

Jobs for Youth

AUSTRALIA

Des emplois pour les jeunes



Jobs for Youth
(*Des emplois pour les jeunes*)

Australia



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FOREWORD

The OECD's Employment, Labour and Social Affairs Committee has decided to carry out a thematic review of policies to facilitate the transition from school to work and improve the career perspectives of youth. This review is a key part of the implementation of the Reassessed OECD Jobs Strategy.

Sixteen countries (Australia, Belgium, Canada, Denmark, France, Greece, Japan, Korea, the Netherlands, New Zealand, Norway, Poland, Slovak Republic, Spain, the United Kingdom and the United States) have decided to participate in this review, which began in 2006 and will be completed in 2009. Once all these countries have been reviewed, a synthesis report will be prepared highlighting the main issues and policy recommendations which will be discussed subsequently by OECD Employment and Labour Ministers.

In this thematic review, the term youth encompasses “teenagers” (*i.e.* youth aged 15/16-19), as well as “young adults” (aged 20-24 and 25-29).

This report on Australia was prepared by Vincent Vandenberghe, with statistical assistance provided by Sylvie Cimper and Thomas Manfredi. It is the 11th such country report prepared in the context of this thematic review supervised by Stefano Scarpetta (Head of Division) and Anne Sonnet (Project Leader). A draft of this report was presented at a seminar organised in Melbourne on 27 October 2008 by the Department of Education, Employment and Workplace Relations (DEEWR). Discussants at the seminar included representatives of the public authorities and the social partners, as well as academics.

Household, Income and Labour Dynamics in Australia survey (HILDA)

This report uses unit record data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA Project was initiated and is funded by the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and is managed by the Melbourne Institute of Applied Economic and Social Research (MIAESR). The findings and views exposed in this report, however, are those of the OECD and should not be attributed to either FaHCSIA or the MIAESR.

Longitudinal Survey of Australian Youth (LSAY)

This report uses unit record data from the Longitudinal Surveys of Australian Youth (LSAY). LSAY is managed and funded by the Australian Government Department of Education, Employment and Workplace Relations (DEEWR). On 1 July 2007, the National Centre for Vocational Education Research (NCVER) was contracted to provide analytical and reporting services for the Longitudinal Surveys of Australian Youth (LSAY) for the next three years. The findings and views presented in this report, however, are those of the OECD and should not be attributed to either DEEWR or the NCVER.

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LIST OF ACRONYMS

ABS	Australian Bureau of Statistics
ACE	Australian Certificate of Education
ACER	Australian Council for Educational Research
AIRC	Australian Industrial Relations Commission
ALL	Adult Literacy and Life Skills Survey
ALMP	Active Labour Market Programme
AQF	Australian Qualifications Framework
AUD	Australian dollar
AWA	Australian Workplace Agreement
BHPS	British Household Panel Survey
CDEP	Community Development Employment Projects
COAG	Council of Australian Governments
DEEWR	Department of Education, Employment and Workplace Relations
ECEC	Early Childhood Education and Care
EPF	Employment Pathway Fund
EPL	Employment Protection Legislation
EPP	Employment Pathway Plan

EULFS	European Union Labour Force Survey
FaHCSIA	Department of Family, Housing, Community Services and Indigenous Affairs
GDP	Gross Domestic Product
HILDA	Household, Income and Labour Dynamics in Australia survey
IA	Intensive Assistance
IEDS	Indigenous Economic Development Strategy
IEP	Indigenous Employment Programme
ISCED	International Standard Classification of Education
IYLP	Indigenous Youth Leadership Programme
IYMP	Indigenous Youth Mobility Programme
JN	Job Network
JPET	Job Placement, Employment and Training programme
JSCI	Job Seeker Classification Instrument
JSKA	Job Seeker Account
JST	Job Search Training
LFS	Labour Force Survey
LSAY	Longitudinal Survey of Australian Youth
NLSY	National Longitudinal Survey of Youth
MIAESR	Melbourne Institute of Applied Economic and Social Research
MW	Minimum Wage
NCVER	National Centre for Vocational Education Research

NEET	Neither in Education nor in Employment or Training
NLSY	National Longitudinal Survey of Youth
NSA	Newstart Allowance
OECECC	Office of Early Childhood Education and Child Care
OLS	Ordinary least squares
PES	Public Employment Service
PISA	Programme for International Student Assessment
PSP	Personal Support Programme
SCRGSP	Steering Committee for the Review of Government Service Provision
SPP	Specific Purpose Payment agreement
STW	School-to-Work transition
TAFE	Technical and Further Education institutions
UES	Universal Employment Services
VET	Vocational Education and Training
YA	Youth Allowance
YOP	Youth Unemployment Programme
WELL	Workplace English Language and Literacy
WfD	Work for the Dole

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

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

-
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.
 2. Lasting more than one year.

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.

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.

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.

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 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

-
5. Casual employment means the absence of entitlement to both paid annual leave and paid sick leave.
 6. The OECD’s Programme for International Student Assessment.

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 (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 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

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

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.

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)

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.

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

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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.

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.

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 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

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.

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.

RÉSUMÉ ET PRINCIPALES RECOMMANDATIONS

Dans l'avenir immédiat, l'accroissement du chômage des jeunes constituera l'un des sujets de préoccupation majeure des décideurs australiens. Le monde est actuellement confronté à une crise économique grave qui affecte l'Australie et dégrade les perspectives d'emploi d'un grand nombre de ses citoyens. Toutefois, l'expérience du passé suggère qu'en Australie, comme dans les autres pays de l'OCDE, toute détérioration des conditions d'emploi affecte les jeunes de façon disproportionnée.

A travers la zone OCDE, un écart d'un point de pourcentage par rapport au taux de croissance potentiel du PIB se traduit généralement par une augmentation de 0.65 point de pourcentage du taux de chômage des adultes (25-54 ans). Mais le taux de chômage des jeunes (15-24 ans) – normalement égal à plus du double de celui des adultes – augmente de près de 1.4 point de pourcentage. Dans le cas de l'Australie, on observe une sensibilité plus forte des taux de chômage aux chocs de PIB. Un écart d'un point de pourcentage par rapport au PIB potentiel se traduit en général par une augmentation presque équivalente du taux de chômage des adultes, tandis que le taux de chômage des jeunes s'accroît le plus souvent de 2 points de pourcentage.

Il est cependant rassurant de constater que le marché du travail australien aborde la crise actuelle à partir d'une situation favorable. Jusqu'à très récemment – du fait, en partie, d'une croissance économique ininterrompue pendant 17 ans – le taux de chômage global était proche de son point bas historique. Le taux de chômage des jeunes se situait à 8.7 % en septembre 2008, son plus bas niveau depuis la fin des années 70. Les problèmes d'emploi des jeunes étaient alors principalement concentrés parmi ceux ayant un faible niveau d'instruction et démotivés, ou parmi les jeunes aborigènes¹⁵.

15. On entend par « personne aborigène » : *i*) un membre de la population aborigène d'Australie ; ou *ii*) un descendant de la population autochtone des îles du Déroit de Torres.

Dans les mois à venir, la priorité essentielle doit être d'éviter que ne se constitue un vaste « stock » de jeunes chômeurs de longue durée. L'Australie a l'avantage d'entrer en récession en ayant un très faible niveau de chômage de longue durée¹⁶ parmi ses jeunes. En 2007 en Australie, seuls 10 % des jeunes sans emploi étaient touchés par le chômage de longue durée, alors que la moyenne OCDE s'établissait à 19.6 %. Qui plus est, au cours des vingt dernières années, le pays est parvenu à mettre en œuvre avec succès des institutions du marché du travail et de protection sociale assurant l'activation des chômeurs. On peut dès lors espérer que la majorité des jeunes chômeurs retrouveront rapidement un emploi lorsque l'économie commencera à se redresser.

La récession actuelle offre également au pays la possibilité de relever un de ses défis persistant, à savoir améliorer le niveau de formation du capital humain, en particulier celui des jeunes les moins qualifiés. L'Australie se caractérise en effet par un taux de poursuite des études au-delà de 16 ans relativement faible par comparaison à beaucoup d'autres pays de l'OCDE. Trop nombreux sont les jeunes ne disposant pas des compétences nécessaires pour s'engager avec succès sur le marché du travail. Cela étant, le ralentissement actuel de l'activité économique aura probablement pour effet d'inciter plus de jeunes à poursuivre leurs études ou à entreprendre des études plus poussées plutôt que de rechercher un emploi. Dans les pays de l'OCDE, la propension à rester aux études augmente lorsque la conjoncture se dégrade. Les pouvoirs publics devraient tenter de tirer parti de cette tendance.

L'éducation constitue aussi une des priorités du gouvernement fédéral australien ainsi que ceux des États et Territoires. On recense parmi leurs objectifs actuels : *i*) élever le niveau d'instruction moyen, en augmentant la proportion d'élèves poursuivant leurs études au-delà de l'âge de 16 ans ; et *ii*) assurer une meilleure adéquation entre l'offre et la demande de compétences. De nombreux programmes de qualité ont été mis en place récemment en Australie afin d'améliorer le niveau d'instruction des élèves, de développer la formation professionnelle au sein du système scolaire et d'améliorer la transition de l'école à l'emploi.

L'action des pouvoirs publics vise également les adultes¹⁷ avec le programme *Skilling Australia for the Future*. C'est ainsi qu'ont été financées 700 000 places de formation supplémentaires, dont 55 %

16. D'une durée de plus d'un an.
17. Y compris les jeunes adultes.

environ devraient être attribuées à des travailleurs occupant un emploi et le reste à des chômeurs. Enfin, en décembre 2008, le gouvernement travailliste s'est engagé à consacrer davantage de crédits aux infrastructures d'enseignement supérieur dans le cadre du programme *Nation Building Package*, dont l'objet est de contrer le ralentissement actuel de l'économie.

Les responsables politiques sont par ailleurs conscients de la nécessité de continuer à améliorer les institutions du marché du travail et de protection sociale actuelles afin de développer au maximum les possibilités d'emploi des jeunes ainsi que les incitations à participer au marché du travail. Une telle ligne de conduite pourrait se révéler particulièrement bénéfique lorsque l'économie commencera à se redresser, car elle devrait contribuer à accroître les sorties du chômage et le retour à l'emploi.

De faibles risques de chômage, des taux d'emploi élevés, sauf pour les jeunes aborigènes

Jusqu'à récemment, le risque de chômage était faible pour les jeunes en Australie, et ceci se reflétait également dans des taux d'emploi élevés. En mars 2008, plus de 65 % des jeunes australiens occupaient un emploi, soit le taux le plus élevé enregistré depuis 1978. Ce fort taux d'emploi parmi les jeunes s'explique par l'importance du travail à temps partiel parmi les étudiants. Il s'explique aussi, en partie, par une propension relativement faible à poursuivre des études au-delà de l'âge de 16 ans, et enfin par un marché du travail dynamique générateur de nombreux emplois.

En revanche, comme on l'a vu plus haut, les jeunes aborigènes ont beaucoup de mal à prendre pied sur le marché du travail. En 2006, leur taux de chômage était au moins deux fois et demie plus élevé que celui des autres jeunes australiens, un rapport resté pratiquement inchangé au cours des dix dernières années. La situation apparaît encore plus préoccupante lorsqu'on examine leur taux d'emploi : en 2006, 48 % seulement des jeunes aborigènes sortis du système scolaire exerçaient un emploi, tandis que ce taux s'élevait à près de 80 % pour le reste des jeunes. Et le taux d'emploi des jeunes aborigènes serait plus faible encore si l'on excluait les emplois aidés créés dans le cadre du programme *Community Development Employment Projects (CDEP)*¹⁸.

18. Le programme *Community Development Employment Projects (CDEP)* est une initiative du gouvernement australien actuellement mise en œuvre dans les régions

Beaucoup de jeunes accèdent très rapidement à l'emploi

Durant la période de croissance soutenue qu'a connu l'Australie récemment, la majorité des jeunes australiens connaissaient une transition de l'école à l'emploi très rapide. Nombre d'entre eux acquéraient une première expérience du marché du travail durant les études. En 2006, la part des étudiants âgés de 20 ans détenteurs d'un emploi avoisinait les 85 %, soit le pourcentage le plus élevé des pays de l'OCDE. Et, contrairement à certains pays européens (par exemple en Norvège ou au Danemark), le fait de combiner études et travail ne s'accompagne pas d'un allongement de la durée des études.

En 2006, les jeunes australiens ayant quitté l'école mettaient peu de temps à décrocher leur premier emploi. Les différents indicateurs présentés dans ce rapport donnent à penser que l'Australie obtient, sur ce plan, de meilleurs résultats que beaucoup d'autres pays de l'OCDE. On soulignera en particulier que l'écart entre les jeunes ayant un niveau CITE 3 (diplôme du secondaire supérieur) et ceux ne l'ayant pas, était, en 2006, plus faible que dans la plupart des autres pays examinés.

Les premiers emplois des jeunes sont souvent des emplois « occasionnels » ou à temps partiel, mais servent de tremplin vers des emplois plus stables

En Australie, les contrats à temps partiel et « occasionnels »¹⁹ occupent une place importante dans l'emploi des jeunes, même au terme d'une longue période de croissance. Mais, dans la plupart des cas, ces premiers emplois constituent un tremplin vers l'emploi stable. De fait, il existe une corrélation positive forte entre le fait d'occuper un emploi à temps partiel ou d'être titulaire de contrats occasionnels/à durée déterminée (par rapport au fait d'être chômeur ou inactif) et la probabilité d'occuper ultérieurement un emploi à temps complet/permanent.

et les zones isolées, qui offre à la population aborigène un tremplin vers l'emploi normal en lui assurant une formation et une expérience professionnelle.

19. On entend par emploi occasionnel (*casual*) un emploi qui n'ouvre pas droit à des congés annuels et de maladie rémunérés.

Les performances éducatives pourraient être améliorées

Faible participation à l'enseignement préscolaire pour les enfants âgés de 3 à 5 ans

Le taux de participation à l'enseignement préscolaire (avant l'âge de 5 ans) est relativement faible en Australie par rapport à celui de beaucoup d'autres pays de l'OCDE. En 2005, 60 % des enfants de 3 à 5 ans suivaient un enseignement préscolaire, pourcentage largement inférieur à la moyenne OCDE de 78 %. La faible participation concerne surtout les enfants de milieux défavorisés, en particulier les enfants de familles aborigènes. Or il s'agit d'un groupe pour lequel l'exposition précoce à l'éducation compte particulièrement. De fait, les recherches réalisées au plan international incitent à penser qu'une éducation préscolaire de qualité assure à ces enfants un meilleur départ dans la vie, diminue le risque de décrochage scolaire et leur offre de plus grandes chances de transition de l'école à l'emploi. Les initiatives visant à améliorer l'accès à l'éducation préscolaire de groupes défavorisés, en particulier les jeunes aborigènes, avant l'âge de 6 ans, pourraient se révéler d'un meilleur rapport coût-efficacité que nombre de programmes de formation ciblant les adolescents et les jeunes adultes.

De bons résultats à l'âge de 15 ans mais un taux de poursuite des études inférieur à la moyenne

Un aspect positif du système éducatif australien est le bon niveau de connaissances des élèves de 15 ans évalué par les épreuves PISA²⁰. À noter également que les taux d'accès au diplôme d'enseignement supérieur (au-delà de CITE 3) sont plus élevés que la moyenne OCDE. Toutefois, nombre de jeunes australiens ne parviennent pas à décrocher un diplôme intermédiaire (CITE 3), si bien que la distribution générale des niveaux d'études en Australie s'apparente à une courbe en U. La propension des jeunes australiens à prolonger leurs études au-delà de 16 ans est plus faible que dans beaucoup d'autres pays de l'OCDE. Quoiqu'en augmentation au cours des années 80 et 90, elle stagne depuis 2000, en raison peut-être des coûts d'opportunité élevés de l'éducation dans un contexte de marché du travail tendu.

20. Programme international pour le suivi des acquis des élèves, mis en place par l'OCDE.

L'écart de performance scolaire des élèves aborigènes

Les résultats scolaires des jeunes aborigènes sont extrêmement préoccupants. Ces élèves ont de 10 à 30 % moins de chances d'atteindre les mêmes niveaux que les autres élèves en lecture, écriture et en calcul. Il faut souligner que cet écart scolaire s'accroît avec l'âge. Il est plus faible à l'âge de 3 ans que plus tard.

Les réformes de l'éducation vont dans le bon sens

On trouve dans le budget 2008 du gouvernement fédéral australien une série d'initiatives de nature à améliorer les performances de l'Australie dans le domaine de l'enseignement préscolaire. D'ici 2013, tous les enfants âgés de 4 ans devraient avoir accès à ce type d'enseignement au cours de l'année qui précède la première année de scolarité proprement dite. En outre, cet enseignement devrait être dispensé par un personnel plus qualifié. Il est en effet prévu de récompenser financièrement les personnels (en fonction) qui entreprennent d'améliorer leurs compétences pédagogiques. Des crédits sont également inscrits au budget afin d'augmenter le nombre de places d'université accessibles aux étudiants qui se destinent à l'enseignement préscolaire.

Au cours des vingt dernières années, de gros efforts ont été accomplis pour étendre la scolarité au-delà de l'âge de 16 ans, notamment en diversifiant les filières d'apprentissage dans l'enseignement secondaire. Dans son budget 2008-09, le gouvernement fédéral australien a, dans cet esprit, prévu 2.5 milliards de dollars australiens pour financer la création de centres de formation professionnelle au sein des établissements secondaires. L'objectif est de faciliter l'accès à ce type de formation et d'accroître les taux de poursuite des études.

Les données d'enquête montrent que de plus en plus d'élèves sortant du secondaire (inférieur ou supérieur) possèdent un diplôme à orientation professionnelle. Ces mêmes données attestent de la rentabilité financière de ces diplômes. Toutes choses égales par ailleurs, ils procurent un avantage en termes de salaire hebdomadaire égal à 8 points de pourcentage par rapport aux diplômes de niveau équivalent mais de type général. Cela étant, il reste à voir si, à un niveau global, une politique d'expansion de l'accès à l'enseignement professionnel est de nature à influencer le taux de poursuite des études et à accroître la part totale des jeunes qui achèvent avec succès les études secondaires supérieures.

S'agissant des performances de l'ensemble du secteur scolaire (enseignements préscolaire, primaire et secondaire), il serait sans doute souhaitable d'améliorer la coordination entre les différentes autorités responsables. En Australie, l'enseignement de type scolaire relève, pour l'essentiel, de la compétence des États et des Territoires. En dépit de l'action coordinatrice et uniformisatrice menée par le *Council of Australian Governments* (COAG), il subsistait au milieu des années 2000 d'importantes différences concernant les structures de base de la scolarité (programmes d'enseignement, diplômes et titres de fin d'études, etc.). Cette hétérogénéité peut gêner les élèves mobiles en raison des complications et des coûts de transaction qu'elle implique (reconnaissance des diplômes par un autre État, etc.).

Sans doute pour tenter de remédier à ce problème, en 2007, les autorités fédérales en concertation avec les États et Territoires ont convenu d'introduire, à compter de 2011, des programmes d'enseignement à caractère national, allant du préscolaire à la fin du secondaire, en commençant par l'anglais, les mathématiques, les sciences et l'histoire. Cette mesure devrait faciliter la mobilité des enseignants et des élèves sur l'ensemble du territoire australien, et éviter qu'un manque de cohérence des programmes d'études ne complique la vie des 340 000 Australiens (dont 80 000 élèves d'âge scolaire) qui, chaque année, changent d'État.

Comme indiqué plus haut, les jeunes aborigènes forment un groupe qui reste largement moins éduqué. Même s'ils sont peu nombreux en rapport à la population totale (environ 3 %), ils constituent une réserve de main-d'œuvre qui, si elle était mieux instruite et plus mobilisée, contribuerait à atténuer les pénuries de qualifications et à améliorer les conditions de vie et de bien-être de l'ensemble des aborigènes.

À compter de 2009, le nouveau service de l'emploi *Universal Employment Service* (UES) soutiendra davantage les initiatives comportant une dimension capital humain dans les régions isolées où vivent de nombreux jeunes aborigènes. Les opérateurs pourront solliciter des financements destinées à aider les demandeurs d'emploi aborigènes à reprendre des études et à améliorer leurs compétences en lecture, écriture et calcul. Par ailleurs, le gouvernement australien est occupé à finaliser une nouvelle stratégie économique globale : l'*Indigenous Economic Development Strategy* (IEDS), qui sera mise en œuvre au 1^{er} juillet 2009. Cette stratégie vise à réduire l'écart de taux d'emploi important entre les populations aborigènes et les autres, écart qui compromet les chances de réussite scolaire des enfants.

Comme indiqué plus haut, il est encourageant que les études observent des déficits de résultats scolaires plus faibles chez les très jeunes enfants aborigènes que parmi leurs aînés. Ces observations corroborent les conclusions d'études menées ailleurs dans l'OCDE, à savoir que les écarts d'aptitudes cognitives et non cognitives entre groupes socioéconomiques – qui conditionnent fortement le devenir professionnel à l'âge adulte – se creusent dès les premières années de vie. Des politiques ciblées sur la petite enfance pourraient donc réduire le déficit de résultats scolaires parmi les populations aborigènes, ainsi que nombre d'écarts dont elles souffrent en matière d'insertion professionnelle. De tels efforts doivent cependant faire l'objet d'un suivi systématique au-delà des premières années, pour garantir la pérennité des gains.

Œuvrer davantage pour que l'ensemble des jeunes australiens quittent l'école munis d'un diplôme reconnu leur permettant de démarrer leur vie professionnelle

Pour faire en sorte que les jeunes possèdent les compétences fondamentales nécessaires pour s'engager avec succès sur le marché du travail, les mesures suivantes pourraient être envisagées :

- *Mettre à profit la propension des jeunes à rester plus longtemps aux études pendant les périodes de ralentissement économique afin d'élever le niveau de formation.* L'accent devrait être placé sur la poursuite des études jusqu'à l'obtention d'un diplôme de niveau CITE 3 plutôt que jusqu'à un âge donné. Ceci impliquerait d'accroître la diversification des filières au sein du secondaire (développement de la formation professionnelle ainsi que de la formation en alternance) mais aussi d'investir davantage dans les établissements d'enseignement supérieur organisant des formations courtes et flexibles. Parallèlement, il conviendrait de subordonner le versement de la *Youth Allowance*²¹ à l'obtention du niveau CITE 3 (ou à la mise en œuvre d'un projet pour y parvenir). Cette réforme pourrait s'inspirer de la réforme *Leerwerkplicht*

21. En Australie, les jeunes âgés de 15 à 20 ans peuvent prétendre au bénéfice de la *Youth Allowance* (YA), allocation qui est soumise à condition de ressources familiales. Comme tout demandeur d'emploi faisant valoir des droits à prestations, un jeune demandeur d'emploi souhaitant bénéficier de cette allocation doit satisfaire à des conditions bien précises pour la percevoir.

mise en œuvre aux Pays-Bas en vertu de laquelle tous les jeunes âgés de 18 à 27 ans qui n'ont pas achevé leurs études secondaires sont tenus de reprendre des études (ou de travailler). Faute de remplir cette condition, ils peuvent être mis à l'amende ou perdre tout ou partie de leurs droits aux prestations sociales²².

- *Envisager la création d'un système national de certification au niveau de l'enseignement secondaire supérieur en complément des programmes d'enseignement nationaux.* Un tel instrument permettrait sans doute de standardiser de façon plus efficace les contenus et les résultats du secondaire que les seuls programmes nationaux. Cette mesure pourrait faire partie des missions dévolues à la nouvelle National Education Authority, instituée de commun accord par les autorités fédérales et celles des États et des Territoires en octobre 2008. Ce nouvel organisme, en charge de la gestion des programmes nationaux ainsi que d'activités d'évaluation à l'échelon national, sera opérationnel début 2009.
- *Mettre plus encore l'accent sur la fréquentation de l'enseignement préscolaire (avant l'âge de 5 ans) des groupes défavorisés et leur suivi au niveau de l'enseignement primaire.* Le gouvernement australien, en lien étroit avec ceux des États et les Territoires, devrait rapidement mettre en œuvre le programme généralisant l'accès à l'enseignement préscolaire des enfants âgés de 4 ans. Mais les responsables politiques devraient aussi considérer comme prioritaire l'extension de cette mesure aux enfants de 3 ans si *i)* l'évaluation de la mesure concernant les enfants de 4 ans est positive, et si *ii)* l'état des finances publiques le permet.
- *Faire en sorte que les enfants aborigènes de moins de 5 ans fréquentent davantage les services de santé et l'enseignement préscolaire.* Assurer une offre et un financement adéquats de ces services est une condition nécessaire mais non suffisante pour atteindre les objectifs ambitieux énoncés dans le programme *Education Revolution*²³. Les décideurs devraient aussi s'efforcer

22. OCDE (2008), *Des emplois pour les jeunes : Pays-Bas*, OCDE, Paris.

23. Les autorités fédérales et celles des États et des Territoires se sont accordées sur un ensemble d'objectifs éducatifs très ambitieux énoncés dans ce programme, en

de stimuler la demande. Pour ce faire, ils pourraient mettre en place des aides financières en faveur des familles aborigènes dont le versement est conditionnel à la fréquentation de l'enseignement préscolaire et des centres de santé. Une référence intéressante en la matière est celle des *Conditional Cash Transfers Programmes* mis en œuvre avec un certain succès dans plusieurs pays d'Amérique latine et autres pays émergents. Ces programmes prévoient le versement d'une aide financière aux familles pauvres à condition qu'elles adoptent certains comportements, à savoir, le plus souvent, qu'elles investissent dans le capital humain en envoyant les enfants à l'école ou en les présentant régulièrement aux consultations des centres de santé. Il semblerait en outre souhaitable de verser l'essentiel ou la totalité de ces montants aux mères.

Peu de barrières à l'emploi des jeunes sur le front de la demande

Si les politiques d'éducation et de formation constituent un élément important de toute stratégie efficace d'amélioration des perspectives des jeunes sur le marché du travail, un cadre d'action exhaustif doit tenir compte des mécanismes et des institutions propres au marché du travail, et de leur impact sur la demande de travail, plus particulièrement celle des jeunes moins qualifiés.

Les institutions actuelles du marché du travail en Australie sont, a priori, de nature à garantir de bonnes perspectives d'emploi pour les jeunes. La relative souplesse de la législation sur la protection de l'emploi (LPE), couplée à la possibilité d'employer les jeunes sur la base de contrats à temps partiel ou occasionnels, encourage les employeurs qui répugnent à prendre le risque de recruter des individus inexpérimentés et faiblement qualifiés.

Le niveau peu élevé des salaires d'embauche joue également en faveur de l'emploi des jeunes. Selon les données de l'OCDE couvrant le début des années 2000, en Australie, la rémunération des jeunes travailleurs (16-24 ans) n'ayant pas atteint un niveau CITE 3 est légèrement inférieure à 40 % du salaire moyen²⁴, ce qui est proche de la moyenne de l'OCDE. Les jeunes âgés de 16 à 19 ans n'ayant pas atteint

particulier en ce qui concerne la réduction de l'écart de résultats entre les jeunes aborigènes et les autres jeunes australiens.

24. Calculé sur la base des salaires de tous les travailleurs âgés de 25 à 64 ans.

un niveau CITE 3 perçoivent un salaire inférieur à 30 % de la moyenne globale, ce qui est moins que dans la plupart des pays européens. L'analyse des trajectoires salariales des jeunes travailleurs est également rassurante : les données confirment l'existence d'une dynamique à la hausse des rémunérations. Près de 50 % des jeunes travailleurs rémunérés en deçà d'un seuil de salaire bas²⁵ en 2001 avaient dépassé ce seuil cinq ans après. Et la grande majorité (72 %) des jeunes travailleurs qui bénéficiaient dès le début de leur carrière d'un salaire supérieur à ce seuil conservaient cet avantage au terme de cinq années.

