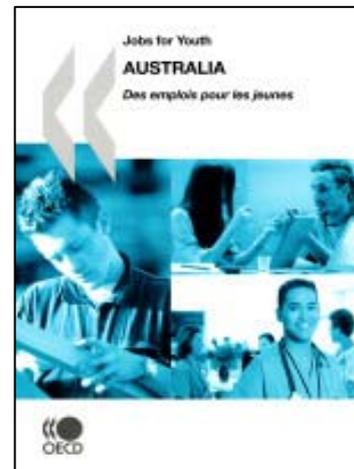


Jobs for Youth/Des emplois pour les jeunes
Australia

Summary in English



SUMMARY AND MAIN RECOMMENDATIONS

In the immediate future, rising youth unemployment will be a major concern for Australian policymakers. The world is currently facing a severe economic crisis that is affecting Australia and worsening the labour market prospects of many of its citizens. However, past experience suggests that in Australia, like in most other OECD countries, any deterioration in labour market conditions is disproportionately felt by the youth.

Across the OECD, a one percentage point deviation from the growth rate of potential GDP leads to a 0.65 percentage point change in the prime-age (25-54) unemployment rate. But the youth (15-24) unemployment rate – normally more than double the latter rate – usually changes by almost 1.4 percentage point. Similar estimates for Australia point at a higher responsiveness of unemployment rates to GDP shocks. A one percentage point deviation from potential GDP generally translates into an almost equivalent change in the prime-age unemployment rate, whereas the youth unemployment rate usually changes by 2 percentage points.

A reassuring element, however, is that the Australian labour market entered this downturn from a relatively favorable starting point. Until very recently – partially as a consequence of uninterrupted economic growth for 17 years – the overall unemployment rate was close to its historical low. Moreover, the youth (15-24) unemployment rate reached 8.7% in September 2008, the lowest level recorded since the late 1970s. And youth labour market problems at that time were principally concentrated on low-educated, disengaged or indigenous youth.¹

¹. “Indigenous person” refer to: *i*) a member of the Aboriginal race of Australia; or *ii*) a descendant of the indigenous inhabitants of the Torres Strait Islands.

The key priority for the coming months should be to avoid the build up of a large pool of youth at risk of becoming long-term unemployed. Australia has the advantage of entering the recession with a very low level of long-term youth unemployment. In 2007, only 10% of the unemployed youth experienced a long spell² of joblessness in Australia, compared with an OECD average of 19.6%. What is more, over the past two decades the country has successfully developed labour market and welfare institutions that activate the unemployed. Hopefully, this means that most unemployed youth will rapidly get back into employment when the economy starts recovering from its current lows.

The economic downturn may also represent an opportunity to address one of the country's long-run challenges: improving human capital attainment, particularly at the lower end of the educational distribution. Australia is indeed characterised by a relatively low retention rate in education beyond age 16, as compared with many other OECD countries. Hence, too many youths still lack the basic skills needed to embark on a successful long-term career in the labour market. But one side-effect of the current economic slowdown is that it will probably result in more young people being a priori inclined to stay longer in education or undertake advanced studies rather than look for work. In OECD countries, enrolment in education is indeed countercyclical. Policy initiatives should seek to capitalise on this trend.

Greater investment in education is also one of the main priorities of the Australian (*i.e.* federal) Government and the States and Territories. In particular, this involves: *i*) raising the average level of educational attainment, by increasing the share of a cohort that stays on beyond the age of 16; and *ii*) ensuring a better match between the supply and demand of skills. Many sound programmes were put in place in Australia recently to buttress educational attainment, develop vocational education and training (VET) within the school system, as well as to improve the school-to-work transition.

The government is also targeting adults³ with its *Skilling Australia for the Future*. It has provided funding for an additional 700 000 training places. The intent is that around 55% of these places will be allocated to existing workers and the rest will be earmarked for the unemployed. Finally, in December 2008, the Labour government committed to spend more money on tertiary education infrastructure as part of its *Nation Building Package* aimed at counteracting the current economic slowdown.

Policymakers are also aware of the need to keep improving the existing labour market and welfare institutions in order to maximise youth labour market opportunities and incentives to participate in the workforce. This could prove particularly beneficial when the economic starts to recover, as it should help intensify the flows out of unemployment and into jobs.

