
Key points

- Literacy and numeracy skills are key components of human capital, which is an important driver of economic growth.
- This paper utilises data from a 2006 survey on the literacy and numeracy skills of the Australian adult population. Analysis reveals that literacy and numeracy skills:
 - for nearly half of the population were assessed at either levels 1 (the lowest level) or 2, both of which are below the minimum level deemed necessary to participate in a knowledge-based economy (level 3).
 - vary according to a number of factors, and were generally highest for people who had either undertaken higher levels of education, were born in an English speaking country or were of prime working age (20–44 years old).
- Models were used to estimate the effect of improved literacy and numeracy skills on the probability of labour force participation and on wages.
- Results confirm previous research in the human capital literature — that improving literacy and numeracy skills has a positive, statistically significant effect on labour market outcomes.
- More specifically, it was estimated that an improvement in literacy and numeracy skills from level 1 to level 3 would:
 - increase the likelihood of labour force participation by about 15 percentage points for women and about 5 percentage points for men
 - increase hourly wage rates by about 25 and 30 per cent for women and men respectively.
- Improving educational attainment was also estimated to have a positive, statistically significant effect on labour force participation and on wages.
 - However, once literacy and numeracy skills were controlled for, the effect of increasing educational attainment on labour force participation and on wages was reduced. Some of the benefit occurs because more highly educated people tend to have higher literacy and numeracy skills.
- Literacy and numeracy skills are developed through education, but they can also be enhanced in other ways.
 - Understanding the factors that influence literacy and numeracy skills is important and could be further explored with the data used in this paper.