Depuis le début des années 90, la décentralisation progressive des mécanismes de fixation des salaires, avec l'introduction des contrats individuels (*Australian Workplace Agreements* ou AWA), pourrait avoir renforcé la compétitivité des jeunes faiblement qualifiés sur le marché du travail.

Le gouvernement travailliste a commencé à supprimer certaines dispositions de la législation du travail *WorkChoices* adoptée par le précédent gouvernement. Le nouveau texte inclut des mesures de protection sociale étendues (rétablissement des règles encadrant les licenciements dans les entreprises de moins de 100 salariés, minima plus nombreux en termes de conditions d'emploi et de rémunération) et prévoit la suppression progressive des AWA. Les réformes visant à protéger les travailleurs les plus vulnérables, jeunes compris, parfois défavorisés sous *WorkChoices*, sont les bienvenues. Néanmoins, il convient de ne pas décourager les négociations au niveau de l'entreprise et d'éviter un niveau de salaire trop élevé dont l'effet serait de barrer l'accès des jeunes peu qualifiés à l'emploi. Le processus de rationalisation et de modernisation des « awards »²⁶ lancé sous *WorkChoices* devrait également se poursuivre.

Il existe également des barrières à l'emploi et à l'égalité de salaire pour certaines catégories de travailleurs. S'agissant des immigrants²⁷ en général, l'analyse tend à démontrer l'absence d'écart de rémunération systématique par rapport aux Australiens de souche. Les écarts bruts s'expliquent en grande partie par des différences de niveau d'instruction,

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25. Défini comme le deuxième décile de l'ensemble de la distribution des salaires.
 26. Sortes de conventions collectives sectorielles régissant les conditions d'emploi et de rémunération.
 27. C'est-à-dire les immigrants issus d'un pays non anglophone.

d'expérience professionnelle et d'intensité de l'offre de travail. La situation est néanmoins différente pour les jeunes femmes. Même si l'on tient compte de leur forte propension à travailler à temps partiel, on observe un écart de rémunération inexplicable d'environ 14 points de pourcentage par rapport aux hommes. On ne peut toutefois pas directement conclure qu'il existe une discrimination à l'égard des femmes sur le marché du travail australien, car l'écart de salaire pourrait, au moins en partie, être attribué à des différences entre hommes et femmes quant *i*) au domaine d'étude retenu à niveau de diplôme donné et *ii*) aux secteurs ou aux postes associés à chaque domaine d'étude (il y a par exemple moins de femmes ingénieurs, avocates ou diplômées d'école de commerce, mais plus de femmes enseignantes).

Dans ce contexte, l'OCDE formule les recommandations suivantes :

- *Étudier l'effet de la réforme du système WorkChoices de relations du travail sur l'emploi des jeunes.* La mise en œuvre de la nouvelle politique en matière de relations du travail sera achevée début 2010. Il s'agit là d'une occasion de vérifier si une politique conçue dans le but d'améliorer les conditions de travail et de salaire au bas de la distribution des travailleurs se traduit par *i*) des salaires d'embauche sensiblement plus élevés pour les jeunes peu qualifiés et/ou *ii*) une contraction de la demande pour ces travailleurs. Les responsables politiques devraient être prêts à modifier ces nouvelles règles s'il apparaissait qu'elles ont des conséquences négatives importantes.
- *Analyser les raisons i) de la faible propension des femmes à travailler à temps plein et ii) de l'écart de rémunération important entre hommes et femmes.* S'agissant de la faible propension des femmes à occuper des emplois à temps complet, il conviendrait d'analyser le rôle du taux d'imposition effectif marginal des couples, ainsi que celui de l'offre (relativement faible) et du coût (relativement élevé) des services de garde d'enfants ou de l'enseignement préscolaire. Il est également important d'essayer de mieux comprendre les ressorts d'une discrimination selon le genre dans l'enseignement supérieur. En théorie, cette discrimination entre hommes et femmes peut provenir de différences en termes de : *i*) taux d'accès au diplôme d'enseignement supérieur (discrimination verticale) et de *ii*) choix du domaine d'étude au sein du supérieur : études

artistiques, en sciences humaines ou pédagogiques par rapport aux études d'ingénieur par exemple (discrimination horizontale). La présence, aujourd'hui forte, des femmes dans l'enseignement supérieur en Australie, comme dans la plupart des pays de l'OCDE, laisse penser que la discrimination verticale disparaît. En revanche, il semble plus hasardeux d'en dire autant de la discrimination horizontale.

Les problématiques de mise en œuvre d'une stratégie d'activation fondée sur les compétences

En Australie, les responsables politiques sont conscients de longue date de l'importance des « obligations réciproques » (appelées *activity tests* en Australie) pour les politiques de l'emploi, principe en vertu duquel, en contrepartie d'une aide financière, tout demandeur d'emploi (y compris un jeune) doit participer à des programmes de formation, de recherche d'emploi ou de placement.

L'Australie a été l'un des premiers pays de l'OCDE à appliquer envers les chômeurs une politique soutenue d'aide et d'incitation au retour à l'emploi. La stratégie adoptée par les autorités australiennes pour lutter contre le chômage est également fondée sur un système novateur de paiement des allocations de chômage et de délivrance des services aux chômeurs. Depuis 1998, si *Centerlink* (organisme public centralisé) monopolise le paiement des allocations, la prestation des services aux chômeurs (orientation, placement, formation) est assurée par les membres du *Job Network*. Ce réseau de prestataires est régi par la concurrence et comprend des organismes privés à but lucratif ou à but non lucratif, qui se disputent les contrats par le biais d'appels d'offres. Le système accorde une place importante aux performances et résultats, comme en atteste l'utilisation du système *Star Ratings* pour évaluer les performances des différents prestataires et décider de la redistribution de l'activité pendant et entre les contrats²⁸. Cette transformation radicale des services de l'emploi en Australie à la fin des années 90 était sans précédent à l'échelle de l'OCDE, si l'on excepte le cas des Pays-Bas.

28. Le système *Star Ratings* repose sur un instrument statistique élaboré qui permet une analyse comparative très précise des résultats obtenus par les différents prestataires (à savoir taux de placements, rapidité de la reprise d'activité, etc.), tout en tenant compte des spécificités de chaque marché du travail et des autres facteurs influant les performances du prestataire.

Les statistiques disponibles pour le début des années 2000 révèlent qu'après avoir quitté l'école un nombre relativement élevé de jeunes australiens bénéficient soit de la *Youth Allowance* (YA, pour les jeunes âgés de 16 à 20 ans) soit de la *Newstart Allowance* (NSA, pour les plus de 21 ans). Le nombre de bénéficiaires, en pourcentage d'un groupe d'âge, reste supérieur au seuil de 10 % jusqu'à l'âge de 21 ans, puis diminue fortement pour se stabiliser entre 2 et 3 % environ. De manière générale, on peut donc conclure que la politique d'activation de l'Australie est efficace pour la majorité des jeunes demandeurs d'emploi.

Néanmoins, certaines observations montrent un phénomène de dépendance pour les bénéficiaires des YA et NSA. Les données longitudinales révèlent que les jeunes qui perçoivent la YA ou la NSA pendant un an ont une probabilité dix fois plus élevée de continuer à toucher ces allocations au cours des cinq années suivantes, par rapport à ceux qui n'ont jamais bénéficié de ces aides. Bien que l'écart entre ces deux groupes reflète probablement un effet de sélection, son ampleur est préoccupante. Il faut également noter que les jeunes femmes perçoivent ces allocations pendant une durée plus courte que leurs homologues masculins, ce qui est probablement lié à un effet de substitution au profit d'autres allocations ; les jeunes mères peuvent en effet prétendre aux allocations familiales et parentales. Par ailleurs, les jeunes femmes peuvent perdre leurs droits aux YA et NSA lorsqu'elles s'installent en concubinage ou se marient.

En 2007, le marché du travail australien était marqué par une forte pénurie de qualifications et un nombre total d'emplois vacants jamais observé auparavant. Néanmoins, le stock de jeunes chômeurs est alors constitué d'individus peu susceptibles d'occuper ces emplois. Il comprend beaucoup d'individus en situation d'échec scolaire, souffrant de troubles psychiques mineurs ou marqués par la dépendance à l'alcool et autres substances. La récession actuelle pourrait contribuer à rendre ce « mismatch » moins visible. Ceci étant, compte tenu du vieillissement de sa population, l'Australie sera tôt ou tard à nouveau confrontée à une pénurie de main-d'œuvre qualifiée pour soutenir sa croissance économique. Dans ces conditions, la décision du gouvernement travailliste de réformer les politiques de l'emploi dans le sens d'un effort accru de formation des chômeurs est la bienvenue. Idéalement, le gouvernement devrait aussi encourager le renforcement des collaborations entre les différents organismes susceptibles d'aider les jeunes chômeurs connaissant de grandes difficultés d'insertion.

Le principe d'obligations réciproques est préservé au cœur du nouvel *Universal Employment Service* (UES), qui entrera en vigueur le

1^{er} juillet 2009. Toutefois, la période de huit semaines pendant laquelle les allocations de chômage sont suspendues en cas de manquement aux obligations sera, la plupart du temps, remplacée par une sanction financière plus progressive. L'expérience tend à montrer que le régime de sanctions actuel est contre-productif : au cours de cette période de carence de huit semaines, les demandeurs d'emploi cessent de fait d'être en contact avec leur agence pour l'emploi. Plus fondamentalement, l'UES vise à élever et à adapter les compétences des demandeurs d'emploi afin qu'ils puissent répondre plus facilement à la demande de travail, notamment dans les secteurs régulièrement confrontés à des pénuries de main-d'œuvre. L'adoption de l'UES signifie que, d'ici peu, les opérateurs du *Job Network* seront (financièrement) incités à former leurs jeunes clients avant de les placer en emploi. Pour les jeunes inaptes à intégrer directement le monde professionnel, l'accent sera mis sur les programmes de préparation à l'emploi ayant un contenu axé sur l'enseignement.

Les autorités australiennes ne doivent cependant pas sous-estimer les difficultés de mise en œuvre d'une politique privilégiant la formation des jeunes chômeurs, en particulier dans le contexte actuel de chômage en augmentation. Les évaluations des programmes de formation pour jeunes chômeurs aux États-Unis et en Europe produisent des résultats peu encourageants. Ces programmes ciblent logiquement les individus les moins instruits. Or l'éducation initiale agit largement comme « complément » de ces programmes de formation. Les bénéfices qu'ils génèrent sont plus limités pour les individus les moins scolarisés que pour ceux qui bénéficient d'un niveau d'instruction initial plus élevé.

Autre question essentielle à prendre en compte : *le coût* de mise en œuvre d'une politique de l'emploi privilégiant la formation des jeunes à risque. Certes, plusieurs évaluations du programme *Job Corps* existant de longue date aux États-Unis concluent à un rapport coût-bénéfice positif pour les jeunes très défavorisés. Mais il s'agit là d'un programme très coûteux (plus de 20 000 USD par participant). Avant d'adopter un tel programme, les autorités australiennes devraient procéder à une expérimentation ainsi qu'à des évaluations afin de déterminer s'il s'agit d'un investissement raisonnable.

Les autorités australiennes devraient envisager les mesures suivantes :

- *Préserver l'essence des mécanismes d'activation traditionnels fondés sur la « carotte et le bâton » et veiller à leur efficacité.*
L'abandon d'une politique donnant la priorité au retour rapide à l'emploi au profit d'une stratégie privilégiant l'élévation du

niveau de qualification des chômeurs ne doit pas se traduire par un moindre degré d'activation. S'il ne fait aucun doute que le principe d'obligations réciproques restera l'un des piliers de la nouvelle politique, la période de carence de huit semaines appliquée actuellement en cas de manquements aux obligations sera remplacée par un système plus progressif. Or ce dernier sera probablement plus difficile à mettre en œuvre et à contrôler. Il nécessitera en tout état de cause une plus grande capacité et volonté de la part de Centerlink (seul détenteur du pouvoir d'imposer des sanctions aux chômeurs) afin d'évaluer et de gérer rapidement les cas problématiques rapportés par les opérateurs du Job Network.

- *Veiller à ce que les services assurant la formation soient adaptés au profil des jeunes demandeurs d'emploi.* Il est crucial d'éviter un « retour à l'école », qui pourrait s'avérer particulièrement contre-productif auprès des jeunes démotivés ou en décrochage. Il convient de continuer à donner la priorité aux programmes courts, dispensés en dehors des établissements scolaires traditionnels, et garantissant un contact régulier avec le monde du travail.
- *Instaurer des procédures rigoureuses d'évaluation des nouveaux programmes de politique active du marché du travail destinés aux jeunes.* La littérature internationale évaluant des effets des programmes de formation pour jeunes chômeurs conclut à leur faible efficacité. Il n'existerait, de fait, aucune relation automatique entre ressources et résultats. Et les rares programmes affichant des résultats probants en termes d'amélioration de l'emploi et/ou du salaire, principalement mis en œuvre aux États-Unis, sont très coûteux. Il est donc crucial que l'Australie se dote d'un dispositif statistique d'évaluation de tout premier rang, afin d'être en mesure d'identifier les pratiques et programmes efficaces, ainsi que les facteurs d'échec et de succès.

INTRODUCTION

Improving the performance of youth in the labour market is a crucial challenge in OECD countries. Declines in the number of new entrants to the labour market and ageing populations and workforces in many countries do not seem to have translated into much better labour market outcomes for youth (OECD, 2008a). While Australia’s labour market has been strong over the last decade, the future outlook – like for most other OECD countries – is uncertain. It remains thus key to maintain or reinforce policies aimed at avoiding long-term unemployment and better equipping young people with the skills required by the labour market and helping them accomplish a successful transition from school to work.²⁹

The Australian Government is particularly concerned about how well prepared young people are for the labour market. It is also aware of the need to develop career and transitions strategies for students and jobseekers, and labour market and welfare institutions that are likely to maximise youth opportunities. While Australian youth face a low risk of unemployment, barriers to youth employment remain.

On the (labour) supply side, some young people, among whom indigenous³⁰ youth are over-represented, still lack the basic skills they need to succeed in a career. More generally, the proportion of young Australians entering the labour market with at least an upper secondary qualification is still lower than in most comparable OECD countries. This could partially explain the intensity of the skill shortages the country was facing until recently. Other barriers exist too. Indigenous youth, no matter their educational attainment, tend to participate much less in the labour market

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29. It should be noted that this report is not dealing with the intergenerational impact of young people’s engagement with the labour market. *Babies and Bosses* (OECD, 2007c) is covering some of those aspects of labour market participation.
 30. “Indigenous person” means: *i*) a member of the Aboriginal race of Australia; or *ii*) a descendant of the indigenous inhabitants of the Torres Strait Islands.

than other youths. In terms of geographical barriers, there is also a widespread view that there is a lack of economic opportunities (in particular in relation to jobs) in many remote areas, meaning that any credible employment strategy implies almost inevitably geographical mobility and relocation. This view is being challenged however by the more recent recognition of the employment opportunities available to indigenous people in remote areas in the mainstream economy (*e.g.* mining) and in industries aligned with indigenous cultures (*e.g.* tourism and the arts).

The purpose of this report is to examine barriers to youth employment and discuss how education, training, labour market and social policies may help improve the school-to-work transition. Chapter 1 presents basic facts on the situation of youth in the Australian labour market. The role of education and training in shaping the transition from school to work³¹ is analysed in Chapter 2. Demand-side barriers to youth employment are explored in Chapter 3. Finally, Chapter 4 analyses the role of welfare benefits and public employment services (PES) in helping non-employed youth to get a job.

31. The term “school to work” (STW) is a generic term frequently used in OECD reports. This volume on Australia is no exception. It designates the moment of life when youth complete initial education (which in Australia could be “school”, “university” or “VET”) and enter the labour market.

CHAPTER 1

THE CHALLENGE AHEAD

Until very recently, the Australian economy was still reaping the benefits of one of the longest spells (17 years) of uninterrupted growth of its history. During the most recent years, the growth rate of GDP exceeded 3%. Such a good macro-economic performance, partially driven by the strong expansion of the mining and construction sectors, has translated into many job opportunities for youth.

These trends have contributed to an improvement in the youth labour market performances, which were already good by international standards. There remain many concerns however. One of them is the situation of youth who live in remote areas, where many categories of jobs are in very short supply or simply non-existent. Indigenous and homeless youths are groups that are hard to get into employment despite evidence of skill/labour shortages in many sectors.

The purpose of this chapter is to examine how youth labour market performances reacted in this context of sustained economic growth and how it compared with other OECD countries.³² The chapter draws a picture of youth demographics and the position of Australian youth in the labour market (Section 1). It then examines the school-to-work transition (Section 2).

1. Demographics and major labour market outcomes

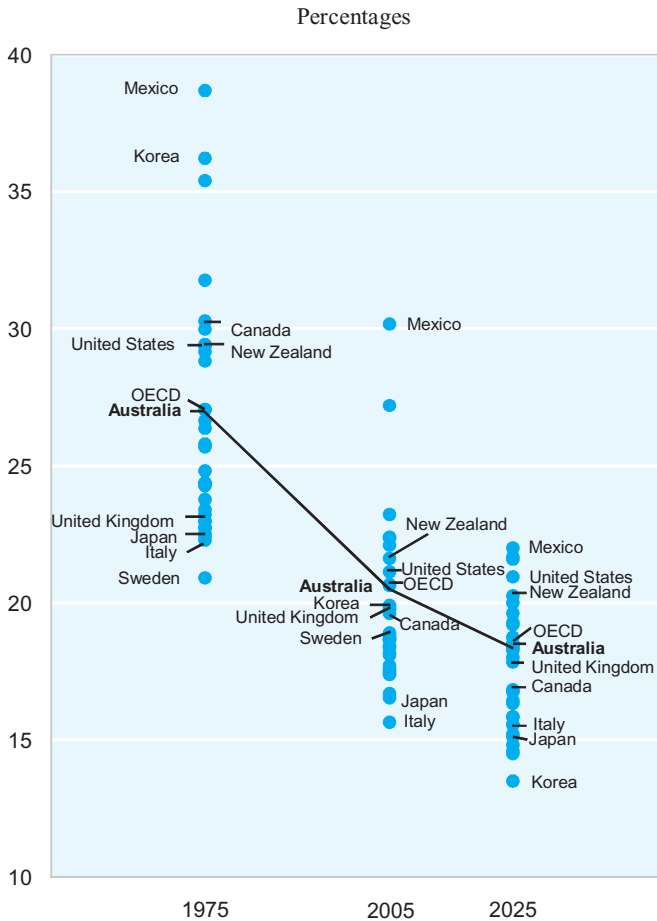
A. The share of young people (15-24) in the working-age population has declined since the 1970s

Figure 1.1 shows that the share of young people in the working-age population has declined in almost all OECD countries since the mid-1970s. The OECD average was above 25% in the second half of the 1970s and just

32. The comparator countries used in this chapter vary across indicators. Sometimes they are the whole (or most) of the OECD while in other cases they are the EU countries or a select group of countries. This reflects limitations in data availability and/or comparability.

above 20% in 2005. There is, of course, some cross-country variation: the downward trend has been more pronounced in Korea than in New Zealand, for instance. But it is visible across most countries. Projections show Australia in a position that is very similar to the OECD average.

Figure 1.1. **Decreasing share of youth in the working-age population in OECD countries, 1975-2025^a**



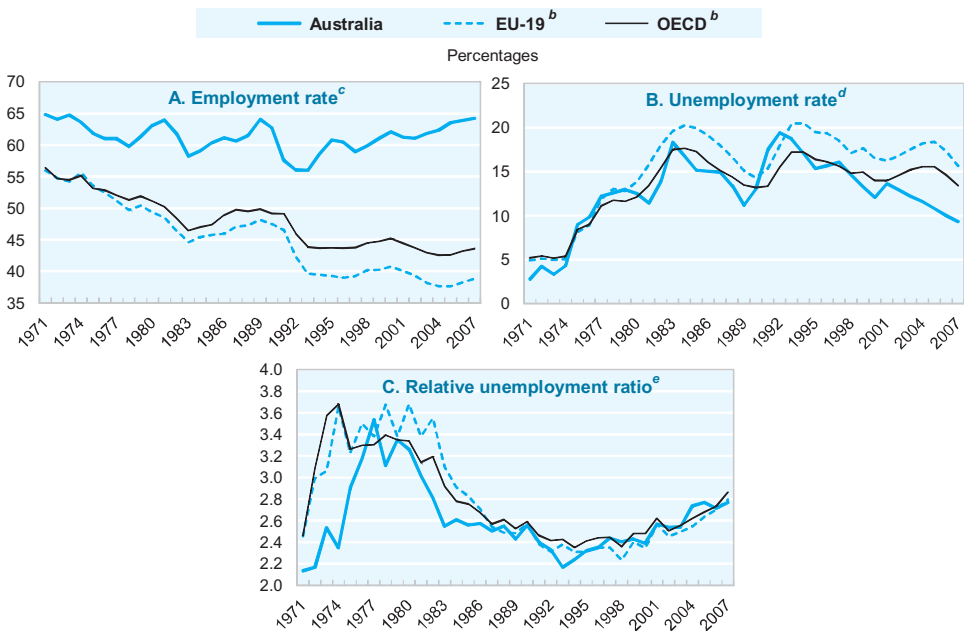
a) Ratio of the population aged 15 to 24 to the population aged 15 to 64.

Source: National projections: 2007 for Australia, Austria, Canada, the Czech Republic, Denmark, Finland, France, Greece, Iceland, Japan, Korea, the Netherlands, New Zealand, Norway, Portugal, the Slovak Republic, Sweden, Switzerland and the United States; 2006 for Belgium, Hungary, Italy, Turkey, and the United Kingdom; 2005 for Mexico. Eurostat projections: 2007 for Ireland, Poland and Spain; 2006 for Germany and Luxembourg.

B. Low levels of youth unemployment

Judged in terms of unemployment, the Australian youth labour market has improved significantly over the past decades. The youth (15-24) unemployment rate dropped to 9.4% in 2007, more than 4 percentage points below the OECD average (Figure 1.2, Panel B), and the lowest level recorded since the late 1980s. These positive results should be at least partially attributed to 17 years of uninterrupted economic growth in Australia.

Figure 1.2. Youth^a unemployment and employment indicators, Australia, Europe and OECD, 1971-2007



- a) Youth aged 16-24 for Iceland, Norway (until 2006), Spain, Sweden, the United Kingdom and the United States; youth aged 15-24 for Australia and all other countries in the OECD average.
- b) Unweighted averages.
- c) Employed as a percentage of the population in the age group.
- d) Unemployed as a percentage of the labour force in the age group.
- e) Unemployment rate of youth (15/16-24) divided by unemployment rate of adults (25-54).

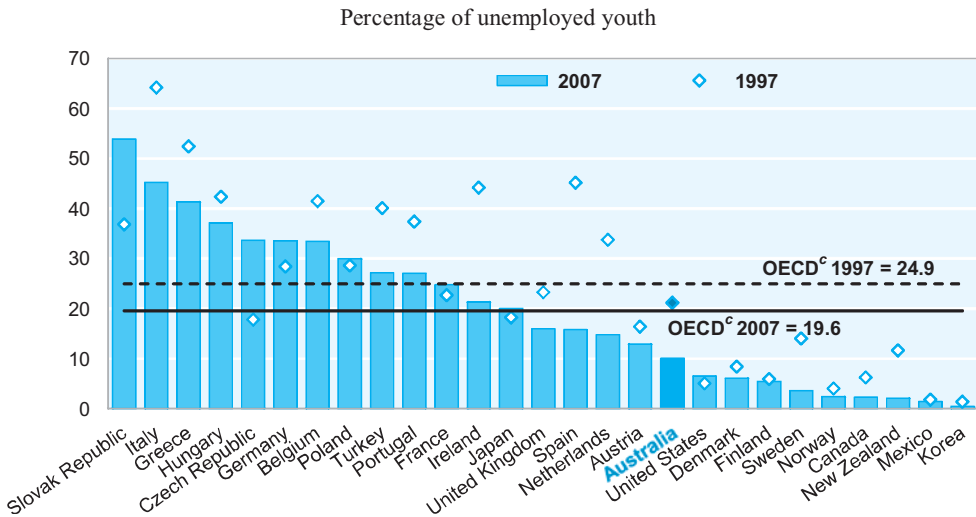
Source: National labour force surveys.

Still, in 2007 the youth unemployment rate was about 2.8 times higher than that of adults. Such a ratio was below the peak recorded in the mid-1970s, but higher than the low point observed in the mid-1990s (Figure 1.2, Panel C). And like elsewhere in the OECD low-skilled youth

(less than ISCED 3) aged 15-29 had an unemployment rate that was more than twice that of high-skilled youth (more than ISCED 3) (Figure 1.2, Panel C).

On the positive side, it is important to stress that the incidence of long-term unemployment³³ – the most problematic form of unemployment – was low in 2007 amongst youth in Australia (Figure 1.3): 10% of total youth unemployment in 2007 *versus* an OECD average of 19.6%. Finally youth employment rates were high, at 64.2%, 20 percentage points above the OECD average, and it is noteworthy that they have risen since the late 1990s (Figure 1.2).

Figure 1.3. **Incidence of long-term^a unemployment among youth,^b OECD countries, 1997 and 2007**



Countries are ranked from left to right in descending order of the incidence of long-term youth unemployment in 2007.

- a) 12 months and over.
- b) Youth aged 16-24 for Norway (for 1997 only), Spain, Sweden, the United Kingdom and the United States; youth aged 15-24 for Japan and all other countries.
- c) Data for Iceland and Luxembourg are not statistically reliable; for Switzerland, they are not available. Unweighted average of countries shown.

Source: National labour force surveys.

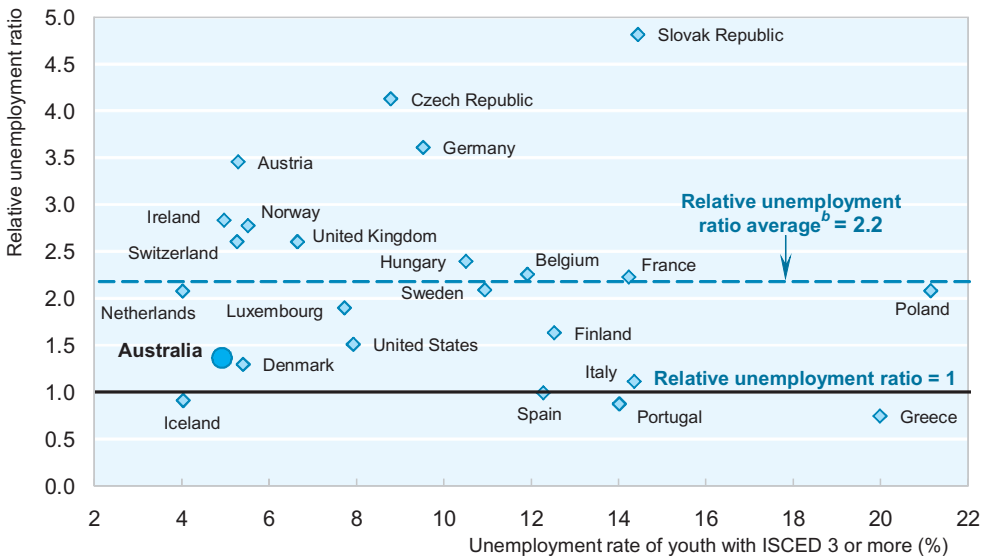
33. Unemployment spells lasting more than one year.

C. *The distribution of the risk of unemployment among young adults*

With and without ISCED 3

A focus on young adults aged 20-29 with a low level of education (*i.e.* those without at least ISCED 3) reveals a very reassuring pattern (Figure 1.4). Although, their level of the unemployment rate at 6.7% is higher than the 4.9% characterising young adults with ISCED 3 or more, their relative risk of being unemployed is among the lowest across the OECD. In 2006 it was 1.4 times that of more educated individuals, below the European ratio of 2.2. These figures are based on the Household, Income and Labour Dynamics in Australia (HILDA) survey (see Box 1.1 for a presentation of the HILDA survey) and the European Union labour force survey (EULFS) data for the other countries.

