people with disabilities.

Figure 7 The rise and rise of the DSP
1969-70 to 2004-05



What might these factors be? The most plausible explanation for the growth of DSP is that it reflects changes in the receptiveness of the economy to employment of people with lower skills and disabilities, accentuated by the incentives posed by the welfare system.

With technological change favouring higher skilled jobs and the growth of the service sector, the long-run structure of the economy has shifted away from jobs in which unskilled, less language-proficient, males specialise. For example, blue collar jobs accounted for 63 per cent of male jobs in 1971 and 46 per cent in 2000. People with disabilities are likely to be particularly affected by these changes, due to their disabilities and their socio-economic traits (a higher likelihood of migrant status with poorer English proficiency, greater age, and lower educational attainment). About one in five of people with disabilities attended school only to year 8 or less, compared with less than one in twenty for people with no reported disability. The structural changes in the economy have pushed down the ratio of likely wages to welfare benefits for unskilled males, accentuating the adverse incentive effects observed above.

Incentives are also likely to play an important role. DSP benefit rates exceed unemployment benefits and have no job search requirements. Their relative generosity has generally increased since the 1980s. Accordingly, over the longer-

run, unemployed men with disabilities have found DSP increasingly more attractive than Newstart allowances. This benefit ‘gap’ also discourages any move back from DSP to Newstart, even if disability or job prospects improve. It may also discourage a man on DSP from getting a job with income high enough to make them ineligible for the DSP (you can work on DSP and retain benefits, but only to a certain wage level), since subsequent loss of that job may put them at risk of being placed back on Newstart.

The evidence points to two other culprits, which also appear to play a role.

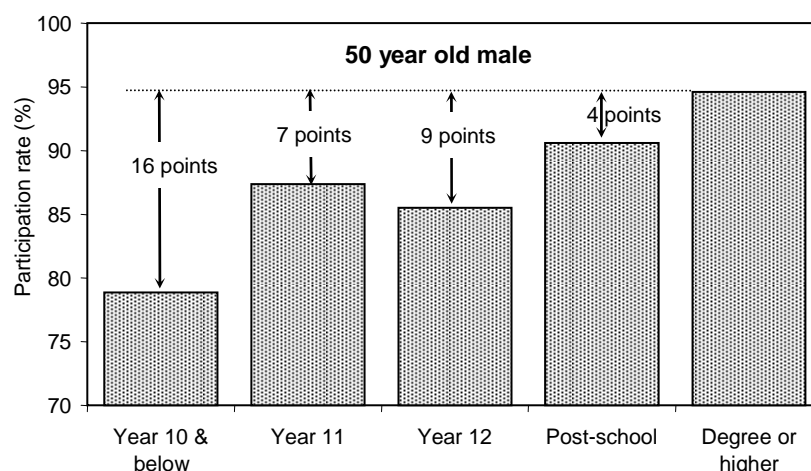
- There is a strong link between economic downturns and the inflows into the DSP, but no cyclical link for outflows. The stock of pensioners on the DSP is like a deep pool with a relatively small, but cyclically responsive, inflow and a small sluggish and unresponsive outflow. Business downturns increase the inflow and the pool fills, dissipating only slowly over time. This explains some of the inertia in the DSP rates, but cannot explain the long-run increase.
- The administration and eligibility arrangements for disability support have varied over time, sometimes favouring high entry. However, recent policy measures have tightened eligibility. This will decrease the DSP inflow rate (but not the outflow rate), placing downward pressure on DSP numbers.

What difference might education make?

Boys staying on at school for longer grow into men who typically remain active in the labour force at older ages (figure 8). This simple equation, matched by the observation that many boys still leave school early in Australia, has led to the frequently made suggestion that mandatory schooling should be extended. And indeed, increasingly that has been the course followed in Australia, with most States increasing the school leaving age to 16 or 17 years old in an effort to increase retention to year 12 and ultimately to achieve better lifetime outcomes.

It is likely that extended schooling will have some benefits. However, the results achieved by voluntary school completers are unlikely to be replicated through involuntary school extension for the boys who currently do not choose to complete school. Students with poorer ability or a non-academic orientation are currently less likely to choose to stay on at school, and these characteristics will play a role, independent from their low education level, in shaping their future labour force involvement.

Figure 8 **Getting through school appears to pay big dividends**



Given the different traits of non-completers, the goal is to assess the relationship between additional schooling and labour market outcomes after controlling for the various individual traits that may confound the relationship. There are several ways of doing this, none perfect, but they generally point to much lower labour market benefits from additional schooling for the current group of non-completers than might be inferred from figure 8. For example:

- using simple controls for the characteristics of students, such as for their initial numeracy competencies, it was found that males who left before even commencing year 11 had future labour market prospects that were not significantly different from those of year 12 completers who did not continue with tertiary education;
- those students with traits that imply a low ex ante probability of completing school who nevertheless go onto complete the maximum 12 years do relatively poorly in labour markets; and
- analysis that matched early-leavers with students having similar traits who stayed on for years 11 and 12 found negligible benefits of staying on.

Two factors degrade the effectiveness of additional schooling for those with a high propensity for early leaving. First, while the reason that these students are different from others is partly related to their inherent abilities, it also reflects the past effectiveness of their schooling. If they have failed to develop adequate numeracy or literacy or have been alienated by school cultures prior to year 11, then the value of further investments are likely to be reduced. So what occurs prior to year 11 can be important in determining the returns in the labour participation rates from extension of schooling past year 10.

Second, what occurs in the mandated extension period is also likely to be important, and may need to be adapted to the needs of hitherto reluctant stayers.

This paper reviews a range of initiatives in both areas. For example, new literacy programs appear to have elicited improvements in year 7 reading. It is not yet certain how big the ultimate benefits will be.

Quite apart from changing the nature of school experiences for the non-academically inclined, some States offer alternative pathways to extended schooling, such as a full-time job or training or education outside schools. Both are critical opportunities for some sub-groups of young people because they take them into a world outside school, with richer interactions with adults and support broader learning environments.