². Lasting more than one year.

³. Including young adults.

Low risk of unemployment, high employment rates, except for indigenous youth

Until recently in Australia, youth were facing low risks of unemployment that were also mirrored in high employment rates. In March 2008, more than 65% of youth had a job in Australia, the highest level recorded since 1978. High youth employment rates reflected the high proportion of young people working part-time while studying. It also partly reflected a relatively low propensity to stay in education beyond the age of 16, and finally the buoyant labour market with strong job creation.

On the negative side, as suggested above, indigenous youths face major problems in getting a foothold in the labour market. In 2006, their unemployment rate was at least 2.5 times higher than that of non-indigenous youths, a gap that has not changed significantly over the past decade. But the situation looks even more dramatic when considering their employment rate: in 2006, only 48% of indigenous school-leavers had a job compared with 80% for non-indigenous youths. And the employment rate of indigenous youths would be even lower if one excludes subsidised employment under *Community Development Employment Projects* (CDEP).⁴

Many youth tend to move swiftly into jobs

During the prolonged economic expansion, the transition from school to work was very quick for most Australian youth. Many entered the job market when they were still studying. The incidence of jobs among students aged 20 was close to 85% in 2006, the highest rate across OECD countries. And contrary to what seems to happen in some European countries (*e.g.* Norway, Denmark), combining school with work does not prevent Australian students from graduating at a relatively young age.

In 2006, the time it took for school-leavers to find their first job was short. Indicators gathered in the report suggest that Australia had a better performance than many other OECD countries in this respect. It is also worth stressing that the gap between youth with and without ISCED 3 (upper secondary degree, Year 12 certificate) in terms of the speed of the school-to-work transition was, in 2006, lower than in most of the other countries examined.

Entry jobs for youth are frequently “casual” or part-time, but serve as stepping stones to more stable jobs

Part-time and “casual”⁵ contracts loomed large among youth employment in Australia even during the period of strong economic growth. But in most cases these entry jobs are stepping stones to more stable jobs thereafter. Indeed, there is a strong positive correlation between holding a part-time job or a

⁴. The Community Development Employment Projects (CDEP) programme is an Australian Government initiative currently delivered in regional and remote areas, offering training and work experience as a stepping stone for indigenous people to mainstream employment.

⁵. Casual employment means the absence of entitlement to both paid annual leave and paid sick leave.

casual/fixed-term contract (as opposed to being unemployed or inactive) and the probability of holding a full-time/regular job at a later stage.

Education performance could be improved

Low pre-school attendance rates among children aged 3-5

Australia has a relatively low pre-school attendance rate (below the age of 5) as compared with many OECD countries. In 2005, 60% of children aged 3-5 attended pre-school programmes, well below the OECD average of 78%. This low enrolment in pre-school programmes is particularly acute among children from disadvantaged backgrounds, particularly children from indigenous families, for whom early exposure to education may matter the most. Indeed, international evidence suggests that quality pre-school education provides these children with a better start in life, a lower risk of dropping out, and better chances of accomplishing a successful school-to-work transition. Efforts to improve participation in education of disadvantaged groups, particularly indigenous children, before the age of 6, could well be more cost-effective than most training programmes that try to upgrade skills amongst teenagers and young adults.

Good test scores at the age of 15 but a below-average stay-on rate

A bright spot of Australia's educational system is the level of achievement of 15-year-olds, as assessed by PISA⁶ test scores. Another good point is that attainment at tertiary level (more than ISCED 3) is above the OECD average. But many young Australians do not achieve an intermediate level of education (ISCED 3), leading to a "U-shaped" distribution of educational attainment. Australia is indeed characterised by a relatively low retention rate in education beyond the age of 16, as compared with many other OECD countries. Although the retention rate rose in the 1980s and 1990s, it has stopped increasing since 2000, perhaps as a consequence of a rising opportunity cost of education in what was until very recently a very tight labour market.

The indigenous scholastic gap

Scholastic achievement of indigenous youths is dire. Indigenous students are between 10 and 30% less likely to meet standards of literacy and numeracy attainment than their non-indigenous peers. It is noticeable that this scholastic gap tends to increase with age: it is much smaller at the age of 3 than later.