Figure 1.4. **Unemployment rate of youth^a without at least ISCED 3 relative to that of youth^a with ISCED 3 or more, 2006**



a) Youth aged 20-29.

b) Unweighted average.

Source: Melbourne Institute, HILDA Release 6 for Australia; and EULFS for all other countries.

Box 1.1. **The Household, Income and Labour Dynamics in Australia (HILDA) survey**

Many cross-sectional and longitudinal results about Australian youth presented in this report come from HILDA.

HILDA is a household-based panel study which began in 2001. It has the following key features:

- Like the labour force survey (LFS) from the Australian Bureau of Statistics (ABS), it collects information about economic and subjective well-being. Respondents' labour market status, earnings and benefits are particularly well documented;
- An important point regarding labour market status is that HILDA uses ABS/LFS definitions (*i.e.* those recommended by the International Labour Organisation). This means that the comparability of results derived from HILDA and from LFS (in Australia and elsewhere in the OCDE) is a priori high;
- What is more, unlike the LFS, HILDA is conducted longitudinally: it goes back to the same respondents each year, enabling users of the data to get an idea of how people's situations change over time;
- HILDA has a smaller sample than the LFS (around 10 000 or 20 000, depending on the data item, compared with more than 60 000 for the LFS). The wave 1 panel, for instance, consisted of 7 682 households and 19 914 individuals; and
- Interviews have been conducted annually since 2001 with all adult members of each household. Attrition rates are remarkably low.

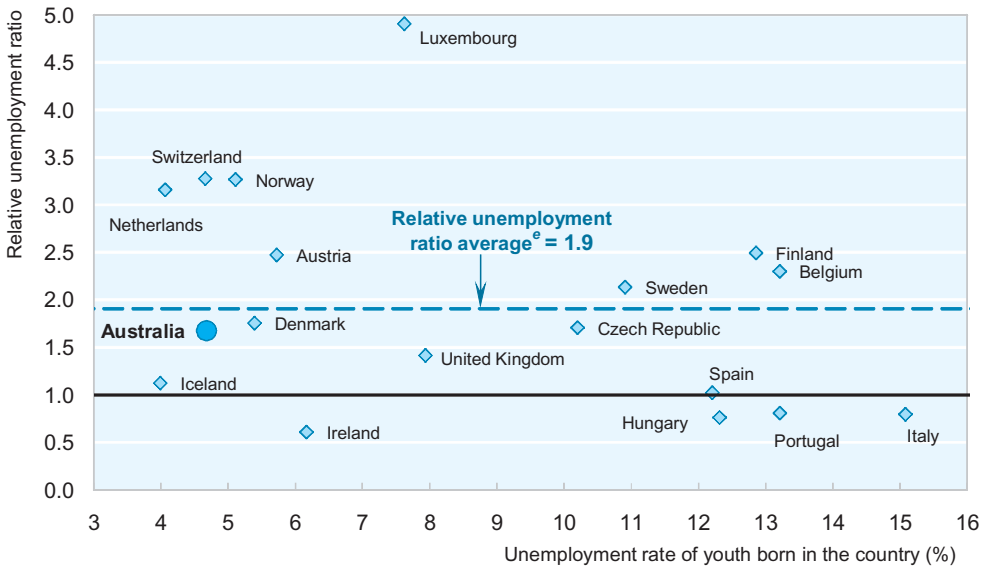
When this report went to press, six consecutive waves of micro-data, covering the years 2001 to 2006 were available.

Source: www.melbourneinstitute.com/hilda/.

Immigrants versus Australian-born youth

A feature of Australia's labour market is the good labour market performance of young immigrants from non-English speaking background. HILDA and labour force survey data used in Figure 1.5 show that in 2006 the unemployment rate was 7.8% for those aged 20-29, while the average OECD rate was 16.2%. Figure 1.5, on the vertical axis, also shows that their risk of being unemployed is 1.7 times that of Australian-born youth. The equivalent ratio for the OECD average is higher at 1.9.

Figure 1.5. Unemployment rate of immigrants^{a, b} aged 20-29 relative^c to that of youth^d born in the country, 2006



- a) For Australia, immigrants are individuals from non-English speaking background. This excludes those born in English-speaking countries to ensure that the definition picks up a similar group of young people to that covered by this concept in the European Union labour force survey (EULFS).
- b) In EULFS, immigrants are those born outside one the EU-25 countries.
- c) The vertical axis displays the ratio between the unemployment rate of young immigrants and that of young people born in the country. It captures the propensity of immigrants to be more/less exposed to the risk of unemployment.
- d) Youth aged 20-29.
- e) Unweighted average.

Source: Melbourne Institute, HILDA Release 6 for Australia; and EULFS for all other countries.

Indigenous versus non-indigenous

Indigenous youth perform very poorly on the Australian labour market. Census data from the Australian Bureau of statistics (ABS) show that in 2006 their risk of being unemployed was much higher than that of non-indigenous youth (Table 1.1). The ratio of the indigenous unemployment rate to the non-indigenous unemployment rate was slightly higher in 2006 for women (3.1) than for men (2.7). And since 1996 these ratios have risen (last column of Table 1.1).

Table 1.1. **Unemployment rate of indigenous versus non-indigenous Australian youth,^a 1996 and 2006**

	Gender	Non-indigenous	Indigenous	Ratio
		[A] %	[B] %	[B]/[A]
1996	Women	11.6	26.7	2.3
	Men	14.6	31.2	2.1
2006	Women	6.8	21.3	3.1
	Men	7.8	21.1	2.7

a) Youth aged 16-29.

Source: ABS, Census data 1996 and 2006.

Table 1.2. **Employment rate^a of indigenous versus non-indigenous Australian youth^b not in education, 1996 and 2006**

	Non-indigenous	Indigenous		Ratio	
	[A] %	[B] %	[C] ^c %	[B]/[A]	[C]/[A]
1996	73.8	43.7	35.2	0.59	0.48
2006	79.7	48.2	41.1	0.60	0.52

a) Employment to population ratio. The reported values were derived using the data for those who stated that they were employed, unemployed or inactive and excluded those who did not state their labour force status (a high proportion for indigenous people).

b) Youth aged 16-29.

c) Without CDEP jobs. The Community Development Employment Projects (CDEP) programme is an Australian Government initiative, currently delivered in regional and remote areas, to offer training and work experience as a stepping stone for indigenous people to mainstream employment. Participants in CDEP would be expected to classify themselves as “employed” in the census, but the counting of CDEP participants as “employed” does not reflect the view of the Australian Government.

Source: ABS, Census data 1996 and 2006.

The situation looks even more problematic when examining employment rates (Table 1.2). In 2006, while almost 80% of non-indigenous youth no longer in education was employed, only 48% indigenous youth held a job. And the figure appears even lower if one excludes subsidised employment under the form of Community Development Employment Projects (CDEP).³⁴ The indigenous employment rate then falls to 41%. Although some progress occurred between 1996 and 2006, these

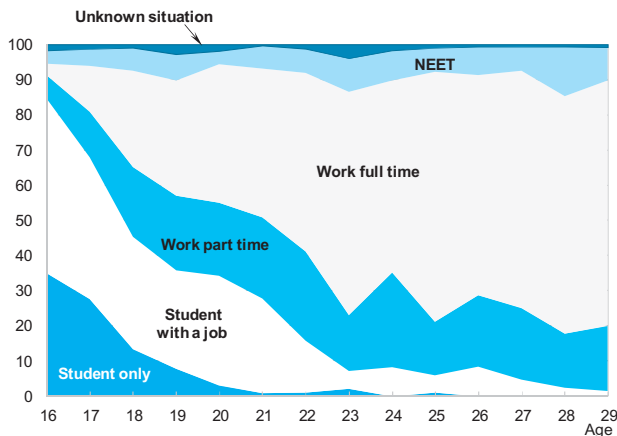
34. The Community Development Employment Projects (CDEP) programme is an Australian Government initiative – under the responsibility of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) – currently delivered in regional and remote areas. It offers training and work experience as a stepping stone for indigenous people to mainstream employment (see Chapter 4 for additional details and analysis).

unemployment rates remain worryingly low. Available data do not permit to explore the causes as to why this is the case. But one can reasonably assume that location of indigenous youth plays a role: indigenous youth who live in metro or regional areas seem to be more likely to be employed than indigenous youth located in remote areas.

2. Transition from school to work

The transition from school to work (STW) involves more than just passing from an educational institution to the labour market. In Australia, as in many OECD countries, it covers a broader period during which youth have their first contact with the job market by taking student jobs (Figure 1.6, second area from bottom) or via traineeships or apprenticeships.³⁵ They then leave education and start looking for more permanent jobs. It is also visible on Figure 1.6 (third area from bottom) that the beginning of careers in Australia is characterised by part-time jobs.

Figure 1.6. **Activity status (full-time student, student with a job,^a part-time and full-time worker, NEET)^b of youth by single year of age, Australia, 2006**
Percentages



- a) “Student with a job” includes those in traineeships and apprenticeships.
b) NEET: Neither in education nor in employment or training.

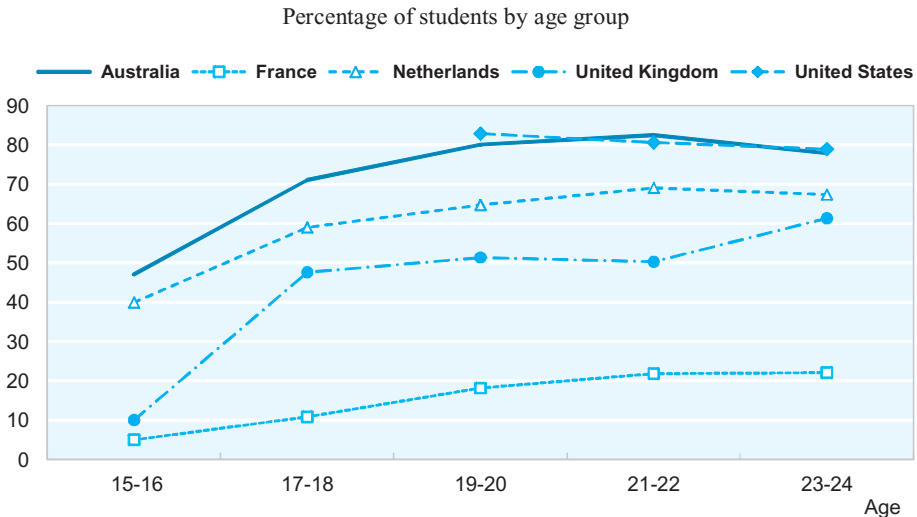
Source: Melbourne Institute, HILDA Release 6.

35. Apprenticeships normally last three to four years and are generally offered in the traditional trade industries – such as plumbing, building, carpentry, electrical, etc. – whereas traineeships normally last one to two years and are usually specific to non-trade occupations – such as hospitality, business administration, retail and information technology. Collectively they are referred to as Australian Apprenticeships.

A. *Young Australians enter the labour market when still students*

Most young Australians have their first contact with the labour market when they are still students. In 2006 up to 47% of those aged 16 held part-time, student jobs (Figure 1.7). For those aged 21-22 the share rose to 82.5%, which is above the Dutch rate of 69% known to be one of the highest in Europe, or slightly above the United States figure of 80%.

Figure 1.7. **Combining study and work among youth,^a Australia, selected European countries, and United States, 2006**



a) Youth aged 15-24.

Source: Melbourne Institute, HILDA Release 6 for Australia; EULFS for European countries; and US Department of Labor, Bureau of Labor Statistics, National Longitudinal Youth Survey (NLSY97) for the United States.

B. *Students are remarkably young when they complete initial education*

HILDA also reveals that less than 5% of young Australians still declare being primarily “student”³⁶ beyond the age of 24. This is less than everywhere else in the OECD. An interesting point is that having a low

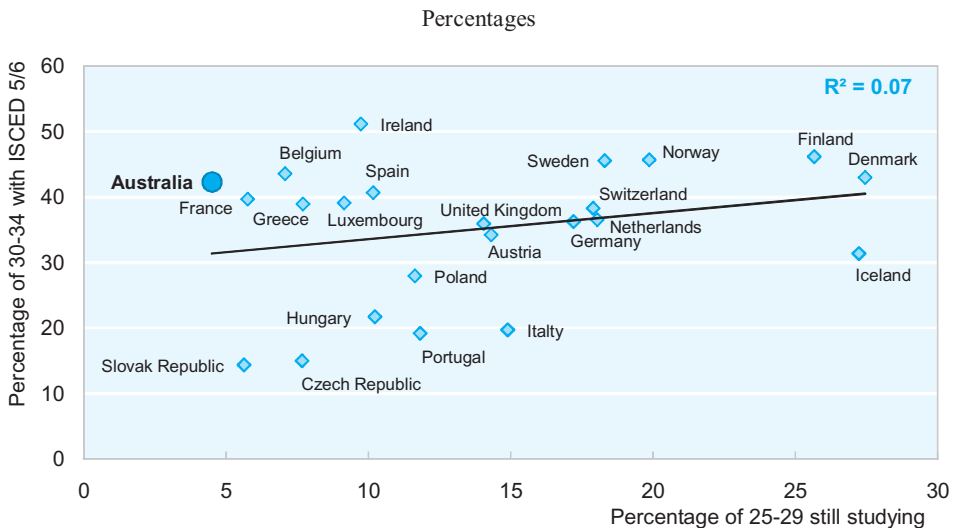
36. What is captured here by HILDA and the EULFS is not primarily whether the respondent is still enrolled in an educational institution – ABS Survey of Education and Work 2007 shows that in 2006 16.1% of 25-29-year-olds in Australia were still enrolled – but how he/she defines his/her main status.

(or high) share of students aged 25-29 has no apparent negative (or positive) impact on the tertiary/higher education attainment of the population of adults aged 30-34 (Figure 1.8, vertical axis).

For example, Denmark's much large share of (self-declared) students aged 25-29 (22%) does not translate into achieving more human capital. In Denmark in 2006, the share of the adults aged 30-34 with an ISCED 5/6 degree was 41.3% compared with 42.5% in Australia.

Some argue that older students in Denmark have accumulated significant labour market experience as many hold student jobs; something that may help them have a faster STW transition. In 2006 more than 60% of Danish students aged 20 and over had such a job. Nevertheless, even more Australian students (80%) work but still manage to graduate at a much lower age. And most forthcoming indicators in this report suggest that they also have a very rapid school-to-work transition. The tentative conclusion is that Denmark perhaps needs to “activate” its students whereas Australia does not face such a problem.

Figure 1.8. **Share of students aged 25-29 and share of tertiary degrees among adults (30-34), Australia and Europe, 2006**



Source: Melbourne Institute, HILDA Release 6 for Australia; and EULFS for all other countries.

C. *Youth after leaving education*

Most of the labour market indicators presented so far are primarily age-based. Consequently, some of them amalgamate *i*) individuals who are still in education; and *ii*) individuals who have left education and are potentially entirely available for the labour market. In a review on school-to-work transition it appears reasonable to try to assess the labour market situation of those who have left education. This is not an easy task, due do the lack of adequate international data sets that comprise simultaneously young Australians and a reasonable number of other OECD countries.

No longer defining oneself as a student

One first option is to exploit labour-force-survey-like data to compute conditional labour market outcomes; where the conditioning aspect simply rests on the respondent's declaration that he/she is no longer primarily a student when being asked about his/her main status. Using that option one can first estimate the (conditional) probability that youth is either employed, unemployed or inactive, following the traditional breakdown of the International Labour Organisation (ILO) also used by HILDA (see Box 1.1). One can also look at the type of contract held by youth.

- Non-employed: inactive or unemployed?

Figure 1.9, for instance, reports on the horizontal axis the percentage of individuals aged 20-29, no longer defining themselves as students, who are not in employment (alternatively referred to as the NEET³⁷ rate by the OECD). The values on display confirm that the average young Australian (male or female) has a relatively low probability of being out of employment after leaving education. That probability is of 10.5 percentage points for young men aged 20-29, below the (selection of OECD countries) average of 15.2%. The corresponding figures for young women are 24% (Australia) and 27.5% (average).

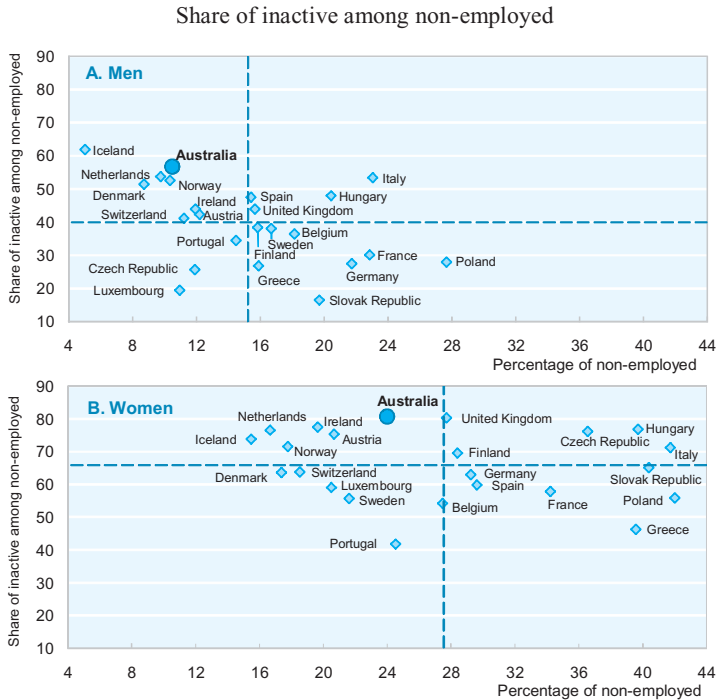
At the same time, Figure 1.9 reveals that being non-employed in Australia generally means being “inactive” rather than unemployed. More than 57% of young men with no employment in Australia are inactive and thus outside the labour market. That share is only 40% on average. The point is even more valid for young Australian women who are not in employment. More than 81% of them are inactive. The average, for the selection of OECD countries considered here, is 66%.

Having a larger or smaller share of inactive *versus* unemployed youth may not be of great importance, particularly if the total formed by the

37. Neither in education nor in employment or training.

addition of two groups is not extremely large. However, one may argue that it is preferable that youth are unemployed rather than inactive. By definition, unemployed people are more closely connected to the labour market than inactive ones: they are “available for the labour market” or should remain so if they receive benefits.

Figure 1.9. **Youth^a being non-employed and no longer student^b by gender, Australia and Europe, 2006**



a) Youth aged 20-29.

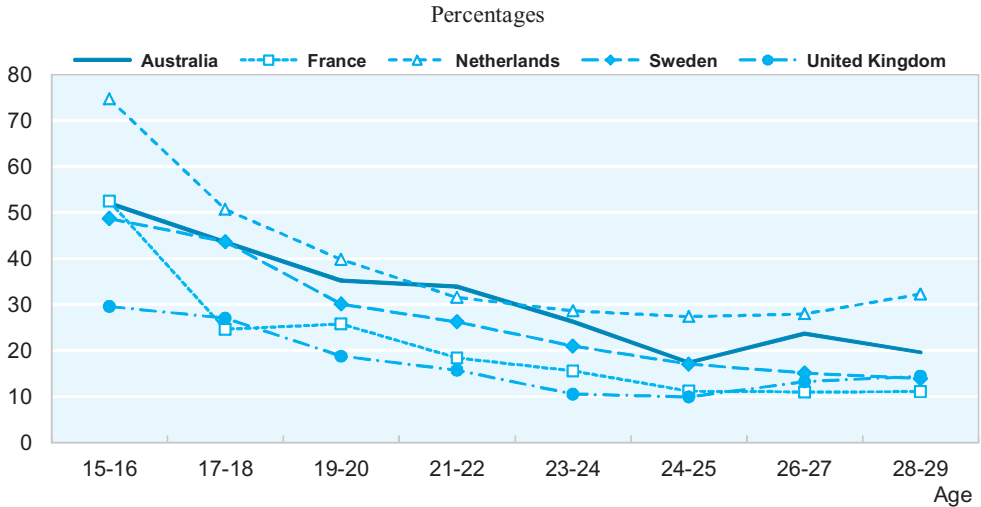
b) Based on the respondent’s declaration that he/she is no longer a student when being asked about his/her main status.

Source: Melbourne Institute, HILDA Release 6 for Australia; and EULFS for all other countries.

- What kind of entry jobs?

Figure 1.10 shows that the incidence of part-time jobs among those who no longer define themselves as students is similar in Australia to what is observed in European countries. It is lower than in the Netherlands, a country that is known for its high rate of part-time jobs. Figure 1.10 also shows that this proportion declines regularly with age, suggesting that many of these part-time jobs serve as stepping stones to full-time jobs.

Figure 1.10. **Incidence of part-time jobs among youth^a no longer student,^b by age, Australia and selected European countries, 2006**



a) Youth aged 15-29.

b) Based on the respondent's declaration that he/she is no longer a student when asked about his/her main status.

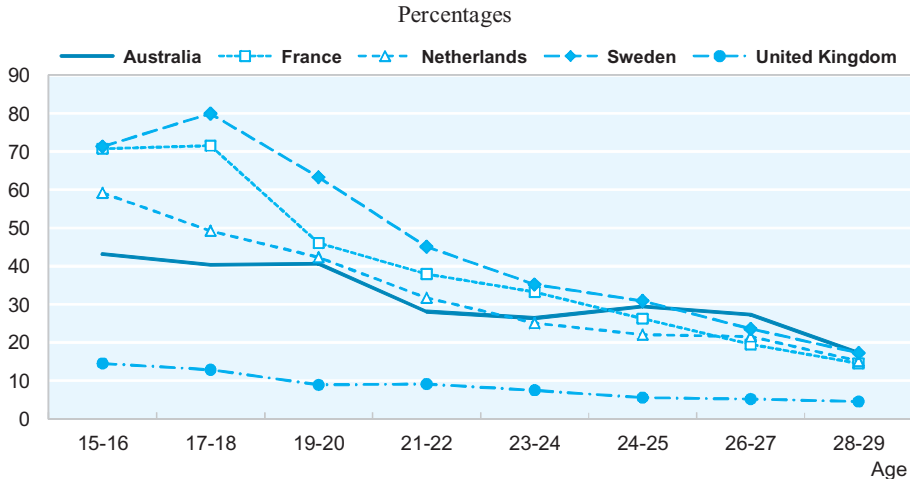
Source: Melbourne Institute, HILDA Release 6 for Australia; and EULFS for all other countries.

Figure 1.11 conveys the same message. It reports the share of casual³⁸ or fixed-term contracts by age. It shows that in Australia the prevalence of these contracts is very close to the European average. The negative age gradient is also very visible, and supportive of the stepping-stone assumption, at least at a very aggregate level.

More robust evidence emerges from Australian longitudinal data. The analysis of the six waves of the HILDA panel survey indicates that there is strong positive correlation between holding a part-time job (as opposed to being unemployed or inactive) and the probability of holding a full-time job at a later stage (see Box 1.2 for details). Similar results are found for those who initially work on casual or fixed-term contracts.

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

Figure 1.11. **Incidence of temporary/casual^a jobs among youth^b no longer student,^c by age, Australia and selected European countries, 2006**



- a) Casual employment means the absence of entitlement to both paid annual leave and paid sick leave.
- b) Youth aged 15-29.
- c) Based on the respondent's declaration that he/she is no longer a student when asked about his/her main status.

Source: Melbourne Institute, HILDA Release 6 for Australia; and EULFS for all other countries.

Box 1.2. Assessing the stepping-stone assumption

A common feature of youth labour markets is that they are often synonymous with a high rate of casual, fixed-term or part-time employment. The aggregate evidence (as displayed in Figures 1.10 and 1.11) suggests that these sorts of jobs are transitory in most OECD countries. Gradually, most young people move into more permanent and presumably more secure positions.

There is however an ongoing debate among labour economists about the merits of these jobs. The advocates of casual, fixed-term or part-time jobs believe that once a person holds such a job he/she may have an improved chance of finding a better paying or more satisfying position, compared with someone who remains unemployed or inactive. Simply put, the idea is that any job is better than none, and that “bad” jobs may lead to “better” jobs. An alternative view is that people in low-paying jobs are trapped in “dead-end” jobs and rarely get ahead in the labour market. On this view, a person who is unemployed may not be making a mistake by holding out for a well-paid or more satisfying job, rather than taking almost any job offered.

These competing viewpoints can be tested empirically using Australian data. Six waves are now available from the HILDA panel/longitudinal survey, and can be exploited to cast light on the issue.

Results are reported in the table below. They essentially show that there is strong positive correlation between holding part-time jobs (as opposed to being unemployed or inactive) and the probability of holding a full-time job at later stage. Youth who got a part-time job during the year after school completion, had 16 percentage points more chance of holding a full-time job two years after leaving school than those who remained unemployed or inactive. And that advantage seems to rise with the horizon considered. It was of 23 percentage points four years after leaving school. Note that these values are from an OLS analysis that includes several control variables (*i.e.* characteristics of the individuals or the environment that may separately influence the probability of holding a full-time job). Note also that they accord with the results of Australian research based on LSAY data (see Box 1.4): most part-time workers are not “stuck” in part-time work (Marks, 2006).

These positive results are also observed among school-leavers who initially work on casual or fixed-terms contracts. Although the relative benefits of these types of contracts do not show up as rapidly as those of part-time contracts, they tend to be substantial: 8 percentage points more chance of holding a permanent contract three years after leaving school and 20 percentage points more four years after.

One would be tempted to conclude from these results that part-time, casual or fixed-term jobs serve as stepping stone to more stable positions. This is indeed a plausible interpretation. But from a methodological point of view, assignment to treatment (*i.e.* the fact of holding part-time jobs, casual or fixed-term contracts *versus* being unemployed or inactive) can certainly not be considered as perfectly random/exogenous. These are intermediate outcomes that correspond to *choices* made by heterogeneous individuals. Hence, despite our effort to control for the main source of heterogeneity between the treated and the non-treated populations, these two groups may still diverge in a crucial dimension that remains unobserved by the analyst. For example, people’s intrinsic willingness to work is not measured and not included in the analysis. What is more, the willingness to work may be correlated with the treatment and the outcome variable simultaneously. The likely consequence of such a configuration is that the ordinary least squares (OLS) estimates reported in table below are upward biased.

**Holding a part-time/casual contract one year after school completion
and probability of holding a full-time/permanent contract later on**

Control group = youth unemployed or inactive during the year after school completion
OLS coefficients (and *p-values* in italics)

Horizon considered	Part-time contract	Casual ^a of fixed-term contract
Two years after leaving school	0.16 <i>0.0003</i>	0.02 <i>0.6581</i>
Three years after leaving school	0.16 <i>0.0029</i>	0.08 <i>0.1122</i>
Four years after leaving school	0.23 <i>0.0000</i>	0.20 <i>0.0004</i>

Control variables include: gender, age band (15-19, 20-24, 25-29), highest educational attainment (less than ISCED 3, ISCED 3, more than ISCED 3), mother’s highest educational attainment, indigenous background and year of observation.

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

Source: Melbourne Institute, HILDA Release 6.

Expected years in employment following the end of education

Properly quantifying and analysing the school-to-work transition – for many OECD members – is beyond the reach of this review. There is simply no international dataset with longitudinal information to estimate these transitions. That sort of information is only available for a small selection of countries (Australia, the United Kingdom and the United States). It will be exploited later.

However, if the priority is to keep a significant number of countries on board, there is an indirect way of gauging the state of the school-to-work transition. Most labour force surveys, like the European Union labour force survey, ask respondents about the year they completed initial education. In the case of Australia, this information can be obtained from every wave of the HILDA survey. It can be used to compute the expected number of years spent in employment during the five years after leaving education (see Box 1.3 for a detailed definition).

Box 1.3. Computing the expected number of years spent in employment following the end of education

Labour force surveys are not longitudinal data sets. However, they generally contain information on the year of completion of initial education. In combination with information on the age of the respondent, this item can be used to compute a proxy of the duration since the end of (initial) education.

