

What is meant by the term labour force participation rate? What factors influence labour force participation rates in Australia? What is the relationship between the labour force participation and the level of unemployment?

The labour market is one of the most important sectors of our market economy. It has a very direct impact on our lives because at some stage or another in life, almost all of us will participate in it. Thus, governments must examine key labour market indicators that influence one of the economy's major problems, the level of unemployment, which in turn is influenced by the participation rate.

The labour force (or workforce) participation rate can be defined as the percentage of the working age population who are in the workforce. Thus, the labour force participation rate is affected by the size of the labour force as well as the working age population. People are considered in the workforce if they are either working or actively seeking work. The formula for working out the labour force participation rate is:

$$\text{Labour force participation rate (\%)} = \frac{\text{Labour force}}{\text{Working age population (+15)}} \times \frac{100\%}{1}$$

The labour force is clearly smaller than the working age population because we must take into account people's willingness and preparedness to participate in the workforce, either by working, or by actively looking for work (if they are without a job). Consequently, the workforce can be defined as that section of the population 15 years of age and above who are either working or actively seeking work. The workforce consists of persons aged 15 and over who are currently employed for at least one hour a week and self-employed persons working for at least one hour a week. It also includes persons on paid leave, on strike, on workers' compensation, or receiving payment while undertaking full-time study, as well as those unemployed persons currently available for work and actively seeking work. People may decide not to participate in the workforce because they want to do further study, take care of the family, concentrate on leisure activities, or because they think that they are unlikely to find a job, or would rather rely on other forms of income.

A number of both long and short-term factors can influence the participation rate. Firstly, the state of the economy tends to be important as a short-term influence. The participation rate is said to be pro-cyclical. In other words, in times of prosperity and economic growth, people will be more inclined to seek work actively, since there are better prospects of finding a job. On the other hand, in times of recession, people are less optimistic about job prospects, and therefore less inclined to seek work actively.

As a long-term trend, there are either more persons in the workforce choosing to retire early or having early retirement forced upon them because of retrenchments and redundancies. Most probably, this significant factor accounts for the general fall in the participation rate for males over the past 20 years.

Changing social attitudes to working wives and mothers, coupled with the provision of childcare and declining birth rates have seen an increasing tendency for married women to participate in the workforce for longer periods. This largely explains the increased workforce participation rate for females over the past two decades.

Increased school retention rates due to the increasing tendency for young people to remain at school longer, as well as to seek further full-time tertiary education, means that people tend to join the workforce later in life.

The supply of labour may also be restricted because of government policy decisions or the collective action of those providing labour within an industry. Trade unions can exert pressure on firms and industries to employ only union members, although Commonwealth and

State laws in Australia are intended to prohibit restrictions on employers hiring non-union labour. Professional associations such as the Law Society, the Australian Medical Association and the Institute of Engineers of Australia impose standards of education, continuing training and professional conduct on their members. This tends to restrict the supply of labour to these occupations. Similarly, the government can limit the supply of labour to particular occupations by imposing certain qualifications and license restrictions. For example, builders must satisfy certain competency standards in order to obtain a builder's licence.

The overall participation rate has not changed much over the last three decades, remaining above 60%. There have been significant changes to the male and female participation rates. The male participation rate has dropped considerably from 83% in 1970 to 73% by 1995. The labour force participation rate for females has shown a strong upward trend, driven particularly by the increasing participation of married women in the workforce. The changes in the participation rates of both men and women nevertheless slowed down during the 1990s, suggesting that they may level out in the next decade.

Employment is one of the outcomes of the labour market, and one of the greatest problems in the labour market during recent decades has been the high level of unemployment. In general, the Australian Bureau of Statistics (ABS) has defined the unemployment rate (also known as the level of unemployment) as the number of unemployed persons expressed as a percentage of the total labour force.

$$\text{Unemployment rate (\%)} = \frac{\text{Number of unemployed}}{\text{Total labour force}} \times \frac{100\%}{1}$$

As mentioned earlier, the total labour force is affected by the participation rate among working age people; this affects the unemployment rate, as the unemployment rate is expressed as a proportion of the total labour force that is unemployed. For example, the unemployment rate might remain the same even if there is an upswing, because people tend to seek jobs more actively during prosperous economic times because there appears to be a higher prospect of scoring a job.

This also highlights the fact that the official unemployment figures usually fail to reveal the true extent of the unemployment problem. Hidden unemployment does not show up in statistics. During times of high unemployment, many people get discouraged and give up looking for work. Because they are not actively seeking work, they are not officially classified as unemployed and participating in the labour force. The hidden unemployed would seek work under better economic circumstances. The presence of hidden unemployment shows up in the statistics as a decline in the labour force participation rate when these individuals give up looking for work, but they are not shown in the unemployment statistics.

In conclusion, trends indicate that there has been a decline in the participation rate for men, while there has been a strong increase in the participation rate for women. This participation rate is influenced by factors such as early retirement and general economic conditions, and has an influence on the unemployment rate.