Educational reforms go in the right direction

The 2008 budget of the Australian (*i.e.* federal) Government contains programmes that should improve Australia's pre-school performance. By 2013, all 4-year-old children should have access to early learning programmes in the year before formal schooling. And services should be delivered by better qualified teaching staff as the proposal includes financial incentives to entice

⁶. The OECD's Programme for International Student Assessment.

(current) childcare workers to enhance their teaching skills. There is also money earmarked for the creation of additional university places for (future) pre-school teachers.

Over the past two decades, significant efforts have been made to enhance school enrolment beyond the age of 16, by diversifying learning pathways within senior/upper secondary schools. As part of its 2008-09 budget, for instance, the Australian Government has committed AUD 2.5 billion to enable all secondary schools to apply for funding to build *Trade Training Centres*. The aim is to improve access to trade/VET training in secondary schools and to increase retention rates.

Surveys show that a rising proportion of those who leave school with a (lower or upper) secondary education level declare that they possess a VET certificate. There is also evidence that VET pays off for individuals: *ceteris paribus* holding a VET certificate translates into an 8 percentage points weekly wage premium compared with someone with an equivalent non-VET certificate. However, in more aggregate terms, it remains to be seen if such a policy is likely to fundamentally affect the stay-on rate and improve the overall share of youth successfully completing upper secondary education (Year 12).

As to the performance of the overall school sector (kindergarten, primary, and secondary schools), better co-ordination across jurisdictions may be needed. Schools are predominantly under States and Territories jurisdiction in Australia. In spite of the work of the Council of Australian Governments (COAG) and its commitment to improve education and training in Australia, still in the mid 2000s, there remained significant cross-State differences in the basic structure of schooling, including in curricula and final diplomas or certificates awarded to students. This heterogeneity may impose a burden on (mobile) students in terms of complexity and transaction costs (credential recognition, etc.).

Presumably to cope with this problem, the Australian State and Territory Governments agreed in 2007 to implement, from 2011, a national curriculum from kindergarten to Year 12, starting with the key learning areas of English, mathematics, sciences and history. This should facilitate teacher and student mobility across Australia and prevent curriculum inconsistency from being a major disincentive to the 340 000 Australians (including 80 000 school-aged students) who move interstate each year.

As stressed above, one group that remains insufficiently educated is the indigenous youth. Although the absolute size of this cohort in comparison with the total youth population is small (about 3%), it represents a pool of under-utilised labour that, if adequately educated and mobilised, would help alleviate skill shortages and improve learning standards and welfare among the indigenous population.

From 2009 onwards, the new Universal Employment Services (UES) model will better support initiatives with human-capital content in remote areas where many indigenous youth live. Operators will be allowed to claim payments for helping indigenous jobseekers return to school and gain greater literacy and numeracy skills. The Australian Government is also drafting an

encompassing economic strategy, the *Indigenous Economic Development Strategy* (IEDS), to be implemented from 1 July 2009. The latter will try to deal with the significant gap between employment rates in indigenous and non-indigenous populations that ineluctably compromises the educational attainment of their children.

An encouraging element, as noted above, is that studies find relatively smaller test score gaps between indigenous and non-indigenous young children, at least compared with the larger gaps recorded later in life. These observations corroborate findings from other OECD countries: cognitive and non-cognitive ability gaps that play an important role in determining adult labour market outcomes open up in the early years of life across socioeconomic groups. Hence, policies targeting the very early years could reduce the test score gap between indigenous and non-indigenous people, as well as many labour market outcome gaps in Australia. But early years interventions need to be sustained beyond the pre-school period in order to ensure that the early gains are not lost later.