Then, using the distribution of labour market status by duration since the end of education, it is possible to calculate the expected number of years a typical respondent spent in employment (or any other status) since he/she left school.

This computation can be done for the various categories (k) of respondents (*e.g.* those with a low *versus* high educational attainment, male *versus* female); and also for various definitions of employment (*e.g.* any form of employment, full-time employment).

Algebraically, if $ER_{k,t}$ is the employment rate t years after the end of education of category k , the expected number of years in employment after D years is given by

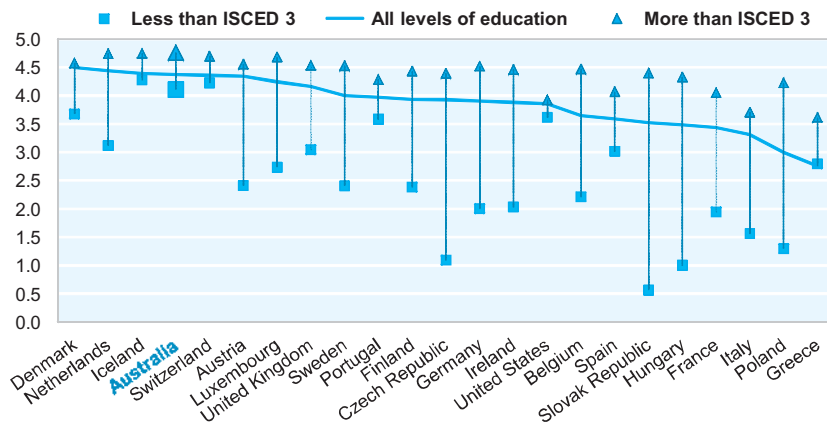
$$EYE_{k,D} = ER_{k,1} * D + (ER_{k,2} - ER_{k,1}) * (D-1) + \dots + (ER_{k,D} - ER_{k,D-1}) * 1$$

Opting for a window of five years is arbitrary but it has been used here as a “reasonable” approximation of the length of the school-to-work transition process.

This indicator (Figure 1.12) shows that a young Australian with ISCED 3 will have spent 4.37 years in employment during his/her five first years after leaving school, above the international average (3.9), and just below the 4.5 years recorded in the best European performers: Iceland and Switzerland. Moreover, the gap between those with more than

ISCED 3 and those without ISCED 3 is lower, at 0.6 year, than among most of the other countries examined. There is thus in Australia less diversity of outcomes between high-educated and low-educated youth in terms of the expected number of years in employment after the completion of initial education. It is also worth pointing out that this smaller gap is consistent with above-mentioned findings about the small difference in the likelihood of unemployment (Figure 1.4).

Figure 1.12. **Expected number of years spent in employment during the five years after leaving school,^a by educational attainment, Australia and Europe, 2006**
Years



- a) In EULFS, individuals report on the year they have obtained their highest degree. Conditional on the respondent declaring he/she is no longer a student, this information is used to compute the durations underlying the indicator. In HILDA, respondents report on the number of years that have elapsed since they left full-time education. That information is used to compute durations, again conditional on the respondent declaring he/she is no longer a student.

Source: Melbourne Institute, HILDA Release 6 for Australia; and EULFS for all other countries.

Time-to-employment analysis: how Australia compares to the United Kingdom and the United States

The best way to analyse school-to-work transition is to use longitudinal micro-data. Not all OECD countries collect data documenting the situation of cohorts of students as they gradually transit from school to work. Australia has the Longitudinal Survey of Australian Youth (LSAY); the United States has the National Longitudinal Survey of Youth (NLSY); and in the United Kingdom, longitudinal data (on a small number) of youth can be extracted for the successive waves of the British Household Panel Survey (BHPS) (see Box 1.4 for more details).

Box 1.4. Longitudinal survey data sources

Time-to-employment analysis reported in this report comes from different national longitudinal surveys. These surveys follow cohorts of students as they gradually transit from school to work.

For Australia, the data source is the Longitudinal Surveys of Australian Youth (LSAY) (www.ncver.edu.au/lsay). LSAY follows cohorts of young people from the time they are 14-15 up to around the age of 24-25. Each commencing cohort has 12-13 000 young people. Since 2003 the PISA cohort has become the commencing LSAY cohort. Results presented in this report are based on the 1998 cohort in order to maximise comparability with other countries' data. The experience of this 1998 cohort up to 2006 was used in the report.

For the United States, the data come from the National Longitudinal Survey of Youth (NLSY) (www.bls.gov/nls/) and refer to a cohort of young people born between 1980 and 1984, and enrolled in school in 1997. The sample size is approximately 9 000 individuals. Youths are followed through time up to 2006. NLSY collects information on a wide range of issues (health, labour market experience, household situation), but the main focus is the description of the school-to-work transition.

For the United Kingdom, the data source is the British Household Panel Survey (BHPS) (www.iser.essex.ac.uk/ulsc/bhps/). Conversely to the Australian and American surveys, this survey is not primarily a youth panel survey. It follows households (and their members) over time. However, it includes a reasonable number of youth. The BHPS started in 1991. The most recent data are from 2006. The sample consists of about 10 300 individuals (all aged confounded). But the sub-sample of school-leavers is actually quite small, resulting in less robust outcomes or the absence of results in Figure 1.13 for some sub-categories of youth (e.g. low-educated youth).

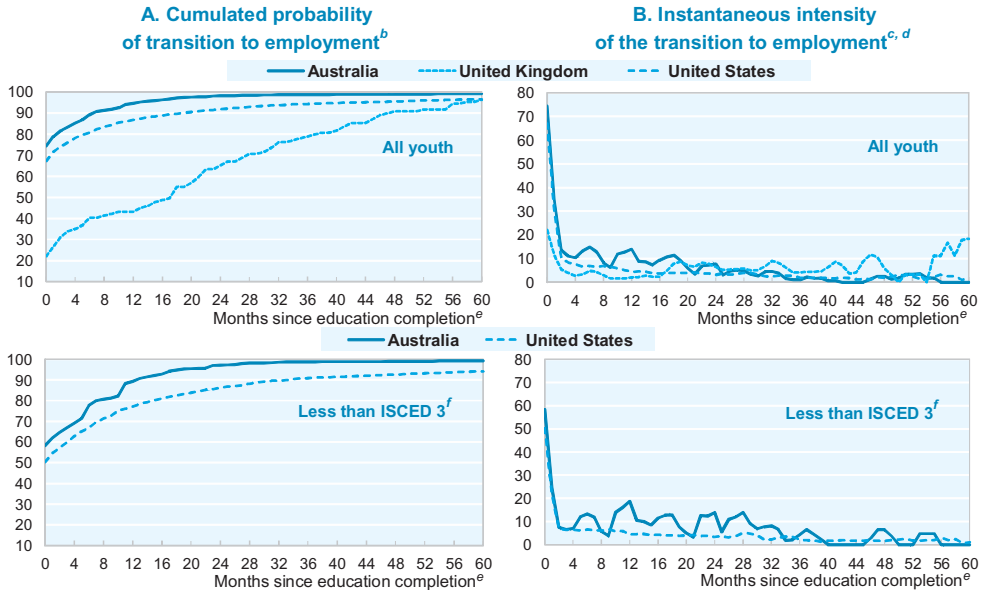
The three surveys permit a monthly follow-up of the school enrolment and labour market status of youth. This results in a fairly accurate monthly calendar that can be used to analyse and compare the dynamics of school-to-work transition.

Figure 1.13 contains some of the estimates that can be derived from these data. The upper part of Panel A reports the (cumulated) probability of a transition to (first) employment – also referred to as the exit function in the literature.³⁹ It suggests that the school-to-work transition is faster in Australia than it is in the United States. The comparison with the United Kingdom is even more positive. Seven months after school completion, more than 90% of Australian youth are in employment. The equivalent figure for the United States is 82%, and 40% for the United Kingdom. The same data suggest it takes 19 months to reach the 90% employment threshold in the United States, and 48 months in the United Kingdom.

39. Technically speaking, the values reported on the vertical axis correspond to the function $F(t)$ representing the (cumulated) probability that school-leavers find a job after duration t .

Figure 1.13. **The transition from initial education to first job^a**

How Australia compares to the United Kingdom and the United States



- Data used here come from panel/longitudinal surveys that follow cohorts of students as they gradually complete their initial education and enter the labour market. They allow time-to-event analysis, otherwise known as duration or transition analysis.
- The exit (or failure) function $F(t)$ is a cumulated density function. It represents the probability that those who complete initial education find a job after duration t (here a certain number of months elapsed since school completion). It is measured here by the Kaplan-Meier estimator. An important advantage of the Kaplan-Meier method is that “censored” data – losses from the sample before the final outcome (*i.e.* transition to employment) is observed – are taken into account.
- The hazard rate $h(t) = f(t)/S(t)$ where $f(t)$ is the first-order derivative of $F(t)$ – in other words the density function – and $S(t) = 1 - F(t)$ the complement of the exit function. The hazard rate $h(t)$ summarises the concentration of exits to employment at each instant of time, but conditions the expression on survival in unemployment up to that instant.
- Plotted hazard rates have been smoothed using a three-months moving average from month two onwards.
- People are considered having completed initial education if they have not been in education during at least one year (12 months). Robustness checks were carried out to account for the possible bias induced by students who take a gap year (lasting precisely 12 months). The condition was extended to 15 and 24 months out of education. Results are that cumulated probability curves (Panel A) are unaffected.
- Young people without ISCED 3 when completing initial education.

Source: National Centre for Vocational Education Research (NCVER), Longitudinal Surveys of Australian Youth (1998 cohort) for Australia; Institute for Social and Economic Research, British Household Panel Survey [BHPS (waves 10 to 15)] for the United Kingdom; and US Department of Labor, Bureau of Labor Statistics, National Longitudinal Survey of Youth (NLSY97) (1997 cohort) for the United States.

It is also important to stress that the cross-country differences visible in Figure 1.13 are largely driven by what happens immediately after school completion. Australia's advantage over the United States can almost entirely be ascribed to a higher probability of finding a job during the first month following school completion.

The lower part of Panel B displays the results for the low-skilled (less than ISCED 3). To a large extent, it confirms Australia's advantage. The school-to-work transition of youth without ISCED 3 is quicker in Australia compared with the United States.⁴⁰

Figure 1.13, Panel B displays the hazard function. The latter summarises the concentration of exits (to employment) at each instant of time (during each month after school completion), conditional on having been unemployed up to that instant. An important feature of the hazard function is its pattern in terms of "duration dependence" – *i.e.* whether the hazard of finding a job is rising or falling over time. For Australia and the United States, there is clearly negative duration dependence. The instantaneous rate of access to employment is clearly higher immediately after school completion than, say, 7 or 12 months down the road. In that respect, the situation in the United Kingdom appears quite different. The hazard function is indeed characterised by spikes after 18, 32, 45 or 56 months, suggesting that the chances of finding a job are not compromised by relatively long spells of unemployment.

3. Key points

Young Australians enter the labour market when they are still studying. In 2006, the incidence of jobs among students aged 21-22 at 82.5% was the highest rate recorded across the OECD. And contrary to what seems to happen in some European countries, frequently taking student jobs does not prevent Australian students from graduating at a relatively young age.

In 2007, young people aged 15-29 faced a risk of unemployment of 9.4%, lower than the European or the OECD average (Table 1.3). The unemployment rate is logically higher among those who finish initial education without ISCED 3, although its level remains lower than in many other OECD countries.

40. The very small number of low-educated school-leavers in the BHPS precludes the comparison with the United Kingdom.

By contrast, indigenous youths perform much less well. Their risk of being unemployed was in 2006 more than 2.5 times higher than that of non-indigenous youth. The situation looks also dire when considering their employment rate. In 2006 only 48% of indigenous school-leavers held a job.

Table 1.3. **Scoreboard for youth aged 15-24,^a Australia, Europe and OECD, 1997 and 2007**

	1997			2007		
	Australia	EU ^b	OECD ^b	Australia	EU ^b	OECD ^b
Employment rate (% of the age group)	58.9	39.3	43.8	64.2	38.9	43.6
Unemployment rate – UR (% of the labour force)	16.1	18.5	15.6	9.4	15.7	13.4
Relative UR youth/adult(25-54)	2.4	2.4	2.4	2.8	2.8	2.9
Ratio unemployed to population (% of the age group)	11.3	8.1	7.5	6.6	6.6	6.1
Incidence of LTU (% of unemployment)	21.2	31.3	24.9	10.0	25.4	19.6
Incidence of temporary work (% of employment) ^c	41.4	31.1	29.2	45.3	37.6	34.7
Incidence of part-time work (% of employment) ^d	42.0	17.3	21.7	41.1	20.6	24.5
NEET rate (% of the age group) ^e	12.9	13.1	13.4	9.6	11.3	12.0
School drop-outs (% of the age group) ^e	19.4	13.9	16.7	14.7	11.0	12.9
Relative UR low skills/high skills (< ISCED 3)/(≥ ISCED 3) ^e	3.0	2.6	2.5	2.8	2.2	2.2

ISCED 3: International Standard Classification of Education referring to upper secondary education; LTU: long-term unemployment; NEET: neither in education nor in employment or training; UR: unemployment rate.

- a) 16-24 for Iceland, Norway (for 1997 only), Spain, Sweden, the UK and the US.
- b) Unweighted averages for the 19 OECD and EU countries and for the 30 OECD countries.
- c) Data for Australia refer to the incidence of casual workers, defined as employees who were not entitled to paid-holiday leave or paid sick leave. 1998 instead of 1997.
- d) 1997 and 2005.
- e) 1997 and 2006.

Source: National labour force surveys; and *OECD Education database*.

Another source of concern is the high share of inactive (rather than unemployed) youth – particularly among women – in the total of those who are not employed after initial education. *Ceteris paribus*, non-employed young female Australians are probably more disconnected from the labour market than in other OECD countries.

But for most Australian youth, the transition from school to work is rather quick. Indicators gathered in this chapter suggest that Australia has a better performance than most OECD countries in this respect. And it is noteworthy that the performance gap between highly- and low-educated youth is lower to what it is in many other countries examined.

Among young Australian workers, the incidence of part-time, casual or fixed-term contracts is relatively high. But, there is evidence that these jobs serve as stepping stones to more stable employment. Longitudinal data display a positive correlation between: *i*) holding part-time jobs (as opposed to being unemployed or inactive); and *ii*) getting a full-time position at a later stage. These positive results are also observed among school-leavers who initially work on casual or fixed-terms contracts.

CHAPTER 2

INITIAL EDUCATION AND ON-THE-JOB TRAINING

Good-quality initial education is crucial in facilitating the transition from school to work⁴¹ and putting youth on a successful career track. Also, on-the-job training at the beginning of active life allows young people to fill the gaps in school-based education and acquire the skills required by firms.

A rising mismatch between labour supply and demand has become common in some OECD countries, including Australia (see Chapter 4, Figure 4.2). Compared with the early 1980s Australia has faced an increasing rate of unfilled job vacancies for a given level of unemployment. Albeit in a context of very low unemployment, this indicates rising inefficiency of education and labour market institutions to secure a good level of matching of jobseekers with available job vacancies.

The Australian public authorities recognise the importance of initial education and its relevance to labour market requirements. It has introduced several measures to enhance the effectiveness of its education system. A number of these measures address the system's main problems: a lack of exposure to early-age education, and a relatively low propensity to continue to participate in education beyond age 16.

This chapter looks at whether the Australian education system gives young people a good start in the labour market. Section 1 reviews the institutional arrangements, in particular the division of responsibility between different levels of government. Section 2 presents different

41. The term “school to work” (STW) is a generic term frequently used in OECD reports. It corresponds to the moment of life when youth complete initial education and enter the labour market. The point is that, in Australia, initial education could be university, vocational education and training, but also “school”, for all those who do not stay in education or training beyond the age of 16.

performance indicators on the education system, often in comparison with other OECD countries.⁴² Section 3 focuses on strategies to reduce the number of school drop-outs (or early school-leavers). Section 4 discusses what is available for young people to acquire practical work-based or work-related skills or experience while in school. The final section reviews young adults' participation in on-the-job training.

1. The provision of education services: a complex pattern of responsibilities⁴³

A. Outline

Employment and income-support policies in Australia are Commonwealth (*i.e.* federal) prerogatives. But education policy (with the exception of tertiary/higher education) is essentially under the jurisdiction of States and Territories.

Australia's education system (Figure 2.1) comprises three main sectors: *i*) schooling (pre-school and school education), *ii*) higher education, and *iii*) vocational education and training (VET) providing both upper secondary- and tertiary-level qualifications. The boundaries between higher education and VET are blurred by the existence of articulation agreements, allowing credit transfer from VET programmes to specific degree-level programmes offered by universities (and *vice versa*). Moreover, several tertiary institutions are established as "dual sector" institutions (DEST, 2007). Finally, adult and community education constitutes a fourth, less well-defined sector with minimal regulation.

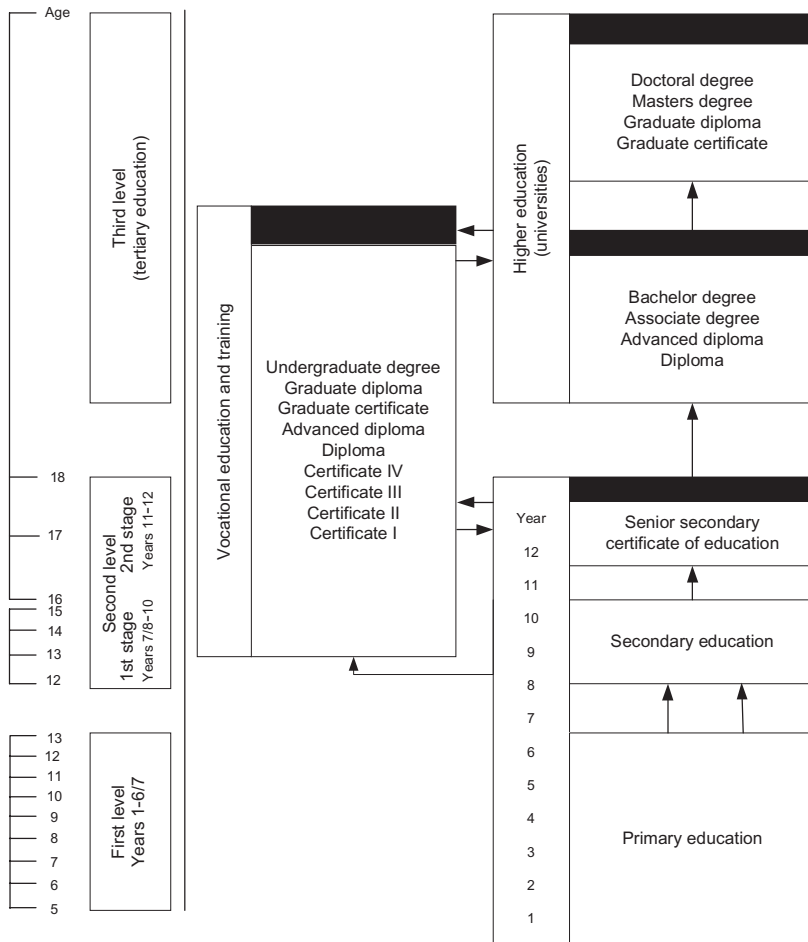
The basic structure of school education differs across States and Territories in many areas: grade structures, commencement and age of compulsory attendance, qualification certification, curricula and the autonomy of decision-making at the school level (Table 2.1).

Attendance is compulsory between the ages of 6 and 15, extending to 17 years in some States. The two final years of the secondary school (upper secondary education hereafter) are generally not compulsory. In most cases students start formal education at around 5 years of age, enrolling usually in

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42. The comparator countries used in this chapter vary across indicators. Sometimes they are the whole (or most) of the OECD while in other cases they are the EU countries or a select group of countries. This reflects limitations in data availability and/or comparability.
43. More information about educational institutions is to be found in the OECD's 2008 *Economic Survey of Australia* (OECD, 2008e).

a preparatory year (Table 2.1). The latter refers to programmes (non-covering a full school day) before Year 1 of primary education and it is not necessarily connected to a particular school, depending upon State and location. There are significant cross-State differences with respect to the age range of children attending pre-school, hours of education, location and management of programmes (Press and Hayes, 2000).

Figure 2.1. **The Australian educational system: an overview^a**



- a) Providers deliver qualifications in more than one sector. Schools, for example, are delivering certificates I–II, universities are delivering certificates II–IV, and VET providers are delivering undergraduate degrees, graduate degrees.

Source: SCRGSP (2007), *Report on Government Services 2007*, Steering Committee for the Review of Government Service Provision, Productivity Commission, Canberra.

Table 2.1. Structure of schooling in Australia

States and Territories	Pre-school	Preparatory year before Year 1 ^a	Primary schooling (Years)	Secondary schooling (Years)
Australian Capital Territory	Pre-school	Kindergarten	1-6	7-12
New South Wales	Pre-school	Kindergarten	1-6	7-12
Northern Territory	Pre-school	Transition	1-7	8-12
Queensland	Pre-school (until 2006) Preparatory (since 2007)		1-7	8-12
Southern Australia	Pre-school	Reception	1-7	8-12
Tasmania	Kindergarten	Preparatory	1-6	7-12
Victoria	Pre-school	Preparatory	1-6	7-12
Western Australia	Kindergarten	Pre-primary	1-7	8-12

a) First year of school at age 5.

Source: Australian Education International, Department of Education, Science and Training, Canberra.

The administration and financing of education services (Box 2.1) is subject to a complex pattern of joint government involvement, sometimes leading to inefficiencies and weak linkages among sectors (DEST, 2007). In principle, the States and Territories are responsible for the regulation and delivery of services, while the Australian Government focuses on the development of national (and international) priorities. The federal grants system helps to equalise the provision of education services across States and Territories.

Box 2.1. The division of government responsibilities in education and training

Early childhood education and care sector (ECEC)

At the federal level, responsibility for ECEC is shared by the Department of Family, Housing, Community Services and Indigenous Affairs (FaHCSIA) and the Department of Education, Employment and Workplace Relations (DEEWR). In particular:

- Responsibility for child care sits in the Office of Early Childhood Education and Child Care (OECECC) located in DEEWR; and
- FaHCSIA has responsibility for family assistance and relationship services, including playgroups.

At the State level, governments are responsible for:

- The policy and funding of pre-schools and some occasional care centers, with some governments also contributing financially to outside school hours care, long day care and other such services. Pre-school education is delivered in the majority of the States as part of the formal education system, and is the responsibility of the relevant departments of education. In New South Wales and Victoria such services come under the jurisdiction of Community Services departments and are offered in a more diverse range of settings. In Queensland pre-school is accessed through the community-based and private sectors;
- Setting regulatory requirements for providers of children's services, monitoring performance and administering licenses.

The Commonwealth (*i.e.* federal) and State and Territory Governments have jointly developed national standards for centre-based long day care, family day care and outside school hours care services, with the extent of their implementation varying across jurisdictions. The assurance systems for these services (known as Quality Improvement and Accreditation System in the case of centre-based long day care) is administrated by the Commonwealth-funded Childcare National Accreditation Council and covers all States (Elliot, 2006).

Education and training sector

The States' responsibilities include:

- Providing schooling to all children of school age;
- Providing major funding for government school education and contributing funds to non-government (*i.e.* privately-operated) schools;
- Regulating school activities and policies, and setting curricula, course accreditation, student assessment and awards for both government and non-government schools;
- Administering and providing major funding for vocational education and training (VET); and
- Regulating and accreditation of higher-education courses.

The Commonwealth's responsibilities include:

- Providing the majority of funding for non-government schools and being principally responsible for the funding of higher education institutions.
- Providing financial assistance for specific educational programmes and categories of students; and
- Promoting national consistency and coherence in the provision of education and training.

Source: OECD (2008e); DEEWR (www.australiantechnicalcolleges.gov.au/).

B. Major challenges

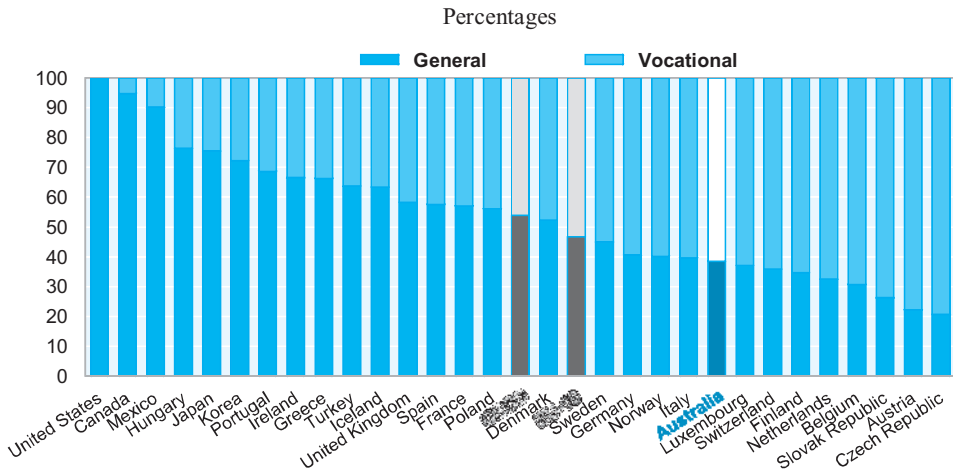
The potential for cost and blame-shifting between different levels of government seems to be lower in education than in the health care sector due to a generally less complex institutional framework (OECD, 2006b). But there are still major sources of inefficiencies. Some arise due to differences in schooling among States and Territories (*e.g.* entry and minimum leaving age, curriculum design and secondary school diplomas).

The movement of people around the country is more frequent than decades ago. And the impact of a mobile population has long been seen in education. For example, curriculum discontinuity and the absence of a national certification scheme could affect mobile families and represent an

obstacle for educational success; a problem that is emphasised when children cross State borders and enter different educational systems, where neither the school entry age nor the year levels match those of the State of origin.

Beyond school, there is the challenge of running the country's sizeable vocational education and training (VET) system. In Australia, more than one-in-two people aged 17 and over and enrolled in education attends VET, with the rest enrolled in the final years of secondary school or at university. Figure 2.2 shows that, in relation to those of any age enrolled in upper secondary education, around 60% are enrolled in the VET system. A high proportion of the latter group would be undertaking an Australian Apprenticeship.

Figure 2.2. **Enrolment in general *versus* vocational^a education in upper secondary education (ISCED 3), OECD countries,^b 2006**



ISCED 3: International Standard Classification of Education referring to upper secondary education.

a) Includes the so-called pre-vocational education.

b) Data for EU-19 and OECD refer to unweighted averages; for OECD, New Zealand is excluded.

Source: OECD Education database.

That system operates in a context of (relative) decentralisation, heterogeneity and cross-jurisdiction mobility. Against this backdrop, an interesting development is the Australian Qualifications Framework (AQF) for VET. The AQF was introduced Australia-wide on 1 January 1995 and was fully enacted by the year 2000. It is a unified system of national qualifications – covering the whole country and the different categories of

providers:⁴⁴ TAFEs,⁴⁵ private providers of VET, and the higher education sector (mainly universities).

The AQF is aimed at providing a comprehensive, nationally consistent framework for all qualifications in post-compulsory (more than 16) vocational education and training. AQF aims at facilitating flexible learning pathways, while also improving the visibility and comparability of qualifications in a labour market where cross-State mobility is relatively frequent (SCRGSP, 2007).

There have been plans to introduce similar nation-wide standards for schooling: a common school-entry age across jurisdictions by 2010 for instance; or an Australian Certificate of Education (ACE). ACE is a proposed national upper secondary school (Year 12) certificate to replace the existing State and Territory certificates. In June 2005, the previous Liberal-National government commissioned the Australian Council for Educational Research (ACER) to investigate and report on models for an Australian Certificate of Education. The report was published in May 2006 (ACER, 2006). But the proposal does not appear in the programme of the Labour government.

Issues also arise at the tertiary education level, relating for instance to the cross-jurisdictional variations in the recognition of universities and accreditation courses and providers. There are also issues stemming from asymmetric funding arrangements. Vocational education and training is predominantly State-and-Territory funded. But universities are funded almost exclusively by the Commonwealth. Until 2008, students enrolled in the VET sector could not defer payment of tuition charges (via income-contingent student loans) but university students were able to do so (Chapman *et al.*, 2008). Even though VET tuition fees are lower than those of universities, that kind of asymmetry may have distorted student choice.

2. Performance of the education system

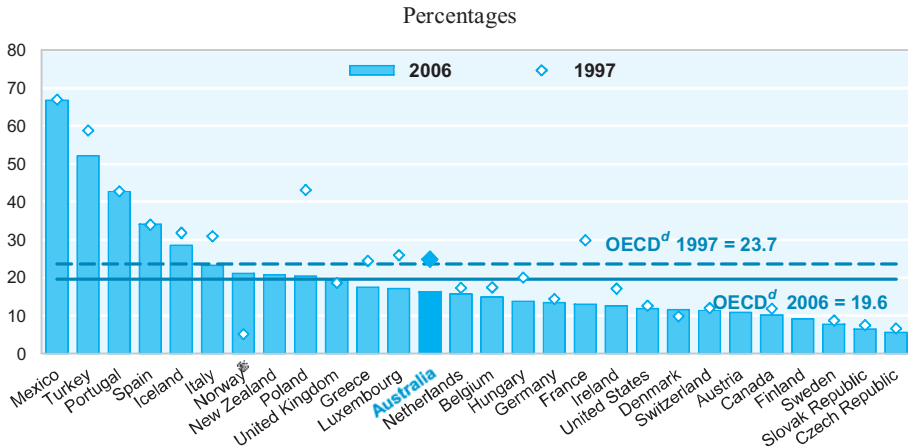
A. Overall performance

Australia compares poorly with the United States, Canada or Sweden, in terms of the proportion of its population (16.2% in 2006) that has not attained ISCED 3 (Figure 2.3). Although Australia's rate is below the

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44. Australia counts many private (most of the time religiously-affiliated) providers of education.
45. Technical and Further Education (TAFE) institutions provide a wide range of predominantly vocational tertiary education courses in Australia.

OECD average (19.6%) it is well above the level recorded in some of the most advanced OECD economies mentioned above. The data used for Australia in Figure 2.3 come from ABS Education and Work 2007 survey. It refers to the percentage of 20-24-year-olds who completed Year 12 or at least a Certificate I (and excludes those with a certificate not further defined and those with qualification level not determined).

Figure 2.3. **School drop-outs^a for youth aged 20-24, OECD countries, 1997^b and 2006^c**



ISCED 3: International Standard Classification of Education referring to upper secondary education.

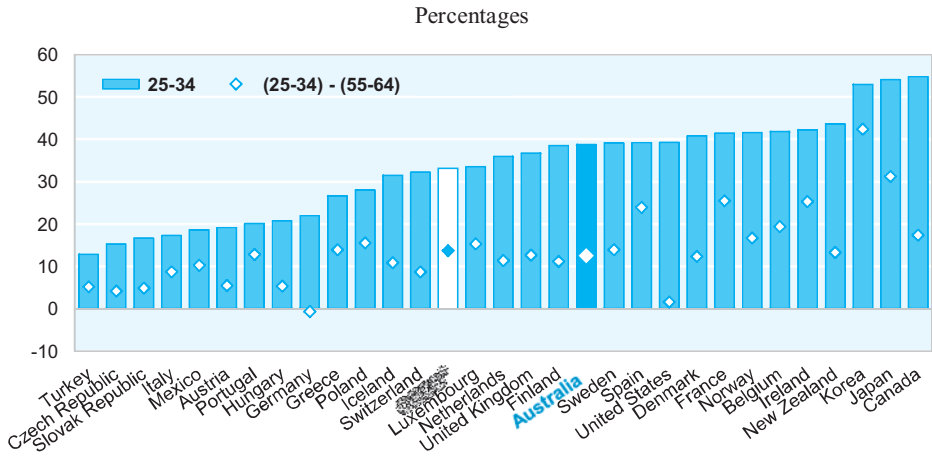
- No longer in education without ISCED 3.
- Data refer to 1998 for Denmark and Italy, to 1999 for Germany, Iceland, Ireland and Luxembourg, and to 2000 for the United Kingdom, instead of 1997.
- Data refer to 2003 for Japan, and 2004 for Mexico and Norway, instead of 2006.
- Unweighted average of countries shown.
- Data for Norway are based on the new National Educational Attainment Classification (NEAC).

Source: OECD Education database.

Macroeconomists estimate that raising Australia's human capital (as proxied by the average years of schooling) to the level of the United States could raise GDP per capita by between 4 and 7.5 percentage points (OECD, 2006d).

The number of young adults (25-34) progressing to tertiary education (*i.e.* holding an ISCED 5 or ISCED 6 qualification) is relatively high in Australia (39%), and above the OECD average (33%). But it is inferior to what is to be observed in Canada (55%), Japan (54%) or Korea (53%) (Figure 2.4, vertical bars). A good point is that graduation rates are on the rise – younger cohorts reach more systematically than older one (Figure 2.4, squared dots) – but not as much as countries like Spain, France, Japan, Ireland or Korea.

Figure 2.4. **Proportion of 25-29-year-olds with tertiary qualification,^a OECD countries, 2006**



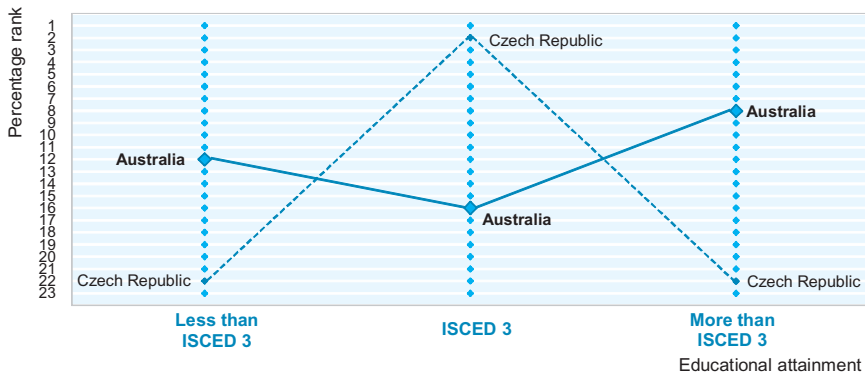
ISCED 5/6: International Standard Classification of Education referring to tertiary education.

- a) Tertiary qualification refers to ISCED 5/6.
- b) Unweighted average of OECD countries.

Source: OECD Education database.

Figure 2.5. **Overall performance, distribution of young adults' educational attainment,^a OECD, 2006**

Rank of percentage by level of education^b



- a) Young adults refer to 25-29.
- b) The first step to obtain these ranks is to calculate the percentage of respondents by educational attainment (less than ISCED 3, ISCED 3 or more than ISCED 3). Second, for each of these level of education, the percentages are ranked in descending order (rank 1 = higher percentage, rank 23 = lowest percentage).

Source: OECD Education database.

A closer look at the educational attainment of young adults (25-29) in Australia reveals a “U-shaped” distribution of attainment (Figure 2.5): there are many individuals at both extremes of the distribution (less than ISCED 3, more than ISCED 3) and very few in the middle (ISCED 3). By contrast, a country like the Czech Republic epitomises the case of an “inverted U-shaped” distribution, where intermediate levels of education clearly dominate. The point is that in Australia there are too many individuals without ISCED 3, too few with intermediate (ISCED 3) level skills and a relatively high percentage with higher level (ISCED 5/6) skills, so that in Figure 2.5 Australia ranks slightly below average on the first, well below average on the second and about average on the third.

B. Achievement at age 15

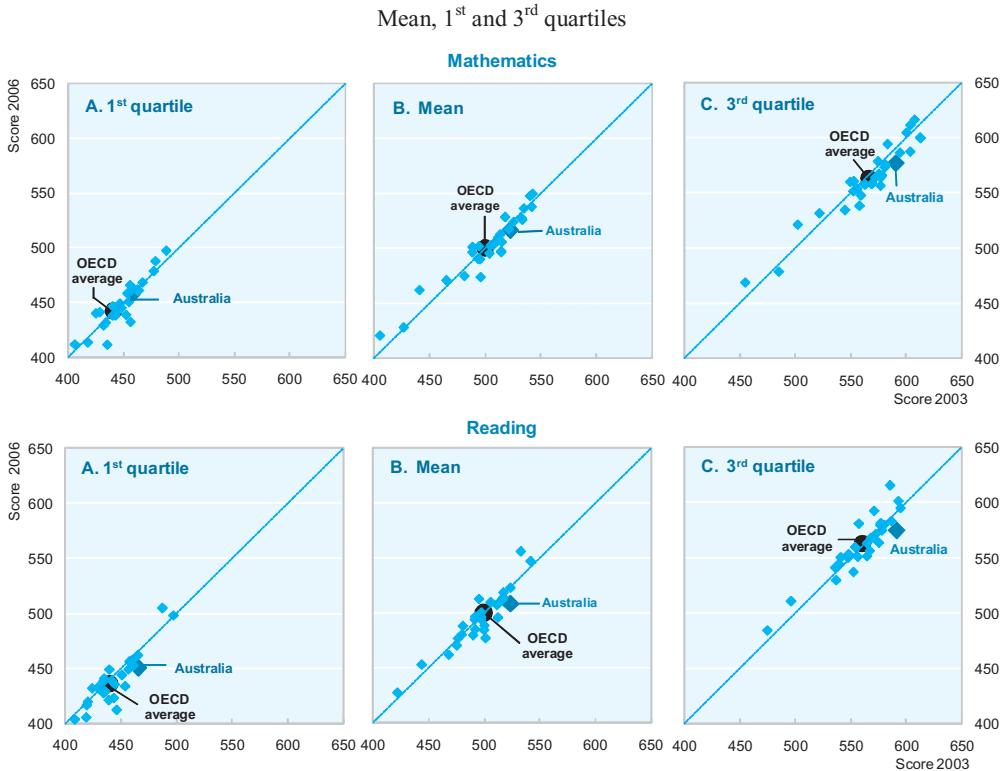
Good PISA results

Test scores from PISA⁴⁶ 2003 revealed a relatively good average performance for Australian teenagers. Those aged 15 in 2003 scored well above the OECD average in science, mathematics and reading literacy. And that performance was largely confirmed by the PISA 2006 test scores (Figure 2.6, central panel). Good relative performance also holds for low and high achievers (*i.e.* 1st and 3rd quartiles, Figure 2.6, left and right panel, respectively).⁴⁷

No major (and statistically significant) changes seem to have occurred between 2003 and 2006 for Australia, but also for most of the other participating countries, at the relatively aggregate level considered here. Note also that this performance was achieved in a context where the education sector⁴⁸ absorbed 4.1% of GDP in 2005, slightly more than the OECD average of 3.8 % (OECD, 2008d).

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46. The OECD’s Programme for International Student Assessment.
47. There is additional evidence from PISA that qualifies these statements: “10% of Year 7 students are below the benchmark level for reading and more than 7% achieve below the benchmark level for writing. Just over 20% of Year 7 students are not meeting the benchmark levels for numeracy. The Programme for International Student Assessment (PISA) in 2003 shows that 11% of Australian 15-year-olds have level 1 literacy skills and 19% level 2, where only level 3 is considered to provide the functional literacy skills necessary to sustain learning beyond school”.
48. Primary, secondary and post-secondary non-tertiary education from public and private sources

Figure 2.6. Australian students' performance, based on PISA 2003 and 2006



Source: OECD PISA 2003 and 2006 database.

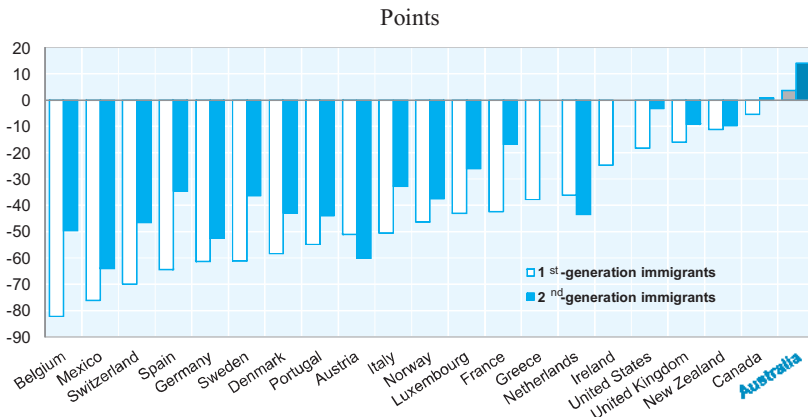
PISA suggests immigrants' children are ahead

Most OECD countries regularly argue about the labour market performance of their different waves of immigrants. The European evidence (OECD, 2007a) seems to be that this group is taking a long time to converge with the mainstream, in terms of employment and pay. Although there remain signs of “unexplained differences” between immigrants and Australian-born individuals’ labour market outcomes (Junankar *et al.*, 2004), the overall view about Australia’s immigrants is comparatively positive. Chapter 1 (Figure 1.5) contains some supportive evidence on this. Chapter 3 will provide more.

It is noticeable from PISA 2006 test scores (Figure 2.7) that children of immigrant origin⁴⁹ – who represent about 25% of a typical Australian cohort – are doing very well at school. This is in sharp contrast with what is to be found in most OECD countries. Figure 2.7, displaying the relative performance of immigrants in mathematics,⁵⁰ shows that Australia is the only OECD country displaying a positive score gap in favour of youth from immigration background. The performance is particularly strong amongst second-generation immigrants. Only Canada can pretend to be akin to Australia.

It is worth stressing that, because they are computed solely with the “within parental education categories” score variance, the estimates displayed in Figure 2.7 are cleared of the mechanical contribution of parental education. In other words, the reported results control for score gaps that may simply be caused by differences in the level of parental education distinguishing those from immigration background and the others.

Figure 2.7. **Score gap^a in mathematics between natives and first- and second-generation immigrants^b for youth aged 15, OECD countries, 2006**



- a) Corrected for parental education background influence.
 b) In PISA, native students are those immigrants born in the country of assessment or who had at least one parent born in the country; first-generation immigrants are those born outside the country of assessment and whose parents were also born in another country; second-generation immigrants are those born in the country of assessment but whose parents were both born in another country.

Source: OECD PISA 2006 database.

49. In PISA, native students are those born in the country of assessment or who had at least one parent born in the country; first-generation immigrants are those born outside the country of assessment and whose parents were also born in another country; second-generation immigrants are those born in the country of assessment but whose parents were both born in another country.
50. A priori less influenced by background variables than reading scores.

C. *The indigenous gap*

By contrast, the scholastic achievement of indigenous youth – representing about 3% of a typical cohort – is alarmingly poor. And this does not augur improvements of that group’s already deficient labour market performances (see Chapter 1). The international version of PISA does not allow measuring the cognitive gap between indigenous and non-indigenous teenagers. But Australian researchers provide compelling evidence that there is a sizeable (negative) one.

In terms of educational achievement, indigenous children have been shown to underperform non-indigenous children in tests administered for various grades of primary and secondary education. Indigenous students are between 10 and 30 percentage points less likely to meet nationally agreed standards of literacy and numeracy attainment. Studies of the test score gap between indigenous and non-indigenous children in Australia have generally found the gap to be around one standard deviation.

The indigenous/non-indigenous educational gap also extends beyond test scores. One in eight indigenous Australians between 5 and 9 years of age never attend school or are frequently transient between schools. And indigenous Australians also have significantly lower levels of tertiary education attendance than non-indigenous Australians (Leigh and Gong, 2008).

An important nuance is that Leigh and Gong (2008) find that the score gap in the early years (*i.e.* for children aged 4-5) is smaller: only around 0.3 to 0.4 standard deviations. This allows the authors to strike a more positive tone in their conclusion. As the indigenous/non-indigenous test score gap widens with time, it appears more connected to nurture than nature, which implies that policies targeted at improving school outcomes in the early years may reduce the test score gap between indigenous and non-indigenous people in Australia.

D. *Beyond 16: the school retention/drop-out challenge*

Low but rising stay-on rate

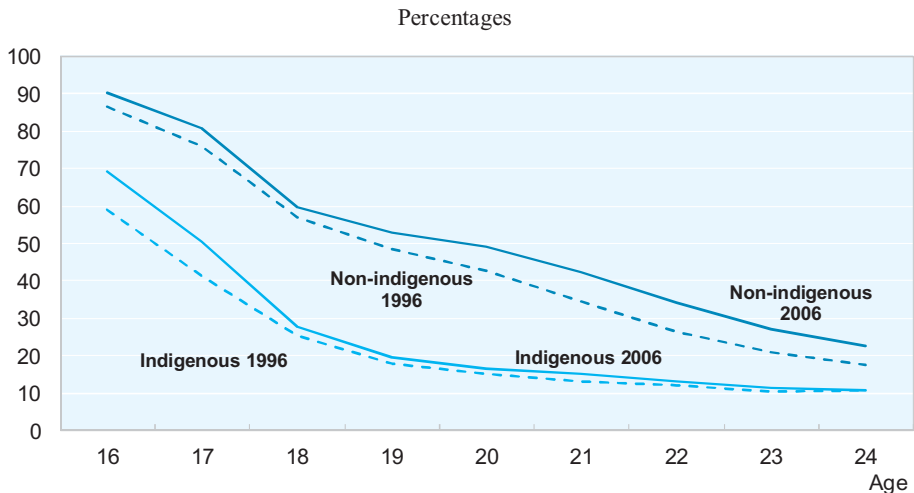
Australia is characterised by a relatively low retention rate beyond age 16. There is no doubt that participation in upper secondary education has risen since the 1980s. Researchers from ACER⁵¹ estimate that in 1980 around 20% of young people were enrolled in tertiary education by the age of 19, and around 16% of low-socio-economic-status (SES) young people

51. Australian Council for Educational Research.

were enrolled. Two decades later, 38% of cohort members were in higher education, and 28% of low-SES students (Rothman, 2003).

Census data from ABS confirm this positive trend between 1996 and 2006, for both indigenous and non-indigenous Australians (Figure 2.8). For indigenous higher propensity to stay in education essentially applies to teenagers. While for non-indigenous, the progress between 1996 and 2006 is driven by youth aged 20 and over.

Figure 2.8. **Staying on^a beyond the age of 16, indigenous versus non-indigenous youth, Australia, 1996 and 2006**

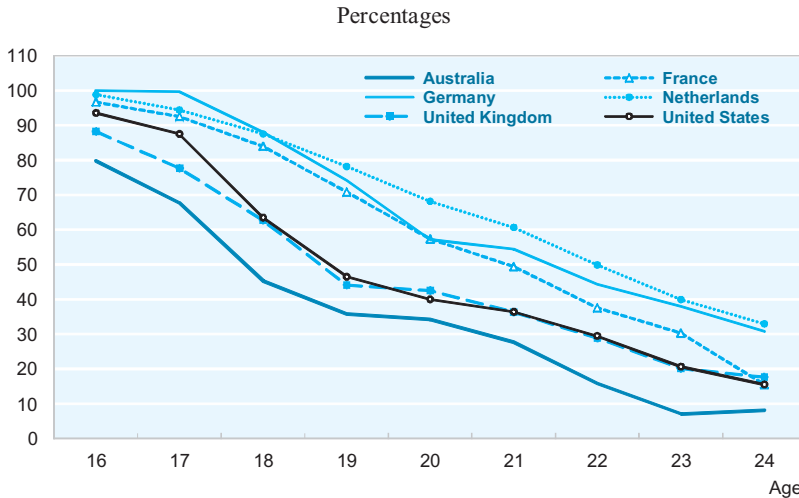


a) Percentage of respondents who declare being student, either on a full-time or on a part-time basis.

Source: ABS, Census data 1996 and 2006.

Nonetheless, the aggregate performance appears rather weak by international standards. Indeed, Figure 2.9 suggests that the propensity to stay on beyond 16 is lower in Australia than in a selection of OECD countries: France, Germany, the United States, the United Kingdom or the Netherlands. And the consequences of early school leaving can be dire despite Australian generally good youth labour market outcomes. According to the Foundation for Young Australian, one third of early school-leavers are only marginally attached to the labour force in their seventh post-school year, and one in 20 have been in that position for most of the time since leaving school (FYA, 2008).

Figure 2.9. **Staying on^a beyond the age of 16, Australia and selected OECD countries, 2006**



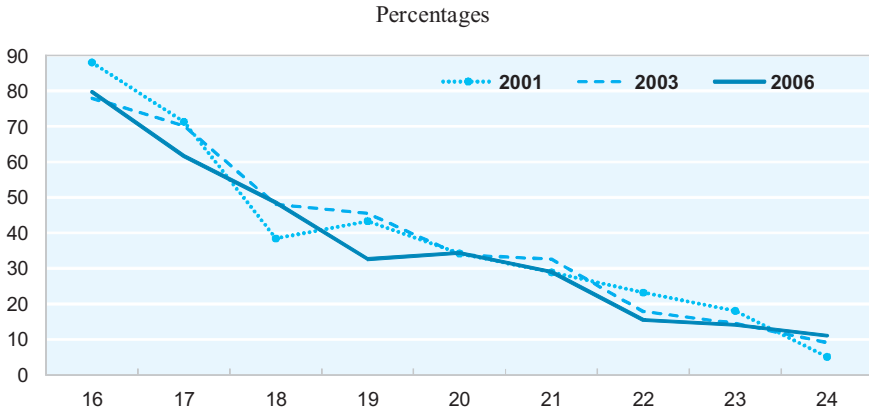
a) Percentage of respondents who declare being student, either on a full-time or on a part-time basis.

Source: Melbourne Institute, HILDA Release 6 for Australia; Eurostat, EULFS for European countries; and US Department of Labor, Bureau of Labor, National Longitudinal Youth Survey 1997 (NLYS97) for the United States.

Figure 2.10 basically shows that the propensity to stay in education has not improved between 2000 and 2006; perhaps as a consequence of a rising opportunity cost of education in an increasingly tight labour market synonymous with skills shortages (see Chapter 3 for more details on this point). It is important to remember however that the consequence of such a (relatively) low school retention rate does not primarily translate into a low percentage of individuals with more than ISCED 3 (Figure 2.5); it rather leads to a low proportion of people with an intermediate educational attainment (ISCED 3).

There is also evidence that without the contribution of youth from immigration background, Australia's performance on the drop-out/retention front would be even worse. Australia is one of the few OECD countries where young immigrants (defined here as those from non-English speaking background) fare better than Australian-born individuals (Figure 2.11). Considering that immigrants represent approximately 25% of the cohort, one can infer that their presence contributes to a lowering of the country's overall drop-out rate in the range of 3 to 4 percentage points.

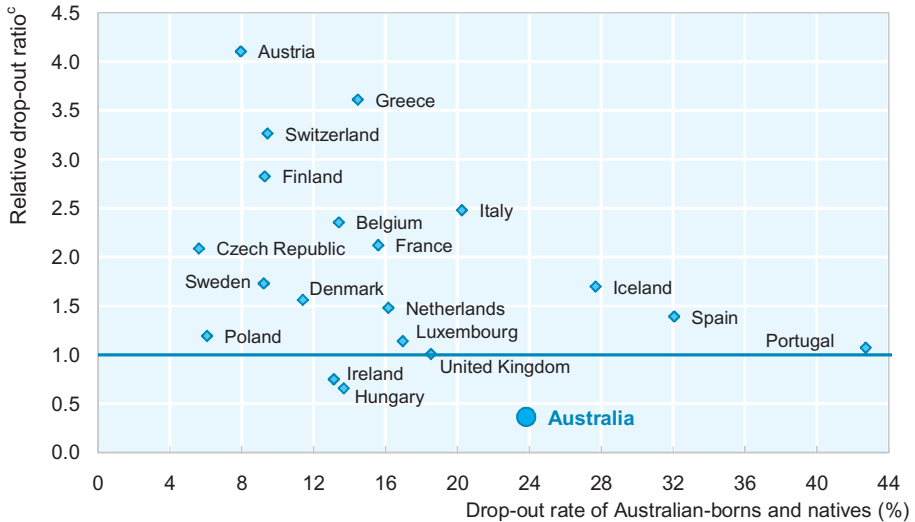
Figure 2.10. **Staying on^a beyond the age of 16, Australia, 2001, 2003 and 2006**



a) Percentage of respondents who declare being student, either on a full-time or on a part-time basis.

Source: Melbourne Institute, HILDA Releases 1, 3 and 6.

Figure 2.11. **Relative risk of being a school drop-out^a while of immigrant origin,^b youth aged 20-24, Australia and European countries, 2006**



a) No longer student without ISCED 3.

b) From non-English speaking country for Australia. Born outside one of the EU-25 countries for European countries.

c) Ratio of drop-out rate of immigrant origin youth to drop-out rates of Australian-born and native youth.

Source: Melbourne Institute, HILDA Release 6 for Australia; and Eurostat, EULFS for European countries.

Little evidence of re-entrance and late completion

A longitudinal, more dynamic, perspective on school drop-out shows little evidence that Australian youth re-enter education after a break, and complete upper secondary education. Table 2.2, based on longitudinal data from HILDA, shows that very few youth, initially identified as school drop-outs,⁵² resume education and move up the educational ladder. Indeed, a mere 10% of those who appeared as drop-outs in 2001 could no longer be considered as such in 2006. A similar analysis applied to Norwegian data (OECD, 2008a) indicates a much higher rate (54%) of postponed completion of ISCED 3.

Table 2.2. **Educational attainment in 2006 of individuals aged 15-23 and classified as school drop-outs in 2001, Australia**

Percentages

Drop-outs at the age of 15-23 in 2001	
Educational attainment in 2006	
Less than ISCED 3 (still a drop-out)	89.3
More than or equal to ISCED 3	10.7
Total	100.0

Source: Melbourne Institute, HILDA Release 6.

3. Strategies to improve educational attainment

A. *Expanding pre-school enrolment*

There is a growing recognition that quality pre-school provides young children, particularly those from low income or other disadvantaged backgrounds, with a good start in life (OECD, 2006a). Participation to pre-school – where children are exposed to an actual educational content – could be particularly good for the latter, as it could reduce the incidence of drop-out or act as a long-term catalyst of STW transition.

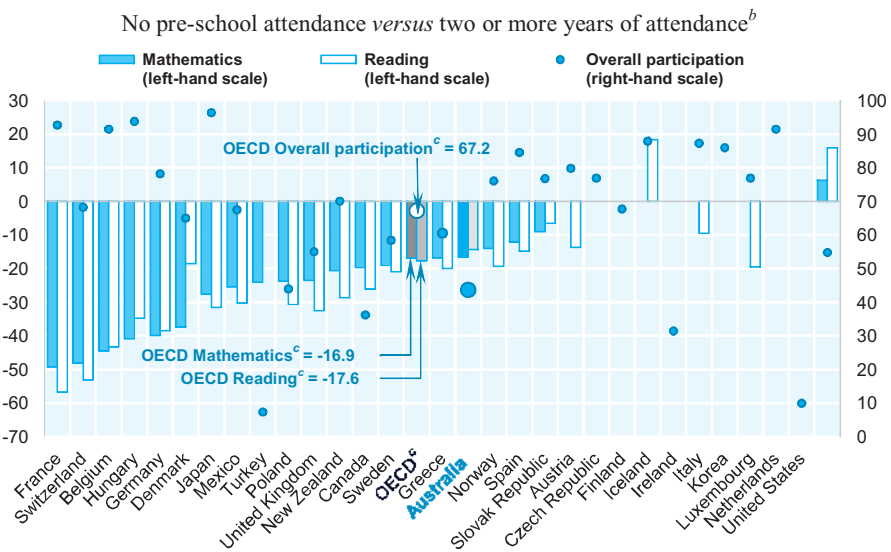
Carneiro and Heckman (2003) review several evaluation studies of the long-term benefits of pre-school programmes on children from low-income families. They find evidence of sizeable long-term effects on school achievement and grade retention, particularly when efforts are sustained beyond the pre-school period. Positive effects of pre-school education on being on-grade and school completion have been found in France, where

52. No longer student without ISCED 3.

pre-school is almost universal among 3-5-year-olds (Caille and Rosenwald, 2006). Boocock (1995) reviews the case of Sweden and concludes that participation in pre-school has benefits in terms of cognitive development and school success, and that these are more positive for children of low-income families.