More needs to be done to ensure that all young Australians leave education with recognised qualifications to set up a career

To ensure that youth have the basic skills needed to enter and progress on the labour market, the following measures could be envisaged:

- *Capitalise on the propensity of youth to stay longer in education during economic slowdowns to raise educational attainment.* The focus should be on retention until an ISCED 3 (Year 12) qualification is obtained rather than simply on staying in education until a given age. A change in this direction would require further diversification of learning pathways within secondary schools (i.e. more VET and apprenticeships), but also the investment of more resources in tertiary institutions offering short and flexible programmes. In parallel, it would be worth making the Youth Allowance⁷ conditional on having attained (or being willing to take the necessary steps to attain) the equivalent of an ISCED 3 degree. An example of such a reform could be provided by the Dutch *Leerwerkplicht* reform (i.e. the obligation to study or work), whereby all youth aged 18-27 who have not completed upper secondary education are required to resume schooling (or to work). Unless this condition is met, young people can be fined or denied (part of) their social benefits.⁸
- *Consideration would need to be given to the development of a national certification scheme at the upper secondary level which would complement the national curriculum.* Such an output-based

⁷. In Australia, youth aged 15-20 are eligible for a *Youth Allowance* (YA) which is means-tested against parental income. Like any jobseeker claiming benefits, a YA jobseeker must satisfy conditions that details what he/she must do in order to receive payments.

⁸. OECD (2008), *Jobs for Youth: Netherlands*, OECD, Paris

instrument is likely to be more effective at standardising the content and the outcomes of Australian secondary schools than the national curriculum alone. This could be considered as part of the work of the new National Education Authority, which was agreed to by COAG in October 2008. This new body will be responsible for managing curriculum, assessment and reporting at a national level and will be established in early 2009.

- *Put an even greater emphasis on early-age (i.e. before age 5) education of children from disadvantaged groups and ensure that the effort is sustained during primary education.* The Australian Government, in close connection with the States and Territories, should proceed swiftly with the implementation of universal access policy for 4-year-olds. But, policymakers should also consider the extension of the measure to 3-year-olds as a high priority if i) the evaluation of the generalisation to 4-year-olds shows positive results, and ii) if public finances permit this.
- *Ensure that indigenous children aged less than 5 use more health-care and pre-schooling services.* Securing adequate supply and funding is a necessary but not sufficient condition to achieve the ambitious targets laid out in the Education Revolution programme.⁹ Policymakers should also try to boost demand. There may be a case for experimenting with financial incentives rewarding pre-school attendance but also regular health checks among indigenous families. Useful references in this respect could come from the Conditional Cash Transfers Programmes implemented with some success in a number of Latin American and other emerging economies. These programmes provide money to poor families conditional upon certain behaviour, usually investments in human capital such as sending children to school or taking them to health centres on a regular basis. An additional element which appears promising is to pay most or all of the money to mothers.

Few demand-side barriers to youth employment

Although education and training policies are central elements of any effective strategy for improving youth labour market prospects, a comprehensive policy framework has to pay attention to the existing labour market arrangements and institutions and their impact on the demand for young people, especially low-skilled youth.

Australia's current labour market institutions are, *a priori*, conducive to good employment outcomes for youth. Relatively lax employment protection legislation (EPL) and the possibility of employing young people on a part-time basis or on casual contracts encourage risk-averse employers to recruit inexperienced and individuals with limited education.

⁹. All governments (Australian, States, and Territories) have agreed to a set of very ambitious educational targets enunciated in this *Education Revolution* programme, particularly regarding the reduction of the achievement gap between indigenous and non-indigenous youth.

Moderate-to-low entry wages also help youth job prospects. OECD data covering the early 2000s show that in Australia young workers (aged 16-24) without ISCED 3 earn slightly less than 40% of the average wage,¹⁰ a figure that is close to the OECD average. Teenagers aged 16-19 without ISCED 3 earned less than 30% of the overall average wage, a lower fraction than in most European countries. An analysis of the dynamics of career paths among young workers also conveys a reassuring message. Data confirm the existence of upward wage mobility: about 50% of those young workers who earned less than a given low-paid threshold in 2001 were above that threshold five years later.¹¹ And the vast majority (72%) of those who were above the threshold initially remained in such a situation five years down the road.

Gradual decentralisation of wage-setting arrangements since the early 1990s, with the introduction of individual contracts (the *Australian Workplace Agreements*, AWAs), is likely to have increased the labour market competitiveness of low-skilled youth.

The Labour government has started removing some aspects of the *WorkChoices* legislation implemented by the former government. The new policy will include an enlarged safety net (reinstatement of dismissal rules for workers in firms with less than 100 employees and more minimum terms of employment and pay) and a phase-out of AWAs. Changes designed to protect vulnerable workers, including youth, who were found in some cases to be disadvantaged under *WorkChoices* bargaining arrangements, are welcome. However, care should be taken to avoid discouraging bargaining at the workplace level and pricing low-skilled youth out of entry-level jobs. The process of streamlining and modernising *awards*¹² started under *WorkChoices* should also be continued.