A relatively unknown feature of the PISA 2003 survey is that participants were asked to report their pre-school experience before they started primary schooling. This information can be used to measure the correlation between early education and cognitive achievement at the age of 15 (that, in itself, is a good predictor of future academic and professional success). In Australia, reported score differences (Figure 2.12) between those who spent two years or more in pre-school/kindergarten and those who spent no time range from 14 to 16 points on the PISA scale (or 0.14 to 0.16 of a standard deviation). The score gaps in Australia, for both reading and mathematics, are close to the equivalent OECD average.

Figure 2.12. **Pre-school non-attendance and score gap^a at the age of 15, based on PISA 2003**



a) OLS (ordinary least square) coefficients not statistically significant at the 5% level are set to zero. The regression includes the following control variables: mother education, father education, immigration status, index of socio-economic and cultural status. The analysis attempted to find out whether the benefits of pre-school were *greater* for those from low SES backgrounds, but the results were most of the time inconclusive.

b) Reference group.

c) Unweighted average of OECD countries.

Source: OECD PISA 2003 database.

Note that the reported coefficients are net of what should logically be attributed to background variables that are beyond the control of education and social policy. These variables include the level of education of parents (both mother and father), the immigration status, as well as the socio-economic and cultural status of the parents. Those who legitimately fear that these results remain potentially spurious should consider that they accord with the evidence published in the evaluation literature – briefly reviewed above – that aims at measuring the causal benefits of pre-school.

International data (Figure 2.13) show that pre-school attendance among children aged 3-5 is lower in Australia (60%) than in many OECD countries. Pre-school should not be amalgamated with childcare services. Childcare refers to arrangements made for the care of children when parents are not available. Traditionally, childcare has been viewed as a tool to foster (mainly female) employment and support families, rather than being part of the education system. Pre-schools, by contrast, are supposed to offer a range of educational and developmental programmes to children, delivered by staff with teaching qualifications. As mentioned earlier, there is abundant evidence from the evaluation literature concerning the long-term benefits of pre-school. The evaluation of the outcomes of childcare is much more contrasted and sometimes leads to the conclusion that attendance is counterproductive (Lefèbvre *et al.*, 2006).

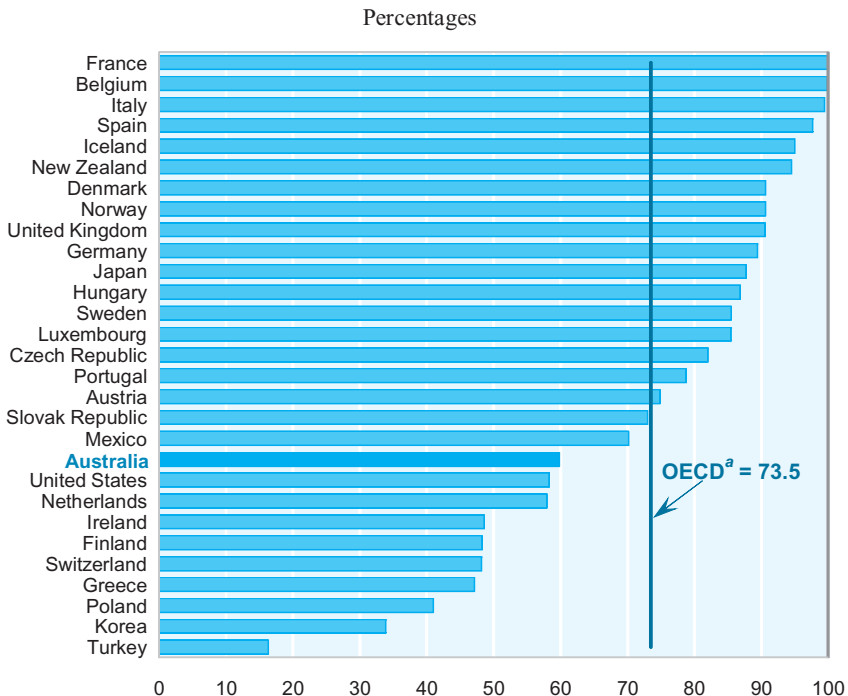
In most Australian States and Territories (Table 2.1) pre-school programmes start at age 5 in the year immediately before children start primary school. Participation is not compulsory. A distinguishing feature of the country is the low level of aggregate expenditure on those programmes, which in 2005 accounted for only 0.09% of GDP compared with the OECD average of 0.45%. This contrasts with an above-OECD-average expenditure in the other sectors of initial education (OECD, 2008d).

Decentralisation of pre-schooling can also raise certain challenges. Experience from the OECD reviews suggests that devolution of powers and responsibilities may widen differences of access and quality. The phenomenon is evident in federal countries similar to Australia, such as Canada, Germany and the United States, where unified national policies have been difficult to achieve (OECD, 2006a).

A noteworthy point is that the 2008 budget of the Commonwealth (*i.e.* federal) government – echoing the Labour government’s ambitious “Education Revolution” programme (see Box 2.2) – contains commitments that should improve Australia pre-school performance. There is now a clear

commitment that all Australian children⁵³ will have access to early learning programmes in the year before formal schooling (*i.e.* at age 4); and that these programmes will be delivered by a qualified teacher. This policy will normally be fully implemented by 2013.

Figure 2.13. **Pre-school attendance rates among 3 to 5-year-olds in OECD countries, 2006**



a) Unweighted average of countries shown.

Source: OECD Education database.

To deliver on these commitments, the Labour government will invest money to (re)train a high quality pre-school workforce. The National Early Years Workforce Strategy will help build such a highly skilled and capable workforce. The package provides incentives to improve the qualifications of (current) childcare workers and more university places for (future) pre-school teachers. The package includes:

53. Part of “universal access” includes a commitment by the Prime Minister that all indigenous 4-year-old in remote communities will have access to early learning programmes.

- AUD 60.3 million to support around 8 000 childcare workers to gain a qualification by removing tuition fees for childcare diplomas and advanced diplomas from 2009;
- AUD 53.9 million to create 500 additional university places for early childhood teachers, starting in 2009 and rising to 1 500 places by 2011; and
- AUD 12.4 million from July 2008 to fund fiscal rebates for childhood teachers who work in regional and remote areas, indigenous communities and areas of high disadvantage.

Box 2.2. Australia’s forthcoming “Education Revolution”

The Council of Australian Governments (COAG) – a body regrouping all levels of government in Australia – has established a Productivity Agenda Working Group to drive productivity and participation improvements through the “Education Revolution”.

Through COAG, the Australian Government is putting in place the partnerships between all levels of governments, policies and structures that aim to deliver better outcomes. All governments have agreed to a set of very ambitious targets:

- By 2013 universal access to early learning will be provided for all children in the year before formal schooling;
- By 2012, all indigenous 4-year-olds in remote indigenous communities will have access to a quality pre-school programmes;
- By 2018, the gap in mortality rates for indigenous children aged under 5 years will be halved;
- By 2018, the gap in reading, writing and numeracy for indigenous students will be halved;
- By 2020, Year 12 (ISCED 3) or equivalent attainment will have risen to 90%, and the gap between indigenous and non-indigenous attainment will have been halved;
- By 2020, the proportion of Australians aged 20-64 without qualifications at the Certificate III level and above will have been halved; and
- By 2020, the number of diploma and advanced diploma qualification completions will have doubled.

An interesting feature is that as part of COAG’s reform agenda there will be a new Commonwealth-State financial framework that reshapes the existing Commonwealth State Specific Purpose Payment agreements (SPP agreements). The existing focus on narrow inputs will be replaced with a focus on outcomes. The new SPP agreements will be built on aspirational goals and will include a clear statement of objectives, roles, responsibilities and outcomes to which both levels of government will have to commit. In schooling, the agreement will include non-government schools, and in training it will extend to industry.

The revised SPP framework will link funding to outcomes and outputs and incorporate clearer and simpler reporting systems. It will be supported by a commitment from the Australian Government to provide national partnership payments to fund the delivery of specific projects or incentive payments for facilitating or rewarding broader reforms of national importance.

The new framework will support implementation of the government’s ambitious pre-schooling reform agenda. This includes the provision of universal access to pre-school education for all children in the year before formal schooling commences, for 15 hours a week, 40 weeks a year, delivered by a degree-qualified early childhood teacher, greater integration of the childcare and pre-school sectors and the introduction of quality standards.

In the school sector, the new framework will enhance educational attainment and focus on improving educational outcomes for students in the most disadvantaged school communities. A further priority will be to support teacher quality, which is the most important school factor in improving student outcomes.

In the training sector, the focus will be on progressing further reform to enhance its flexibility and responsiveness, improve access to skills for all Australians and strengthen the performance of the national system. The new framework will position the training system to meet the complex demand for skills created by the loss of skills from those retiring or leaving the workforce and the growth in demand for higher-level vocational qualifications.

Source: Information directly provided by DEEWR.

B. How to deal with school drop-outs and youth at risk?

Developing VET pathways within senior/upper secondary schools

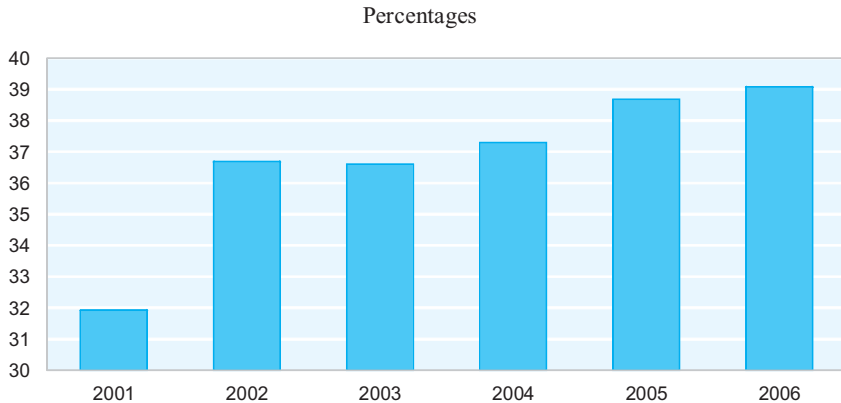
In a context where relatively few youth stay in education beyond age 16, an interesting feature of Australia’s educational policy that started in the early 1990s is a widespread effort to develop (or just restore) “vocational pathways” at Years 11 and 12 (for students aged 17 to 18) and beyond. Such a move is similar in many respects to those observed in other OECD countries [e.g. Canada (OECD, 2008b)].

The late 1990s saw the expansion and enhancement of the Australian Apprenticeship system, the establishment of the Australian Qualifications Framework (AQF), the introduction of VET in schools and the development of training packages. This means upper secondary school students (Years 11 and 12) can now gain practical work skills and nationally-recognised VET qualifications.

According to the National Centre for Vocational Education Research (NCVER, 2006) since their inception in 1996, there has been a rapid uptake of all upper secondary students (Year 11 and 12) participating in VET programmes. Data extracted from HILDA tend to confirm this assertion (Figure 2.14): the share of young adults aged 25-29 with an

ISCED 2/3 attainment possessing a VET certificate rose from 32% to 39% between 2001 and 2006. The size of the increase in Figure 2.14 (7 percentage points between 2001 and 2006) and the pattern of the increase over time are somewhat surprising. Nonetheless, other data confirm the general direction of the result (NCVER, 2005).

Figure 2.14. **Share of youth^a holding an ISCED 2 or ISCED 3 final degree, with a VET certificate,^b Australia, 2001-06**



a) Aged 25-29.

b) Certificate III or IV, or Certificate I or II.

Source: Melbourne Institute, HILDA Release 6.

The pay-off of VET

A rising participation to VET represents a quantitative success. In more qualitative terms, it is important to assess the pay-off of VET. Using HILDA, it is possible to assess how young adults with a VET degree (Certificate III or IV, or Certificate I or II)⁵⁴ fare on the labour market compared with those with an academic-oriented degree of equivalent level (Year 12, Year 11). The analysis excludes those with tertiary/higher educational attainment, be it vocational (Advanced diploma, Diploma)⁵⁵ or non-vocational (Bachelor, Grad diploma, Grad certificate, Postgrad – Masters or PhDs).

-
54. In essence, Certificate I/II qualifications primarily provide operational knowledge, and require little prior schooling; Certificate III/IV qualifications provide greater theoretical depth and focus on a broader range of skills.
55. Diploma qualifications, although part of VET, incorporate a great focus on fundamental principles and conceptual skills, generally with Year-12 schooling or its equivalent as a prerequisite.

Results, to be found in Table 2.3., are essentially fourfold:

- First, holding a VET certificate seems to be positively correlated with the level of annual gross earnings. The annual wage premium is in the range of 12 percentage points.
- Second, the VET premium is lower, at about 8 percentage points, when expressed in terms of weekly gross earnings. Hence, only part of the annual wage VET premium can be interpreted as synonymous with labour productivity gains. The rest points towards a higher/more intense supply of labour. This accords with Australian studies using the same source of data. Leigh (2007) concludes that about one-third of the VET annual gains are from enhanced labour productivity,⁵⁶ and two-thirds reflect a larger supply of labour.
- Third, having a VET certificate increases the likelihood of holding a job by (a modest) 3 percentage points.
- Fourth, the VET certificate has no statistically significant impact on the probability of being on income support.

Table 2.3. Effect of holding a VET certificate^a on a selection of labour market and social outcomes for youth^b no longer in education with an ISCED 2 or ISCED 3 final attainment, Australia, 2006

OLS regression coefficients^c

Outcome considered	Marginal effect of holding a VET certificate	Statistical significance (p-value)
Annual gross earnings	0.12	0.000
Weekly gross earnings	0.08	0.000
Being in employment	0.03	0.001
Receiving income support	0.05	0.190

OLS: Ordinary least squares.

- Certificate III or IV, or Certificate I or II. Reference/control group consists of those with the more academic/general diploma of equivalent level (Year 12, Year 11).
- Youth aged 16-29.
- The regression includes the following control variables: gender, indigenous origin, age, age squared.

Source: Melbourne Institute, HILDA Release 6.

56. Leigh's (2007) strategy to identify productivity versus participation effects is very similar to ours. He basically estimates two sets of regressions. The first set uses as the dependent variable pre-tax log hourly (where we use pre-tax log weekly) wage. The second uses (exactly like us) log pre-tax annual earnings.

The reader should bear in mind that this analysis is conducted at a relatively aggregate level. A particular problem is the aggregation of Year 11 and Year 12 and of all certificates, from Certificate I to IV. Australian research (Cully, 2005) has shown that there is considerable difference between completing Year 11 and Year 12 and that lower certificates (I and II) are quite different in terms of outcomes to higher certificates (III and IV). Long and Shah (2008) for instance observe that VET is a good investment as the rate of return exceeds 20%. But this result is for men holding at least Certificates III or women in possession of a (tertiary-level) diploma qualification.

4. Between school and work

This section focuses on non-educational aspects of young people's preparation to leave initial education. The two elements covered are working while studying (or student jobs) and career guidance. Under certain conditions, both are generally perceived as conducive to a faster and smoother school-to-work transition.

A. *Student work*

In Australia, the first work experience occurs well before youths complete their initial education. This is due to a very high incidence of student jobs, as highlighted in Chapter 1 (Figure 1.7). Working part-time during semester among students has been on the rise for the best part of the past two decades and is now the norm, particularly among tertiary education students. For example, in 2007, 47% of 15-19-year-old students and 68% of 20-24-year-old students had a job. Among full-time students, the corresponding percentages were 43% and 58%. Among part-time students, having a job is almost universal (over 90% in each age group) (ABS, 2007a).

In Australia there are no explicit barriers to a student working beyond the need to fulfil course requirements and achieve satisfactory progress in courses. Students receiving income support (*i.e.* Youth Allowance, see Chapter 3) payments are limited in the amount of earnings they can receive. Above a certain threshold, a taper rate reduces the value of the allowance that is paid.

Whether student jobs are beneficial or not⁵⁷ has been extensively researched in the United States. While some of the earlier studies

57. One can think of the following mechanisms through which working while in school might have an impact on educational attainment. On the one hand, early work experience while enrolled in high school may hinder school performance, so that the individual gets behind in his or her schoolwork to the point where dropping out and entering the labour market is the preferred option. The student may also simply lose interest in schoolwork and enter the labour force on a full-time basis. At the same time, working while in

(*e.g.* Greenberger and Steinberg, 1986) tend to find negative impacts, others by Eckstein and Wolpin (1999), Oettinger (1999), and Ruhm (1997) show that far from being the case that all work is detrimental, modest involvement in work activities actually leads to positive outcomes. In particular, Ruhm finds strong evidence that early work experience leads to higher future wages and better fringe benefits. Additionally, he finds that students working 10 hours per week during their senior school year have a higher graduation probability than those who do not work at all, although heavier work (more than 20 hours per week) commitment is associated with a lower probability of graduation.

These results largely accord with those found by Australian researchers. For those who did not go to full-time study beyond age 16, part-time employment during Years 11 and 12 reduces the likelihood of unemployment by age 19 and the likelihood of experiencing long-term unemployment. They are also more likely to make good transitions. Income is not affected in general. Overall, this suggests that working part-time while at school advantages students as they gain knowledge of the labour market, and develop skills and contacts which enables them to make a smoother transition from school (DEST, 2006).

A number of studies have explored the effect of part-time work on university students. Results show that doing some paid employment helps, but paid employment for long hours per week has a small but negative effect on average marks for full-time students. The beneficial effect peaks at 11 hours of work, declines thereafter and becomes negative after 22 hours of work. However, those working 30 hours per week could expect to only lose 3.5 marks out of 100 (Applegate and Daly, 2005). Longer hours of paid work were also associated with increasing levels of attrition, with students working over 20 hours per week having the highest attrition (around two times as high as for those working 10 hours or less and three times as high as for those not working at all).

school need not be detrimental. It could be that some moderate exposure to the labour market while in school might actually lead young individuals to develop other qualities, such as a greater sense of responsibility, improved work ethics, and better discipline, in which case it could actually improve the prospects of graduating from high school. Similarly, in terms of its impact on future labour market outcomes, it is not clear that investments made early in work experiences may hurt individuals in the long run. For example, the inherent search process involved might help young people decide what they intend to do later. Moreover, some of the skills acquired on-the-job are likely to be transferable across employers and thus potentially help increase future wages.

B. Orientation, guidance and placement: Career Advice Australia

Good career education and guidance, prior to young people's entry into the labour market, is widely recognised in the literature as being one of the elements fostering a smooth school-to-work transition (Ryan, 1999; OECD, 2004a). And there are reasons to believe that the educational and career counselling provided by secondary schools is particularly important for pupils who do not learn from their families or other well-connected social networks. The now rapid changing nature of labour market needs also justify paying more attention to guidance.

An interesting multi-fold programme is Career Advice Australia (see Box 2.3), an Australian Government (*i.e.* federal) initiative supporting young Australians aged 13 to 19. Career Advice Australia has a key role in promoting a national and consistent approach to the career education provided to young people. The scheme has been designed to bring schools and industry together with a clear understanding of what is required by industry.

It provides access to career information and advice, work experience and information about opportunities in industries to help young people make informed decisions about their future. It assists young people to complete Year 12 (or its vocational equivalent) by recognising and supporting a range of learning pathways which retain or re-engage young people in education and training.

Box 2.3. Career Advice Australia

The key elements of Career Advice Australia are:

- A national network of Local Community Partnership;
- Industry leadership at a regional and national level;
- Support for disconnected youth, or youth at risk of disconnecting from education; and
- Career development services for schools, teachers and career advisers.

Local Community Partnerships delivers three programmes to facilitate industry involvement in school career education and support transitions: *i) Structured Workplace Learning* that give students learning opportunities in real or simulated workplaces; *ii) Adopt a School*, a programme that encourages businesses to give young people of a particular school hands-on learning experiences in a specific industry sector – preferably an emerging sector or one where there is a skills need; and *iii) Career and Transition Support*, a programme offering a range of career development and transition support services in their local area.

Industry leadership consists essentially of two elements: *i*) a nation-wide network of *Regional Industry Career Advisers* that provides high quality, relevant, localised industry career information, advice and resources to schools and pupils, particularly in skills needs areas, backed by *ii*) *National Industry Career Specialists* who provide targeted, industry sector-specific quality career advice and specialist information, including information on skills needs and labour markets.

Support for young people disconnected, or at risk of disconnecting, from education is provided via *Youth Pathways*. Youth Pathways providers help youth who have the most significant barriers to remaining in education. It offers personalised support to help these young people to make a successful transition through to the end of Year 12 (end of senior/upper secondary education) and, ultimately, to further education, training or employment. Another programme targeting youth at-risk is *Connections*. The programme targets youth completely disconnected from mainstream schooling. *Connections* provides another chance at learning, through flexible and accredited education and training options delivered in supported community settings to help young people get back on track and reach their potential.

Career development services are essentially aimed at improving the standard of career development services and the standing of guidance professionals. Several initiatives are funded: *i*) the definition of *National standards for career development practitioners* that will be mandatory after 1 January 2012; *ii*) *Certificate IV in Career Development*: a specialised diploma that provides individuals with the opportunity to develop skills and theoretical knowledge to underpin their role as career development practitioners; *iii*) *Scholarships* for (future) career advisers. Prospective career advisers in schools, universities and TAFE institutes can apply for scholarships to help them gain skills, knowledge and experience through further study or an industry placement; *iv*) *School and Industry Leaders' Forums* that bring school and industry/business leaders together at a local level to share ideas, and to discuss better ways of working in partnership to develop locally specific career education programmes in schools, and *v*) *Career Education Lighthouse Schools Project* to champion good practice in quality career education and trial new and innovative ways of implementing career education in schools.

Source: Information directly provided by DEEWR.

5. Job-related training

The international evidence about the incidence of adult education and training among young (16-24) workers is limited. The only recent source commonly available is the 2003 Adult Literacy and Life Skills Survey (ALL), and just five OECD countries took part in this (Canada, Italy, Norway, the United States and Switzerland).⁵⁸ As to Australia, HILDA contains items that are comparable to those contained in ALL.

58. Two other OECD countries (Australia and New Zealand) have implemented the ALL survey in 2006. But the micro-data, similar to those used in this section to assess adult education, are not available.

Table 2.4 focuses on young workers who undertake education and training activities that are job-related (as opposed to being undertaken out of personal interest, as a hobby). Australia appears low in this ranking: 33% of its young workers aged 16-24 declare participating in job-related education and training compared with 77% in Canada and 66% in the United States. The gap *vis-à-vis* other countries is much lower among prime-aged and older workers. For the workers aged 45 and over, available statistics even suggest that job-related education and training is more commonly available than in Canada, Italy, Norway, Switzerland and the United States. Such a pattern of participation by age is broadly consistent with previous Australian analyses (Roussel, 2000).

Table 2.4. **Incidence of job-related education and training by age group, Australia and selected OECD countries, 2006^a**

Percentage of workers^b who participated over the preceding 12 months

	16-24	25-35	35-44	45-54	55-65
Australia	33.1	43.3	43.2	41.3	35.1
Canada	77.1	36.7	29.4	23.6	18.5
Italy	42.3	37.2	20.9	15.9	5.1
Norway	61.7	38.7	37.5	28.9	18.3
Switzerland	56.6	39.7	29.8	23.1	10.6
United States	66.1	39.0	32.4	32.6	21.9

a) Data refer to 2006 for Australia; for all other countries, they refer to 2003.

b) Excluding respondents who are still studying.

Source: Melbourne Institute, HILDA Release 6 for Australia; and Statistics Canada and OECD (2005) for all other countries.

In Australia the distribution of job-related education and training according to age appears at odds with what is observed elsewhere. It also contradicts the prediction made by human capital theory which is that human capital investment is a declining function of age. In combination with a general context synonymous with skills shortage, it may also (partially) explain why the Labour government in 2008 made several decisions, as part of its ambitious Skilling Australian Workers scheme, to promote the up²-skilling of already employed workers *via* the uptake of Australian Apprenticeships and several other measures promoting VET to industry as well as core skills (language and literacy) and basic education qualifications (see Box 2.4 for details).

Box 2.4. Skilling Australian (young and adult) workers

A key priority of the Australian Government has been to promote the uptake of Australian Apprenticeships by existing workers. The main elements of the promotion strategy include:

- The *Minister's Awards for Excellence* which recognise and reward organisations and individuals who make outstanding contributions towards the training of Australian Apprentices. Awards are made for the 22 regions in Australia where Apprenticeship Centres operate. The awards are presented at a gala dinner at Parliament House and receive wide media coverage. The approach to apprenticeship training of the winners of the awards are publicised as case studies of exemplary training on the web and are disseminated widely in hard copy reports;
- The provision of funds through the *Industry Training Strategies Programme* to help employers to better understand the nationally endorsed training packages for Australian Apprenticeships. As an example, education and training advisers funded under this programme work through industry associations to increase their members' understanding of VET issues. They achieve this through visits, meetings, newsletters and promotions to help employers attain their training goals. These advisers also assist in providing industry advice to government; and
- Projects under the *National Skills Shortages Strategy* that involve industry, providers and governments in finding solutions to skill shortages in the trades at the regional and national level. Projects include targeting new sources of potential entrants, disseminating best-practice strategies across industry sectors, encouraging young people in science and technology careers and the establishment of an Australian Apprentices Roundtable to tap into innovative ideas from current and recently completed Australian Apprentices.

The Australian Government is also promoting VET more generally to industry. The *Australian Training Awards* are a central part of that endeavour. These awards are made at State and national level, and the organisational categories include "Employer of the Year", "Small Business of the Year", "Australian Training Initiative", "VET in Schools", "Large Training Provider of the Year" and "Small Training Provider of the Year".

Another priority in relation to already employed workers is to encourage improvement in core skills (principally language and literacy) and in basic education qualifications. This reflects the growing importance of a skilled and flexible workforce to maintain and improve industry competitiveness in a globalised market and the evidence pointing to low participation in up-skilling of workers with low skills, either on their own account or through employer training.

- The *Workplace English Language and Literacy (WELL)* programme encourages employers to invest in training of their employees by subsidising up to 75% of the cost of providing workers with English language and literacy skills, to help them to meet the demands of their employment. During 2006, over 17 000 employees were trained.
- There are two main measures in place to improve the skill level of existing workers to a Certificate III level or higher qualifications.

- First, under the *Australian Apprenticeship Incentives Programme* an employer may attract commencement and completion incentives for existing workers undertaking Certificate III or higher qualifications. And all Australian Apprentices may attract employer incentives and also a range of personal benefits earmarked for them.
- Second, the Labour government has provided funding for an additional 701 000 training places under the *Skilling Australia for the Future* initiative. The intent is that around 56% of these places (referred to as the *Productivity Places Programme*) will be allocated to existing workers and that most will be at the Certificate III or above level. This programme replaces the Workskills Voucher programme introduced in 2007 which offered training to those over 25 who did not have a Year 12 or equivalent qualification.

In addition, under the *Skilling Australia for the Future*, a body called Skills Australia is being set up to provide advice on current and future skill needs. Drawing on this advice, Industry Skill Councils (which presently are responsible for the specification of industry standards for skills and qualifications) will also be tasked to work with firms to analyse the skill needs of workers and to organise training.

In the 2008 budget, the Labour government decided to more raise the amount spent on that programme from AUD 33.3 million to AUD 232 million. Over five years, more than AUD 2 billion spent on that programme should deliver a future training system that is responsive to the needs of Australian industry and the economy and will provide graduates with relevant qualifications and a better chance of securing a job. It includes an investment of around AUD 33.3 million in the current financial year, which has already made 20 000 new training places available to jobseekers during 2007/08. The 2008/09 budget extends this commitment to provide 630 000 new training places over five years (including 85 000 apprenticeship places). The government has recently committed to providing a further 71 000 jobseeker places (on top of the 630 000 places from the above commitment).

Source: Ministerial statements about the 2008/09 Commonwealth budget: www.aph.gov.au/budget/2008-09/content/ministerial_statements/html.

6. Key points

Australia is characterised by a relatively low pre-school attendance rate, particularly below the age of 5. Various sources suggest participation remains too low among children from disadvantaged background, particularly children from indigenous background for whom early exposure to activities with a strong educational content probably matters most.

Australia's compulsory education performance, as recently confirmed by the PISA 2006 results, is good. An almost unique achievement, in comparison with the rest of the OECD, is the positive performance of the children from immigration background. They outperform Australian-born youth.

But the scholastic achievement of indigenous youths looks dire. Indigenous students are less likely to meet standards of literacy and numeracy attainment. More on the positive side, there are indications that indigenous/non-indigenous test score gaps have more to do with nurture than nature, as they grow larger with age. Hence, policies fostering cognitive development in the early years may reduce the test score gap between indigenous and non-indigenous people in Australia.

Another reservation comes from the fact that teenagers' good levels of achievement in core topics (mathematics, reading literacy or sciences) does not translate into high education stay-on rates after 16. These are lower than in many OECD countries and have levelled off since the early 2000s. Shares of tertiary graduates (more than ISCED 3) and school drop-outs (less than ISCED 3) are above OECD average, but that of ISCED 3 degree holders – presumably because of an abnormally low propensity to complete upper secondary education – remains very low, leading to a “U-shaped” distribution of educational attainment.

Probably with the aim of remedying this problem, efforts have been made since the early 1990s to diversify learning pathways. A rising proportion of school-leavers with ISCED 2 or 3 level declare being in possession of a VET certificate. It remains to be seen however if such a policy is likely to fundamentally affect the school stay-on rate and to improve the overall share of youth successfully completing Year 12 (ISCED 3). A positive element, that may help consolidate and expand VET, is its payoff for individuals. Indeed, holding a VET certificate translates into a significant weekly wage premium, *ceteris paribus*.

CHAPTER 3

DEMAND-SIDE OPPORTUNITIES AND BARRIERS

Although education and training policies are central elements of any long-term effective strategy for improving youth labour market prospects, a comprehensive policy framework has to pay attention to the opportunities and constraints on the labour market. It must pay particular attention to the labour market arrangements and institutions and their impact on the demand for young people, particularly those with no or limited education or lacking labour market experience.

Section 1 examines the state of Australia's labour market and employment opportunities in general. Section 2 explores the macro determinants of youth unemployment, in particular its sensitivity to the business cycle. The following sections examine wages and labour market institutions. Section 3 looks at the relative wages of young people alongside wage-setting institutions, employment protection legislation (EPL), whereas Section 4 reviews labour contract regulation that could affect the entry of youth into the labour market. Section 5 focuses on the dynamic of wages for youth. Section 6 reviews the evidence on wage gaps between young immigrants and their Australian-born counterparts and between young women and young men.

1. Australia's labour market

The Australian's economy has, until very recently, enjoyed an almost uninterrupted 17 year-long period of growth, at an annual rate exceeding 2% (Figure 3.1). Up to the beginning of 2008, one of the main driving forces of economic activity was the global boom in mining commodities in which Australia is a major exporter. The commodity price boom gained momentum just as consumers' expenditure and real estate investment slowed following the cooling of the housing market at the end of 2003.

At the national level, between 2004 and early 2008 the unemployment rate stabilised at around 5%, its lowest level since the mid-1970s and close

to estimates of the structural rate. Capacity utilisation rose close to historical peaks and skilled labour shortages became a more prominent constraint holding back production.

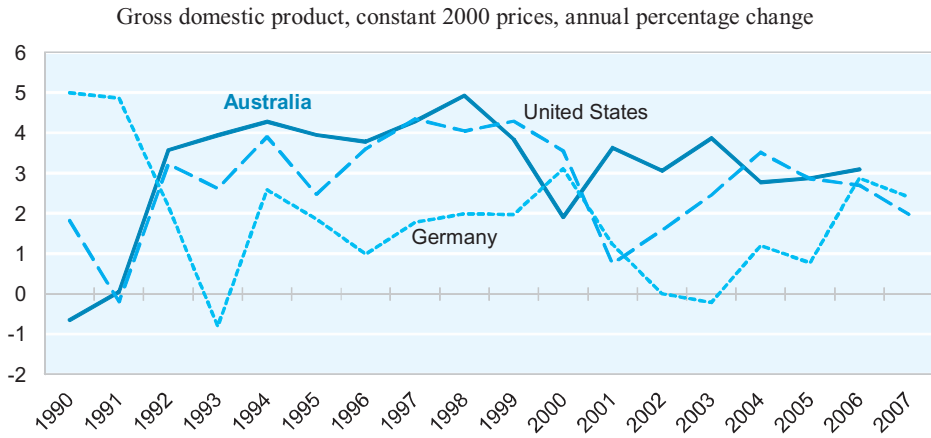
Part of the need for extra workers was met by a sharp increase in foreign labour inflows. The overall level of immigration has grown substantially during the past decade and a half. Net overseas migration increased from 30 042 in 1992-93 to 177 600 in 2006-07 (ABS, 2005 and 2008). This is the highest level on record. The largest component of immigration is skilled migration.

The 2007-08 Migration Programme was set at 152 800 places (Australian Government, Department of Migration and Citizenship, 2008):

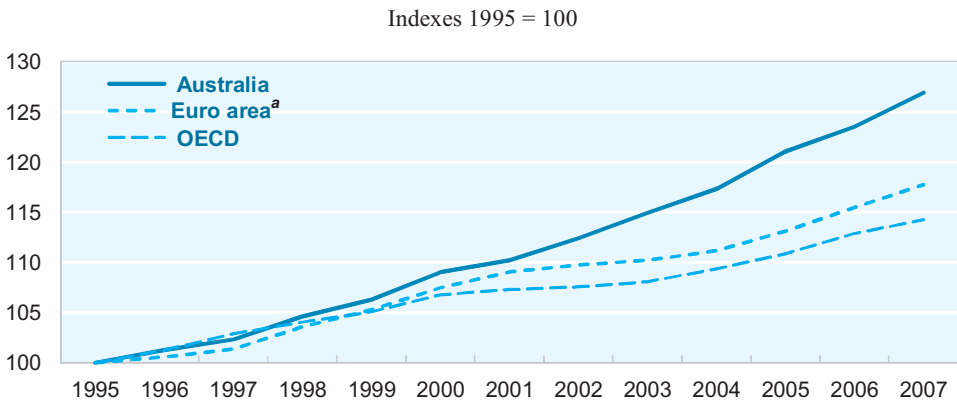
- 108 500 places for skilled migrants who gain entry essentially because of their work or business skills;
- 50 000 places for family migrants who are sponsored by family members already in Australia; and
- 300 places for special eligibility migrants and people who applied under the Resolution of Status category and have lived in Australia for ten years.

But to help ease the mounting skills shortage, in February 2008, the Minister for Immigration and Citizenship increased the Skilled Migration Programme to 158 000 places, although more recently – due to a dramatic macroeconomic turnaround – there has been talks about reducing the inflow of immigrants.

More to the point of this report, labour market pressures also led to an increase in overall employment (Figure 3.2) and probably employment among groups that traditionally record below-average participation rates and face difficulties joining the labour market otherwise. They include low-educated youth or school drop-outs, along with long-term unemployed or older individuals. Australian employers in 2007 had to seek labour among these groups if they wanted new recruits.

Figure 3.1. **GDP growth, Australia versus Germany and United States, 1990-2007**

Source: OECD National Accounts database.

Figure 3.2. **Employment in Australia, Euro area^a and OECD, 1995-2007**

a) Unweighted average of Austria, Belgium, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.

Source: OECD Labour Force Statistics database.

2. Youth unemployment and the business cycle

But the world is now facing a severe crisis, with contagion effects hitting Australia and contributing to an overall deterioration of labour market prospects. The point worth stressing in this review is that youth is likely to be one of the most affected groups.

Assuming past patterns are good guide for future developments, one can predict that, for the OECD on average, each one negative percentage point deviation from the GDP's long-term growth rate will lead to 0.66 percentage point increase of the adult (25-54) unemployment rate. But the equivalent youth (15-24) unemployment rate increment will be more than 1.36 percentage point (Table 3.1, column 2).

Results for Australia point at slightly higher elasticities. A one negative percentage point deviation from the GDP's long-term growth rate usually translates into a 0.9 percentage point increase of the adult unemployment rate. And the youth unemployment rate usually rises by 2 percentage points (Table 3.1, column 1) in similar circumstances.

Table 3.1. Estimate of the effect on the unemployment rate of a one negative percentage point deviation of the GDP growth rate from its long-run trend,^a Australia versus OECD

	Australia	OECD ^b
Youth (15-24)	2.03	1.36
Adults (25-54)	0.87	0.66
Seniors (55-64)	0.91	0.45

For Australia first observation is 1966 and latest observation is 2007.

a) A crucial input of the analysis is the GDP data. Annual GDP time series consist of GDP chained linked volume index, with base year 2000. We are particularly interested in the consequences of GDP shocks, where the term “shocks” refer to deviations from the long-run trend. To capture these shocks we resort to de-trending techniques. Our GDP data are de-trended with a Hodrick-Prescott (1997) filter. This methodology basically consists in minimising a function of the sum of the cyclical part of a time-series *plus* the sum of the squares of the trend component's second differences, multiplied by a given parameter λ . Following a large literature and given the annual frequency of the data, a parameter $\lambda = 6.25$ was chosen.

b) All countries pooled.

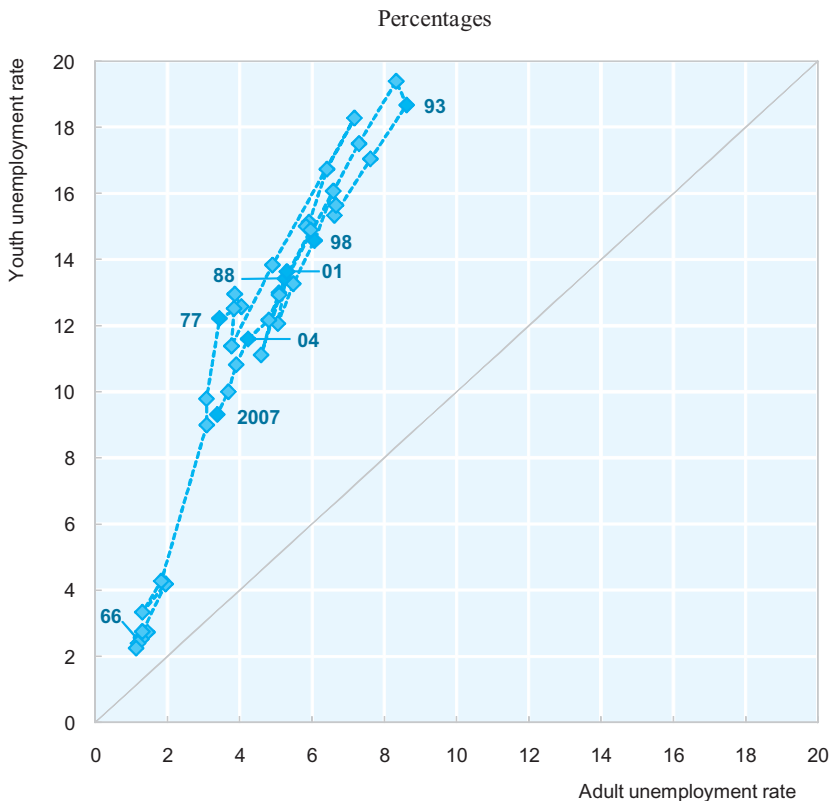
Source: *OECD Labour Force Statistics database* for unemployment rates; and *OECD National Accounts database* for GDP.

The examination of how youth and adult unemployment rates are related conveys the same message (Figure 3.3). An OLS regression applied to the Australian data on display in Figure 3.3 reveals that the youth unemployment rate is usually 12.4% when the adult rate is 5%. This echoes the stylised fact mentioned in Chapter 1: the level of the youth unemployment rate is more than double its adult equivalent. Concerning the dynamics of unemployment rates, the estimated slope of the linear trend visible in Figure 3.3 is about 2.3. This means that a one percentage point increase (decrease) of the adult rate translates into a 2.3 percentage points increment (reduction) of the youth unemployment rate.

There are a number of reasons why youth unemployment rates – in Australia and most other OECD countries – are usually *i)* higher, and *ii)* more sensitive than adult unemployment rates to changes in aggregate demand for labour.

The first reaction of firms to a recession is to cease hiring before commencing on the more expensive procedure of redundancies. It is evident that young people comprise a large segment of jobseekers and must thus be more afflicted by a recruitment freeze. Given the high share of temporary contracts among youth it is also much likely that the employers' practice of not renewing terminating contracts would hurt this group disproportionately.

Figure 3.3. Youth^a and adult^b unemployment rates, Australia, 1966-2007



a) Aged 15-24.

b) Aged 25-54.

Source: OECD Labour Force Statistics database.

For employers, the cost to firms of firing young people is often lower than for older workers. Being less skilled (than the long-term insiders),⁵⁹ they embody lower levels of investment by firms in training and consequently involve a smaller loss to firms making them redundant. Moreover, young people are less likely to be subject to employment protection legislation (EPL) or age (anti)discrimination rules. Almost invariably, such legislation requires a qualifying period before it can be invoked and typically compensation for redundancy increases with tenure/seniority. Thus, also for these reasons, the more recently taken on employees will be cheaper to fire. Obviously, this will disproportionately affect young people.

Young people are also more likely to voluntarily quit their jobs than older workers. Their initial experiences in the labour market are likely to involve a certain amount of “shopping around”, in so far as circumstances permit, in order to find an appropriate occupation. The opportunity cost of doing so is lower for young people. They will tend to have fewer skills and lower wages, and are less likely to “need” a job to support a family. Blanchflower and Freeman (1996) report that, in the United States in the 1980s and early 1990s, young people between the ages of 16 and 25 typically held 7-8 different jobs.

If such voluntary quitting or behaviour or “shopping around” is less cyclically sensitive than job availability, one consequence is that when job opportunities become scarce, unemployment will rise more amongst those groups with a higher likelihood of quitting their jobs. Moser (1986) shows indeed that, in the United States, voluntary quits fall off manifestly with age and are less cyclically volatile than dismissals by firms. The implication is that young people are more likely to quit their jobs than adults and will continue to do so during recessions and therefore will be disproportionately affected by recession-induced reductions in new hires (O’Higgins, 1997).

59. In labour economics, the insiders are those incumbent workers who enjoy more favourable employment opportunities than the outsiders. The reason for this disparity is that firms incur labour turnover costs when they replace insiders by outsiders. Examples of labour turnover costs are the costs of hiring, firing and providing firm-specific training. Insiders may resist competition with outsiders by refusing to co-operate with or harassing outsiders who try to underbid the wages of incumbent workers.

3. Starting wages and labour relations

A. *Minimum wages*

The Australian system of industrial relations has long been governed by a tangled web of binding rules laid down in “awards”⁶⁰ by administrative tribunals such as the Australian Industrial Relations Commission (AIRC)⁶¹ or similar bodies at the State level, which set minimum wages and labour standards. Changes over the past 15 years have simplified, harmonised and scaled back the scope of these awards (OECD, 2008e). In 2006, data from the ABS Employee Earnings and Hours Survey show that awards set the pay of 19% of wage-earners, as opposed to some 68% in 1990.

In 2006, the majority of employees were covered by registered collective agreements (38.1%) and a mere 3.1% by registered individual agreements (also known as Australian Workplace Agreements or AWAs).⁶² Nevertheless, these awards, which still covered 20 areas, imposed fairly generous minimum conditions for award-covered employees, and more importantly, set the benchmark for collective bargaining and individual agreements (OECD, 2008e).

As a result, the minimum wage has remained high in relation to the median wage in international comparison. In 2006, relative to other countries, Australian minimum wages defined by the awards were high. The Australian federal minimum wage is 57% of full-time median weekly earnings, as compared with 48% in the United Kingdom and 31% in the United States (Table 3.2). Relative to median earnings, Australia’s minimum wage was one of the highest among OECD countries, with only France having a significantly higher wage floor.

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60. Nation-wide agreements that, employment tribunal aside, are in the same family of institutional wage-setting as European mandatory extension systems of determining working conditions and pay (Freeman, 2006). They generally only apply to a specific group of employees, usually from a particular industry or occupation, as specified in the actual award.
61. The Australian Industrial Relations Commission (AIRC) is a 100-year-old national tribunal dealing with employment issues including: industrial dispute resolution, unfair and unlawful dismissal, industrial action and awards (*i.e.* pay). The decisions made by this tribunal, regarding wages or other issues, are highly dependent on the actual industrial policy followed by the ruling government.
62. AWAs are negotiated between individual employees and their employer. Prior to Work Choices: it was a requirement that AWAs pass a no-disadvantage test to become legally operational. Under Work Choices: this requirement was initially removed but later reinstated (May 2007) in a more limited form under the Fairness Test.

Table 3.2. Minimum wages (MW) for adults and youth^a in OECD countries, 2006^b

Numerator	Adult MW ^c	Average youth MW ^d
Denominator	Median wage	Adult MW ^e
Australia^e	0.57	0.50-0.90^f
Belgium ^g	0.53	0.82
Canada	0.40	–
Czech Republic ^h	0.39	0.85
Spain	0.39	–
France ⁱ	0.63	0.85
Greece	0.39	–
Hungary	0.48	–
Ireland ^j	0.48	0.70
Japan	0.34	–
Korea	0.35	–
Luxembourg ^k	0.53	0.78
Mexico	0.19	–
Netherlands ^l	0.44	0.53
New Zealand ^m	0.57	0.73
Poland ⁿ	0.41	–
Portugal ^o	0.44	0.75
Slovak Republic ^p	0.43	0.75
Turkey	0.36	–
United Kingdom ^q	0.48	0.72
United States	0.31	–
OECD^r	0.44 (0.49)	0.75

– Not applicable.

a) Youth aged 17, 18 and 20.

b) Data refer to 2005 for Greece, Mexico, the Netherlands, Poland and Portugal.

c) Full minimum wage rate.

d) Unweighted average across sub-MW rates for youth.

e) Youth are entitled to a reduced MW to be set in collective agreements.

f) Range on display corresponds to estimates by Leigh (2005).

g) Youth get an amount ranging from 70% of the adult MW at 16 to 94% at 20.

h) A reduced MW applies for workers under the age of 19 (80%) and for workers aged 19-21 with less than six months job tenure (90%).

i) Youth aged 17 with less than six months experience receive 90% of the adult MW and youth 16 or younger receive 80% of the adult MW.

j) Sub-MW applies to youth younger than 18.

k) Youth aged 15 and 16 are entitled to 75% of adult MW and youth aged 17 are entitled to 80% of the adult rate.

l) Youth are entitled to a reduced MW, varying from 30% for 15-year-olds and 85% for 22-year-olds.

m) Sub-MW applies to youth between 16 and 18 years of age. Starting from 1 April the youth sub-MW was abolished and the adult rate applies to all workers older than 16.

n) There is no sub-MW for youth but school-leavers are entitled to 80% of the adult MW for the first 12 months in their first job held and 90% over the second year. But no age limit is set by law.

o) Sub-MW applies to youth up to 17.

- p) Youth between 16 and 18 are entitled to 75% of the adult MW and youth under 16 to 50% (the latter has is not used in practice as the minimum school-leaving age has been raised to 16, as a result, 75% is used in the calculations).
- q) Sub-MW applies to youth under 22. Two different rates apply: a development rate (83% of MW) for youth aged 18-21 and an additional sub-minimum (62%) for youth aged 16-17.
- r) Unweighted average. Average adult MW/median rate for countries with a sub-minimum for youth in parenthesis and italics.

Source: Leigh (2005) for the youth minimum wage in Australia; and *OECD Minimum Wages database* for all other data.

But the model of the 1980s in which awards and AIRC played a pivotal role was gradually reformed during the 1990s and 2000s under the Liberal-National Party rule. The 2006-enacted WorkChoices legislation represented a crucial step into that direction. The main changes that the WorkChoices Act introduced were the following (OECD, 2008e):

- Replacing the “no-disadvantage test” by *a new safety net of minimum employment standards*. Previously, all new individual and collective agreements had to meet a no-disadvantage test so that employees had wages and conditions that were no less generous, in net terms, in the relevant award. Under WorkChoices, agreements were required to meet only five minimum conditions. These dealt with minimum wages, ordinary weekly working hours (38 hours) and entitlements to annual leave (four weeks), parental leave and personal leave;
- *Streamlining agreement-making procedures*. The requirement for new agreements to be approved by administrative bodies before coming into force was removed. New agreements were assumed to be valid from the date of lodgement;
- *Greater individualisation of industrial relations*. Employers could unilaterally terminate collective agreements. In addition, among the six types of existing contracts, the WorkChoices established a hierarchy such that conditions negotiated in individual agreements (AWAs) took precedence over the other types of (collective) agreements;
- *Reducing the role of trade unions and the AIRC*. Trade union activities were made subject to more restrictive rules regarding their rights of access to businesses and the obligation to conduct a secret ballot before launching industrial action. The recourse of employers against unprotected strikes (taking place outside periods of negotiation) was strengthened. In addition, the AIRC’s powers to set the federal minimum wage and other wages specified in the awards

were transferred to a new body, the Australian Fair Pay Commission. The AIRC's role in arbitrating industrial disputes was maintained, albeit under procedures designed to prompt employers and employees to resolve their disputes at workplace level;

- *Extending federal powers.* WorkChoices established national legislation governing industrial relations for incorporated private enterprises (85% of aggregate employment). Prior to the reform, because of the overlapping coverage of multiple conventions and laws at the federal and State levels, employees at a company may have been subject to different regimes, which was a source of confusion and raised transaction costs;
- *Modernising the award system.* As well as reducing their role as a benchmark for agreement-making, WorkChoices put in place a process to rationalise the existing system of State and federal awards; and
- *Exemptions from protection against unfair dismissal.* Australian workers have had, since 1994, the ability to seek a review of their dismissal on the basis that it was “harsh, unjust or unreasonable”. With the enactment of Workchoices, firms with fewer than 100 employees were exempted from the application of unfair dismissal laws.⁶³

But WorkChoices was a prominent issue in the defeat of the Liberal-National government at the 2007 federal election. Workchoices was heavily criticised for going too far in expanding employers' prerogatives at their workers' expense. The current Labour government is reforming industrial relations again, including three main aspects:

- The safety net laying down minimum terms of employment and wages will be enlarged;
- There will be a greater focus on collective bargaining and AWAs will be banned; and
- A uniform nationwide system of industrial relations in the private sector will be implemented, the number of awards will be reduced and a single regulator, Fair Work Australia, will be created.

63. Larger firms also qualified for exemption in the event of redundancies for operational necessity and during the first six months after a worker is hired.

This reform should enter into force at the beginning of 2010. It involves a number of transitional provisions adopted by Parliament in March 2008. These include (OECD, 2008e):

- Barring firms from using AWAs, replacing them with “individual transitional employment agreements” pending new legislation, which will not include provisions for individual statutory agreements;
- Put in place a new no-disadvantage test for new agreements to provide better protection for employees, meaning that employees under a common law contract must have pay and conditions which do not undercut any pay or conditions contained in the relevant award; and
- Re-launching the process of modernising awards. Some aspects of the WorkChoices reform, notably the move towards a national system of industrial relations, will be retained in order to eliminate overlapping coverage of multiple conventions, laws and awards mentioned earlier.

The next phase of reform aims to increase the flexibility of common law contracts above a certain earnings threshold, as a trade-off to employers for removing AWAs. Under the forthcoming system, employees earning more than AUD 100 000 will be able to enter into a common law contract without regard for the award.

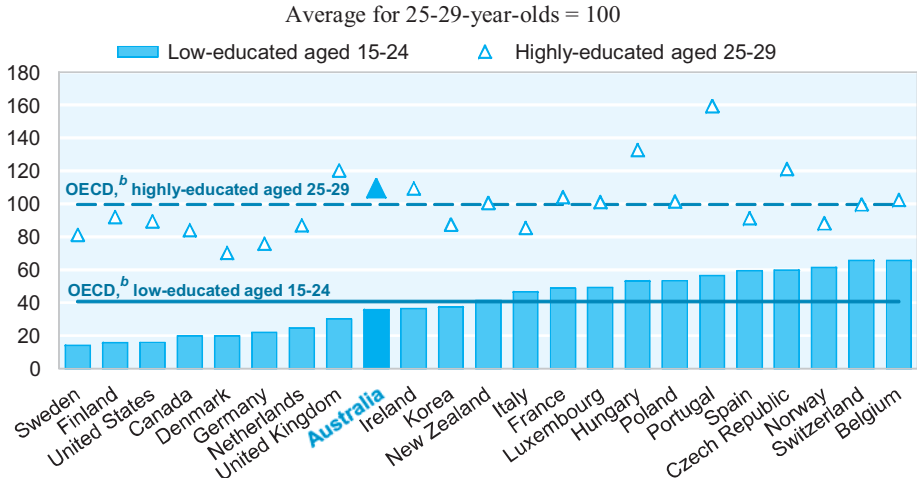
B. Wage profiles

Minimum wages displayed in Table 3.2 may not tell much about actual wages and benefits received by young workers. Therefore, it is worth looking at aggregate OECD data on gross wages (Figure 3.4). These data show that, in the early 2000s, low-educated young Australian workers (less than ISCED 3 aged 16-24) earned slightly less than 40% of the overall average salary⁶⁴ (Figure 3.4). This was very close to, although slightly below, the OECD average for low-educated aged 15-24.

Other, national, sources of data (HILDA) can be used to compute relative age-wage profiles (Figure 3.5 and 3.6, Panel A). The usual pattern emerges: younger people earn less than older ones. In 2006, relative earnings profile in Australia were very similar to those observed on average across the OECD (Figure 3.5, Panel B), except perhaps for older individuals holding tertiary education degree (more than ISCED 3) for whom relative pay declines beyond a certain age.

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

Figure 3.4. **Relative gross annual wages^a for youth by educational attainment, selected OECD countries, most recent year available in the 2000s**

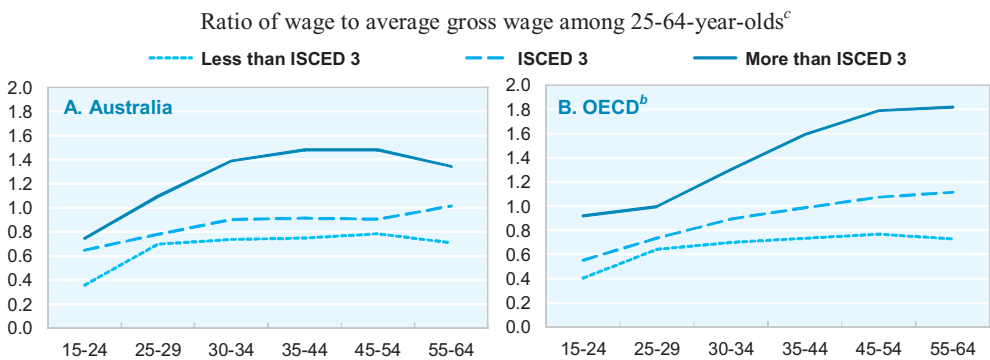


Low-educated youth refers to those without upper secondary education, and highly-educated refers to those with tertiary education.

- a) Wages refer to full-time employees, and to average monthly earnings, by age, gender and educational attainment.
- b) Unweighted average of countries shown.

Source: OECD Education database.