There are also barriers to employment and equal pay for some categories of workers. Concerning immigrants¹³ in general, the evidence points to an absence of systematic wage gaps *vis-à-vis* native Australians. Gross differences are largely accounted for by differences in educational attainment, labour market experience, and labour supply. The situation is different, however, for young women. Even after controlling for their high propensity to work part-time, there remains an unaccounted wage gap of about 14 percentage points with respect to men. However, this does not definitely prove that there is discrimination based on gender in the Australian labour market. The pay gap could, at least partially, be attributed to systematic gender differences in terms of *i*) field of study within a certain level of education (*e.g.*, fewer engineers, lawyers or business graduates among women, but more teachers); and *ii*) industries or occupations associated with each field of study.

¹⁰. Computed using wages of all workers aged 25-64.

¹¹. The low-paid threshold is defined as the 2nd decile of the overall wage distribution.

¹². *Awards* are nation-wide agreements that determine working conditions and pay. They generally only apply to a specific group of employees, usually from a particular industry or occupation.

¹³. That is, those immigrants from non-English speaking background.

In that context, the OECD recommends:

- *Monitoring of the effect of post-WorkChoices industrial relations changes on the youth labour market.* The implementation of a new industrial relations policy will be completed by early 2010. This represents an opportunity to assess whether a policy aimed at improving work and pay conditions at the lower end of the labour market distribution leads to i) significantly higher entry wages for low-skilled youth; and/or ii) less demand for these workers. Policymakers should be prepared to take steps to amend the new rules if sizeable negative effects are detected.
- *Exploring the causes of i) young women's lower propensity to work full-time; and ii) the large gender pay gap.* Concerning women's labour supply a starting point would be to look at the effective marginal taxation rate of couples. Another area worth exploring is the relationship between women's labour supply and the (relatively low) supply and the (relatively high) cost of childcare or pre-schooling. Finally, it would be important to search for evidence of "gender segregation" in tertiary education and its determinants. The latter can occur as a result of women and men diverging in terms of i) graduation rates (vertical segregation), or ii) opting for different fields of study, e.g. arts and humanities or education versus engineering (horizontal segregation). Women's increased participation in tertiary education in Australia, as in most other OECD countries, tentatively suggests that vertical segregation is now disappearing. However, horizontal segregation has perhaps not receded much.

The challenges of implementing a skill-first activation strategy

Policymakers in Australia have long recognised the importance of "mutual obligations" (called *activity test* in Australia) in labour market policy strategies, whereby in exchange for income support jobseekers (including youth) need to participate in training, job-search or job-placement activities.

Australia was indeed one of the first OECD countries to implement a strong "work-for-the-dole" policy with its jobseekers. Australia's strategy for tackling unemployment has also been based on an innovative system for delivering benefits and job-placement services. Since 1998, while *Centerlink* (an Australian Government centralised agency) has been in charge of the payment of benefits, the delivery of employment services has been tendered out to *Job Network* organisations. Job Network is a competitive industry, operated by private for-profit and not-for-profit firms, who compete for contracts through tenders. The model also has a strong focus on performance and outcomes, particularly through the *Star Ratings* system which is used to assess the performance of private employment services and decide on business reallocation during and between contracts.¹⁴ This radical transformation of

¹⁴.

The Star Ratings system rests on a sophisticated statistical instrument which allows for accurate comparison of employment agencies' achievements (*i.e.* job-placement rates, unemployment-to-employment transition speed, etc.), while taking into account differences in local labour market conditions and other factors bearing on performance.

employment service delivery that occurred in the late 1990s was without parallel in almost any other OECD country with the sole exception of the Netherlands.

The statistical evidence covering the early 2000s points to a relatively high number of young Australians who receive either *Youth Allowances* (YA, for those aged 16 to 20) or *Newstart Allowances* (NSA, for those aged 21 plus) after leaving school. The number of beneficiaries, in percentage of a cohort, remains above the 10% threshold until the age of 21, and then recedes strongly to stabilise around 2 to 3%. Hence, the broad conclusion is that Australia's activation policy worked well for the majority of unemployed youth before the current downturn.

However, there is some evidence of benefit dependence among recipients of YA and NSA. Longitudinal data show that youth who have already spent a year receiving YA or NSA are more than ten times more likely to be on income support during the five subsequent years than those who have no income-support record. Although this high ratio probably reflects a selection effect, its magnitude is alarming. It is also notable that young women initially on YA or NSA spend less time receiving these allowances than young men. However, such a gap probably reflects substitutability between inactive benefits, with young mothers becoming eligible for child- and parenting-related benefits. Also young women may lose YA or NSA when they cohabit or marry.

In 2007, the Australian labour market was characterised by large skill shortages. The number of job vacancies in Australia had never been so high. But the pool of unemployed youth was getting harder to place into these jobs, as it consisted to a larger extent of individuals who underachieved at school, suffered from minor mental illnesses or had a substance-abuse or alcohol-addiction record. The recent downturn may make this mismatch less visible. That said, in the future, in view of population ageing, Australia will probably anew be confronted with the problem of insufficient skilled labour to sustain growth. Therefore, the decision of the Labour government to readjust labour market policies towards skill upgrading is welcome. Ideally, it should simultaneously encourage better connections with organisations that can help address the barriers to engagement of hard-to-place individuals.

Mutual obligations will remain under the new *Universal Employment Services* (UES) model, to be implemented from 1 July 2009. But the eight-week non-payment period in case of participation failures will often be replaced with a more gradual and work-like "No show; no pay" compliance system. The evidence suggests that the current sanction is counterproductive as jobseekers *de facto* stop being in contact with their employment services provider for the eight-week period during which payment is suspended. More fundamentally, the new employment policy aims to deliver more "work-ready" jobseekers, particularly in areas with a labour shortage record. Such a move means that, in the near future, job-placement operators will be (financially) encouraged to raise the level of skills of their young clients before putting them into jobs. For those youths who are not work-ready, placement operators will be asked to put a greater emphasis on pre-employment programmes with a

strong educational component.

But the Australian authorities should not underestimate the difficulties of implementing such a skill-first welfare policy, especially in the current situation of rising unemployment. The international evidence from evaluations of training programmes for youth in the United States and Europe is not encouraging. Logically, they are targeted toward relatively unskilled and less able individuals. But initial skills and educational attainment are “complements” to these training programmes in the sense that the employment and pay outcomes of these programmes are generally lower for (initially) low-educated individuals than for highly educated ones.

The cost of a successful skill-first strategy targeting at-risk youth is another important issue. Some of the experimental evaluations of the long-standing Job Corps programme in the United States have shown positive cost-benefit status for very disadvantaged youth. But this is an expensive programme, costing over USD 20 000 per participant and the Australian authorities would need to pilot such a programme and evaluate it before deciding whether this would be a worthwhile investment.

The following measures could be envisaged:

- *Preserve the core of the traditional carrot-and-stick activation mechanisms and maintain its effectiveness.* The shift from work-for-the-dole to a skill-first strategy should not result in a lower effective degree of activation. There is no doubt that the idea of mutual obligations will remain at the core of the new youth employment policy. But the current eight-week non-payment period (for serious participation failures) will be replaced with a more gradual compliance system. The latter will probably be more difficult to implement and monitor. It will at least require a greater capacity and willingness on the part of Centerlink (which eventually decides on a benefit sanction) to promptly assess and handle problematic cases reported by Job Network providers.
- *Make sure that the skill-upgrading services offered are tailored to the current profiles of jobless youth.* It is vital to avoid the back-to-the-classroom option as the latter might prove very counterproductive with disengaged youth. Keep prioritising short training programmes taught outside traditional schools with regular exposure to work experience.
- *Set up rigorous evaluations of the new active labour market programmes (ALMPs) for youth.* The international evidence from the evaluation literature on training programmes for the youth is not encouraging: there is simply no mechanical relationship between inputs and outputs. And the few programmes known to deliver in terms of improved wage and employment prospects (mainly from the United States) are very expensive. Hence, it is crucial that Australia invests in the development of a state-of-the-art statistical apparatus to identify what works and what does not and why.

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