Figure 3.5. **Wage^a profiles of full-time workers by educational attainment, Australia versus OECD,^b most recent year available in the 2000s**



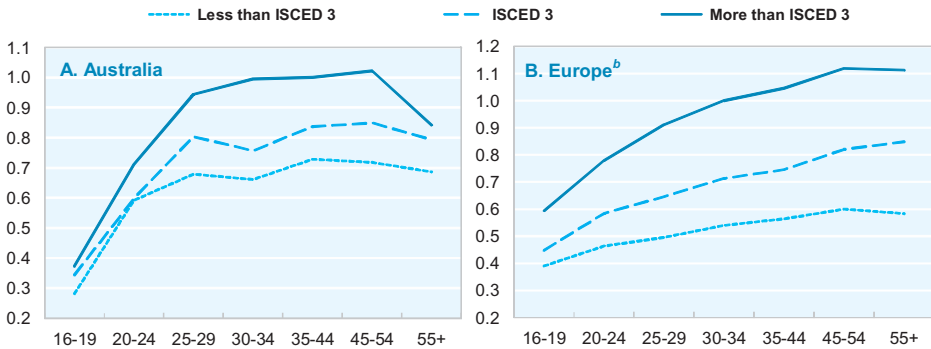
ISCED 3: International Standard Classification of Education referring to upper secondary education.

- a) Wages refer to weekly gross earnings from principal job, for Australian data; they refer to monthly gross earnings from principal job, for European data.
- b) Unweighted average of Australia, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Korea, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Spain, Sweden, Switzerland, United Kingdom and United States.
- c) All educational levels pooled.

Source: Melbourne Institute, HILDA Release 6 for Australia; and OECD Education database.

The comparison with Europe is perhaps more interesting, because the available data allow to focus on low-educated teenagers aged 16-19. It turns out that, in 2006, this particular group earned less than 30% of the overall average wage, a lower fraction than in Europe (Figure 3.6, Panel B). A tentative conclusion is that entry-level wages for Australian teenagers are not particularly high and do not represent a barrier to employment.

Figure 3.6. **Wage^a profiles by educational attainment, Australia versus Europe,^b 2006**
Ratio of wage decile to highly-educated prime-age^c workers wage decile



ISCED 3: International Standard Classification of Education referring to upper secondary education.

- Wages refer to weekly gross earnings from principal job, for Australian data; they refer to monthly gross earnings from principal job, for European data.
- Unweighted average of Belgium, France, Greece, Hungary, Italy, Luxembourg, Poland, Portugal, Switzerland and the United Kingdom.
- Highly-educated refers to those holding more than an ISCED 3 degree. Prime-age refers to those aged 34-45.

Source: Melbourne Institute, HILDA Release 6 for Australia; and Eurostat, EULFS for European countries.

4. Non-wage costs and other barriers to employment

A. Non-wage costs

The tax-wedge – the difference between what employers pay out in wages and social security charges and what employees take home after tax, social security deductions and cash benefits – has also to be taken into account. Table 3.3 (3rd column) indicates that Australia's wedge in 2007 was inferior to those registered in many other OECD countries. This result also holds for low-wage earners (2nd column). This suggests that non-wage barriers are unlikely to be a significant barrier to many young workers in Australia.

Table 3.3. Tax wedge including employers' social security contributions in OECD countries, 2000 and 2007

Percentages

	Tax wedge on low-wage earner ^a		Tax wedge on average earner ^b
	2000	2007	2007
Mexico	7.2	11.1	15.3
Ireland	18.1	15.0	22.3
Korea	14.9	16.8	19.6
New Zealand	18.6	19.1	21.5
Iceland	19.7	23.6	28.3
Australia	25.4	23.7	27.7
Canada	27.8	26.6	31.3
Switzerland	27.3	26.8	29.6
Japan	23.4	27.7	29.3
United States	28.3	27.8	30.0
United Kingdom	29.1	30.8	34.1
Luxembourg	32.8	31.4	37.5
Portugal	33.2	32.6	37.4
Norway	35.1	34.2	37.5
Spain	34.7	35.6	38.9
Slovak Republic	40.5	35.6	38.5
Greece	35.6	36.7	42.3
Finland	43.0	38.2	43.7
Denmark	41.2	39.3	41.3
Netherlands	42.0	40.2	44.0
Czech Republic	41.4	40.5	42.9
Poland	42.0	41.6	42.8
Turkey	39.1	41.7	42.7
Italy	43.1	42.0	45.9
Sweden	48.6	43.3	45.4
Austria	43.2	44.1	48.5
France	47.4	44.4	49.2
Hungary	51.4	45.9	54.4
Germany	48.6	47.4	52.2
Belgium	51.3	49.6	55.5
EU19 average^c	40.4	38.6	43.0
OECD average^c	34.5	33.8	37.7

Countries are ranked by ascending tax wedge on average earner.

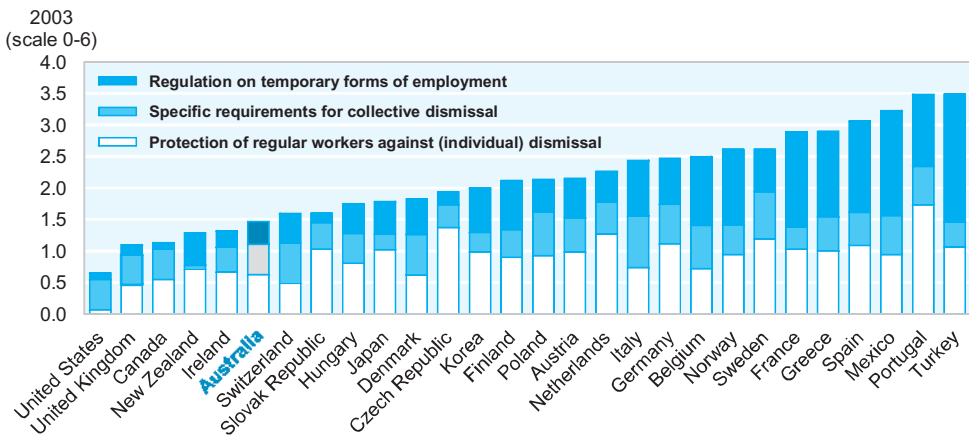
- a) Total tax wedge including employers' mandatory social security contributions for a single worker with no children earning 67% of the average production wage.
- b) Total tax wedge including employers' mandatory social security contributions for a single worker with no children earning the average production wage.
- c) Unweighted averages.

Source: OECD Taxing Wages database.

B. *Employment protection and dismissal rules*

Very strict employment protection legislation (EPL) could also negatively affect employment prospects for low-skilled and inexperienced workers, by restraining employers' willingness to take a risk on them. The OECD indicator of the strictness of ELP at 1.5 in 2003 (Figure 3.7) indicates that Australia had one of the less strict employment legislation frameworks. In the Australian context, this OECD indicator largely reflects the intensity of the “unfair” dismissal rules as they existed before 2006.

Figure 3.7. **Overall strictness of employment protection legislation and its three main components, 2003**



Countries are ranked from left to right in ascending order of the overall summary index.

Source: OECD (2004b), *Employment Outlook*, Chapter 2, Chart 2.1.

5. Moving up the wage ladder, low-pay persistence?

Wage curves of Section 2 suggest the “average” young person starts low in terms of pay, but regularly moves up the ladder afterwards (Figure 3.6). One may still wonder whether there is evidence that some groups of youth persist in low-paid jobs. We already know, from Chapter 1 (Box 1.2), that there is little evidence of people staying long into casual, fixed-term or part-time employment, as the latter tends to serve as a stepping stone to regular and full-time employment. But it is also worth focussing on the dynamics of pay. Do all youth with no or limited educational credentials move up the ladder over time? Or is it that they are relatively unaffected by the flow of time?

HILDA longitudinal data hint at some upward wage mobility among youth aged 16-29 (Table 3.4). More than 49% of those who earned less than the 2nd decile of the overall wage distribution in 2001 were above that threshold in 2006. And the vast majority (72%) of those who were above the threshold initially (in 2001) remain in such a situation five years down the road.

Table 3.4. Persistence in pay category beyond year 2001, youth aged 16-29, Australia

Situation in 2001	Percentages			Total
	Earning lower or equal the 2 nd decile	Situation in 2006 Earning greater than the 2 nd decile	Other (Student/NEET) ^a	
Workers with wages ^b lower or equal the 2 nd decile	16.7	49.4	34.0	100.0
Workers with wages ^b greater than the 2 nd decile	3.9	71.8	24.3	100.0

a) NEET: Neither in employment nor in education or training.

b) Weekly gross wages and salaries from all jobs.

Source: Melbourne Institute, HILDA Release 6.

6. Wage discrimination?

A. Immigrant wage gap

Employment data of Chapter 1 (Figure 1.5) show that in 2006 young immigrants fared less well than Australian-born youth as they were 1.4 times more likely to be unemployed. These results are largely confirmed by the most recent release of the *OECD Employment Outlook* (OECD, 2008c). In both cases however, results are mainly about employment or unemployment gaps, not about wages and earnings gaps.

But in the HILDA survey detailed information on both personal income and immigration background⁶⁵ is available. This offers the opportunity to analyse pay gap into greater details. Using the most recent wave (*i.e.* 2006), one can indeed estimate a log-linear wage equation.⁶⁶ The latter includes an

65. HILDA identifies those of the respondents that have no English-speaking background.

66. The advantage of the log-linear specification of the wage W is that it generates estimates for the X explanatory variable coefficient that are easy

immigrant dummy variable that is interacted with a youth (*i.e.* 16-29) dummy (Table 3.5). The resulting coefficient gives an estimate of how the wage gap of younger cohorts of immigrants has evolved compared with the older ones, once structural differences like the educational attainment, the accumulated labour market experience or the intensity of labour supply have been factored in.

Results are essentially twofold. First, the pay gap between Australian-born youth and immigrants is almost nil (-3%) and not statistically significant. Second, the gap for younger immigrants is even smaller that, at 2% (-3% + 1%). This means that, in the mid-2000s, the Australian labour market was characterised by the absence of systematic wage gap between Australian-born and immigrant youths. Initial gross differences were essentially accounted for by structural differences in terms of educational attainment, labour market experience, and labour supply.

Table 3.5. **Wage^a gap for immigrants, youth versus adults,^b Australia, 2006**

OLS coefficients^c and p-values

Variable	Intensity of the wage gap (1 = 100%)	Statistical significance (p-values)
Youth	0.15	0.0000
Immigrant	-0.03	0.6859
Youth*Immigrant	0.01	0.8628
Woman	-0.12	0.0000
Lower than ISCED 2	-0.61	0.0000
ISCED = 3	-0.49	0.0000
ISCED = 5	-0.19	0.0051
Work full time (more than 30 hours per week)	0.86	0.0000
Work experience (in years)	0.05	0.0000

OLS: Ordinary least squares.

- a) Wages refer to gross wages and salary from all jobs. Full-time and part-time workers.
 b) Youth are those aged 16-29, and adults those aged 30-64.
 c) The reference variables are: Man, ISCED 6, 30-64-year old and Australian-born. The estimated model is $\log(W) = \alpha + \beta_1 \text{Female} + \beta \text{Immig} + \gamma \text{Degree} + \delta \text{Youth} * \text{Immig} + \pi \text{Full-time} + \Omega \text{Experience} + \varepsilon$. The coefficient capturing the potential change in the intensity of the immigrants' wage gap is δ .

Source: Melbourne Institute, HILDA Release 6.

to interpret as they correspond to points of percentage of change of the wage level. For a model $\log W(x) = \beta_0 + \beta_1 X + \varepsilon$ there is indeed that $\beta_1 = d \ln W / dX = (dW/W) / dX \approx [W(x+1) - W(x)] / W(x)$ when $dX=1$.

B. *Gender wage gap*

In many OECD countries, despite dramatic educational gains by women⁶⁷ in terms of tertiary education participation and completion, women's advances in terms of labour market outcomes are still a source of concern. How does Australia fare in this respect? The latest release of the *OECD Employment Outlook* (OECD, 2008c, Chapter 3) shows that in Australia women's employment gap *vis-à-vis* men is about 18%.⁶⁸

There is less available evidence about gender wage gap. But one can again turn to the HILDA survey to get some insight on this important labour market outcome. Using the gross annual earnings information it contains, one can estimate a series of log-linear earnings equations that include a gender dummy. The latter also include a youth (*i.e.* 16-29) gender interaction term. This informs on how the wage gap of younger cohorts of women has evolved compared with that of older cohorts, *ceteris paribus*.

The first column of Table 3.6 reports the results for the simpler model that just controls for education. These results show an annual wage gap between men and women of equal age and equal educational attainment of about 58 percentage points. But that gap is 27 percentage points lower (at 31%) for women aged 16-29.

It is possible to go a step further with the data and to control for the labour supply that potentially varies by gender, and may dramatically affect annual earnings. This is done in several stages. First, annual wages are replaced by weekly wages in order to control for the propensity of women to work less than their male peers on an annual basis. The estimated gap is now 49 percentage points (and 33 percentage points for young women). Second, the number of years spent on the labour market (or actual experience) is added in the list of control variables leading to a 47 percentage points gap (31 percentage points for young women). Third, a dummy variable capturing the propensity of women to work full-time is incorporated, further reducing the gap to about 16 percentage points (13 percentage points for young women, although the difference between young and prime-age women is not statistically significant).

67. In Australia, young women have higher educational attainment than young men. By the age of 20-24, 80% of women had completed Year 12 in 2007 compared to 71% for men. The gap narrows somewhat when comparisons are made against completion of Year 12 or Certificate III (essentially a trade apprenticeship) or higher qualifications – 85% for females compared to just under 80% for males (ABS, 2007a).

68. The gender employment gap is defined as the difference between male and female employment rates as a percentage of the male employment rate.

Table 3.6. Gender wage^a gap, youth versus prime-age women,^b Australia, 2006Percentage differences from the reference group^c

	Annual wage	Weekly wage		
	[A]	[B]	[C]	[D]
Prime-age women	-58.1	-49.1	-47.4	-15.7
Young women	-30.9	-32.9	-31.1	-12.7
Controls	Education	Education	Education Work experience	Education Work experience Work full time

a) Wages refer to gross wages and salary from all jobs. Full-time and part-time workers.

b) Youth are those aged 16-29, and prime-aged are those aged 30-64.

c) The reference group refers to prime-age men.

Source: Melbourne Institute, HILDA Release 6.

The main point thus is that a large part of the gender wage gap has to do with the (considerably) higher propensity of women – including young ones – to work part time on a weekly basis. This phenomenon was pinpointed and discussed by the OECD in its 2006 *Economic Survey on Australia* (OECD, 2006b). Australian observers also noticed it. The Foundation for Young Australian writes, for instance, in its 2008 report, that part-time work is more common among females school-leavers (FYA, 2008).⁶⁹ Researchers Marks, Hillman and Beavis (2003) focused on the cohort of young people born in 1975, and examined their situation in the period 1996 to 2000 when they were aged 21 to 25. The major difference in the activity profile was the lower proportion of young women in full-time employment (56% compared to 65% at age 25) made up by: *i*) a higher proportion in part-time work (15% to 9%); and *ii*) a slightly higher proportion in inactivity (10% to 6%). The latter seems to be associated with child-rearing responsibilities.

Returning to the above-mentioned 16 percentage points wage gap (net of the part-time effect), it should be clear that such a figure does not definitely prove that there is wage discrimination based on gender in the Australian labour market. This wage gap could, at least partially, be attributed to systematic difference in terms of fields of study within a certain level of education. There is indeed some evidence of “sex segregation” as to the type of tertiary education (more than ISCED 3) chosen in many OECD countries (OECD, 2008a, and 2008b).⁷⁰ Women still dominate within teacher training,

69. For recent school-leavers, only three-quarters of them are engaged in full-time work or full-time education in the year after leaving school.

70. Canadian female graduates, for instance, are overrepresented in low-paid fields (arts and humanities, education) and underrepresented in those that

pedagogy, health and social care, whereas men dominate within the natural sciences, engineering, ICT or advanced VET programmes. In Australia, for instance, a higher proportion of men than women aged 25-29 (30% compared to 25%) complete high level VET qualifications (Certificate III/IV or Diploma/Advanced Diploma) (ABS, 2007a).

7. Key points

Uninterrupted and strong GDP growth in Australia over the past 17 years led to strong employment gains. As a consequence, the Australian labour market tightened fast, with the overall unemployment rate falling close to its historical lows. A tight market also implied brighter labour market opportunities for low-educated or indigenous youth.

Australia's labour market institutions are *a priori* also conducive to good employment prospects for youth. Moderate-to-low entrance wages (ranging from 30 to 40% of what an average worker earns) should encourage risk-averse employers to recruit inexperienced and poorly educated individuals. And this trend is probably buttressed by a low tax-wedge and relatively lax employment protection legislation (EPL) framework.

Things may change to a certain extent in the near future. The mid-2000s indeed marked a peak in the degree of flexibility and decentralisation of Australia's industrial policy. The centralised model of the 1980s was gradually eroded under the Liberal-National Party rule during the 1990s and 2000s. And the 2006-enacted WorkChoices Act represented a crucial step for the promotion of individual pay arrangements and the limitation of employment protection.

But WorkChoices contributed to the defeat of the Liberal-National government at the 2007 federal election. The Labour government has started removing certain aspects of the WorkChoices legislation. The new policy will include an enlarged safety net (reinstatement of dismissal rules for workers in firms with less than 100 employees and more numerous minimum terms of employment and pay) and a phase-out of individual agreements (*i.e.* AWAs).

Another possible source of concern is the unexplained gender wage gap between young working men and women. The net weekly earnings gap of about 16 percentage points is large by international standards.

offer higher earnings prospects (engineering, computer sciences) (OECD, 2008b).

Chapter 4

THE ROLE OF WELFARE AND ACTIVATION POLICIES

Australia has an excellent record in terms of school-to-work transition, as several indicators of Chapter 1 suggest. For some youth, however, the first steps after leaving school are still characterised by the experience of unemployment synonymous with spells of income support (or inactivity). There is also some evidence of repetitive use (churning) of income support among unemployed youth.

The provision of services to help youth find a job should ideally follow a “mutual obligations” principle, whereby young people must actively seek work in exchange for targeted actions to help them. There has been, for a long time, in Australia a deep recognition of the importance of mutual obligations. The singularity of the Australian situation in terms of activation is threefold: *i*) the country need to (re)design activation strategies that are adapted to the profile of a public increasingly composed of individuals who face multiple barriers to employment; *ii*) it must combat the churning problem that may exist in some circumstances; and *iii*) it should acknowledge that, for a small number of youth forming the hard core of the disadvantaged Australian society, generally living in remote areas, traditional activation strategies will not work and that more early-age interventions are needed.

This chapter outlines the active labour market programmes (ALMPs) available for youth in Australia. Section 1 describes the situation of youth *vis-à-vis* income support and the traditional activation measures deployed within the PES (*via* the Job Network). Section 2 focuses on the statistical evidence, in particular the problem of long-term dependency and churning. Section 3 discusses the policy reforms (to be) implemented by the Labour government and points out areas of possible improvement.

1. Income support in Australia

A. *The Beveridgean heritage*

A Bismarckian welfare system provides a clear actuarial link, at the individual level, between insurance premiums paid and the value of the insurance (*i.e.* benefits) provided. This system is prevalent in many European countries (*e.g.* Germany, France, Norway, etc.) and explains why youth people with no work experience (no history of contribution to the insurance scheme) are not entitled to unemployment benefits. Whereas the Beveridgean heritage, that inspired the British and Australian approaches to welfare, involves flat social benefits (like income support for the unemployed) financed by general tax revenues.

Another distinct feature of welfare in Australia is that it developed rapidly as a Commonwealth (*i.e.* federal) responsibility. June 1908 marked the introduction of means-tested flat-rate old-age and invalid pensions. The Commonwealth-provided pensions was financed from general tax revenue, and came into operation in July 1909, superseding State old-age pension schemes which had been introduced slightly before. The Commonwealth Department of Social Services was created in 1939 and became fully operative in 1941 (ABS, 1971). More to the point of this chapter, the year 1945 marked the introduction of Commonwealth means-tested unemployment benefits financed from general revenue.

At the beginning of the 21st century, Australia's social security system is still administered by the Commonwealth, is funded from general tax revenue, and provides means-tested income support to those not expected to work (retired people, parents with children below school age and carers), people with restricted work capacity (people with disability or sick) or those who actively look for work from the age of 16 (the unemployed).

B. *The 1998 reform: activation and quasi-market mechanisms to organise employment services*

Australia was one of the first OECD countries to implement a strong mutual obligations strategy for its jobseekers. In exchange for income support and allowances, jobseekers have to participate in training, job-search or job-placement activities. Australia's strategy for tackling unemployment is also based on an innovative system for delivering benefits and job-placement services.

Centerlink was created in 1998 to provide monetary welfare support to people across Australia. Simultaneously, the delivery of employment services was tendered out to Job Network (JN) organisations whose primary responsibility is to assist people into work. JN is a competitive industry. Its

members compete for contracts through tenders (OECD, 2001). Before, provision was dominated by a government-owned job-placement entity: the Commonwealth Employment Service. This radical transformation of employment service delivery that occurred in the late 1990s was without parallel in almost any OECD countries (Freeman, 2006).

Centerlink's mission is to process claims and payments for a range of benefits, including unemployment benefits for youth, on behalf of the Australian Government. It refers jobseeker clients to JN services and other labour market programmes on behalf of the Department of Education, Employment and Workplace Relation (DEEWR) (see Box 4.1).⁷¹ Centerlink is thus a kind of “first-stop shop” for employment services. But not a “one-stop shop” in the sense used in some other OECD countries. This is because its role in job-brokering is limited to *i*) profiling, *ii*) providing access to vacancy listings and career information through computerised touch screens (OECD, 2001), and *iii*) assignment to various services (or pathways) depending on the job-readiness of the applicants as established by the profiling tool (see Box 4.1 for a detailed presentation). Most job-placement or up-skilling activities are delivered by Job Network members.

Box 4.1. Centerlink and Job Network before the 2008-09 reforms by the Labour government

Centerlink processes claims and payments of income support benefits on behalf of the Australian Government. Unemployed youth aged under 21 who live on their own are entitled to a *Youth Allowance* (YA). For those who are not independent, a parental income-test applies (cumulated income less than AUD 31 400 per year in 2008). From the age of 21 onwards, unemployed youth are entitled to the standard unemployment allowance, the *Newstart Allowance* (NSA).

The demand side

Profiling by Centerlink

At registration at Centerlink the computer-based *Job Seeker Classification Instrument* (JSCI) is used by staff to measure the employability of individuals and to profile them to identify those who are expected to be difficult to re-employ. The JSCI was introduced in 1998 and has been continually enhanced and updated since then, in order to take account of changes in labour market conditions and relative disadvantages among jobseekers. JSCI is currently under review as part of the new Universal Employment Services model, which will be implemented on 1 July 2009.

71. Before 2007, the Department of Employment and Workplace Relations (DEWR).

The JSCI includes 15 factors which have proven useful to help identify the risk of joblessness, such as age and gender; country of birth; language and literacy; recency of work experience; educational attainment; vocational qualifications; geographic location; disability or medical condition; and indigenous status. Each factor is assigned a numerical weight, or “points”, indicating the relative contribution the factor makes to the difficulty of placing a jobseeker into employment. Many of the above factors are known to be associated with youth unemployment and, in particular, the JSCI takes account of the relative disadvantage of young jobseekers through assigning the appropriate amount of points for young jobseekers.

Assignment to Services/Pathways

- All people who come in touch with Job Network, who are classified as job-ready, use *Job Search/Matching* services and *Job Vacancy Touch Screens* in Centerlink offices. The *Job Search* service provides vacancy referrals and related services and is open to nearly all unemployed people.
- After three months on income support, clients are referred to *Job Search Training* (JST), a programme that offers courses for three weeks, on a full-time basis. Participants are assisted with writing applications, updating resumes, improving interview skills, building self-confidence and other job-search activities. For those aged 15-24, in receipt of *Youth or Newstart Allowances*, participation is mandatory.
- Centerlink refers clients to *Intensive Assistance* (IA) if their score on the Job Seeker Classification Instrument (JSCI) is above a certain threshold. IA is a programme of individualised case management in which participation can continue for up to 12 to 21 months. Some clients are referred to IA at the start of their unemployment spell, while others are referred only a year or more later. IA providers conduct up-front assessments of new clients over a four-week period to identify those who would benefit from taking up other services – such as Work for the Dole, Literacy and Numeracy Training, or the Personal Support Programme (PSP) (more on these in Section C below) – before they commence IA. This link with these pre-employment programmes should ensure that jobseekers are better able to benefit when they commence IA.

The supply side

A competitive tender process, managed by DEEWR, determines which organisations are contracted to provide Job Network services.

- Providers are financially rewarded on the basis of client intake (commencements) and the employment and training outcomes they achieve: they are free to pay for measures such as training on behalf of their clients, but are not reimbursed directly for these costs, nor are they generally able to place clients in other government programmes.
- Tender decisions take into account not only the prices bid but also factors such as the provider’s track record. To this end, a *Star Rating* system is used ranging from one to five stars, five stars indicating the highest level of performance.

- Tender decisions allocate to providers a maximum number of jobseekers that they can assist.
- Each tender has involved a huge work load both for DEEWR and individual providers, and many existing providers lost business between rounds of Job Network contracts.

Supporting these structures, the model has a strong focus on performance and outcomes, particularly through the use of Star Ratings and the business reallocation process mentioned above. The Star Ratings system is a highly sophisticated instrument which allows for accurate comparison between employment agencies by taking into account differences in (local) labour market conditions and other factors bearing on performance.

Source: OECD (2001), and Australian Government website : www.workplace.gov.au/.

C. *Activating youth aged 15-20*

In Australia, a distinction must be made between youth aged less than 21 and those who are older. The latter tend to be assimilated to adult jobseekers. They are entitled to the standard Newstart Allowance (NSA) and must comply with the strings of activity tests (or mutual obligations) to preserve their rights to the full set of benefits and support. Those aged 15-20 receive a special treatment. They are eligible for a Youth Allowance (YA) (which is means-tested against parental income if they still live with them) and also get treated slightly differently within the Centerlink/Job Network system.

Youth Allowance beneficiaries' obligations

Like any jobseeker claiming benefits, a Youth Allowance (YA) jobseeker must satisfy an activity test: a set of conditions that details what he/she must do in order to receive payments from Centerlink. The specificity stems from the fact that, for teenagers, Centerlink prioritises activities that are likely to improve their long-term skills and qualifications. Typically, a young jobseeker must undertake a 50 to 74% study load or a combination of activities for at least 15 hours per week. Suitable activities can include programmes through local youth agencies or State-and-Territory-government-funded programmes that are particularly suited to a young person's needs.

Rights and extra resources

As soon as they commence with Job Network (JN), all young jobseekers aged 15-24 have immediate access to the Job Search Training programme. For those on income-support (*i.e.* receiving Youth Allowance), immediate participation is mandatory (Box 4.1). Other jobseekers cannot access Job Search Training until they have been registered with Job Network for three months.

All young people identified as highly disadvantaged through the Job Seeker Classification Instrument (JSCI) are eligible for Intensive Assistance (IA) customised assistance. This enables JN providers to access higher level payments under the Job Seeker Account (JSKA).⁷²

In addition, young people, as part of their activity test, can access programmes to obtain work experience such as Green Corps⁷³ and Work for the Dole (WfD).⁷⁴ They can also be assigned to pre-employment programmes designed to overcome barriers to employment, like the Job Placement, Employment and Training (JPET) programme⁷⁵ and the

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72. The Job Seeker Account was introduced in July 2003 and consists of funds provided to Job Network members/providers based on the numbers and disadvantage level of jobseekers receiving assistance from them. These funds can be used at the Job Network members discretion for the purchasing of services and products (*e.g.* transport, clothes, mobile phones, etc.) aimed at the individual employment needs of their jobseekers giving them greater flexibility to provide tailored assistance.
73. Green Corps is aimed at youth aged 17-20. It gives youth the opportunity to volunteer to conserve, preserve and restore Australia's natural and cultural heritage. The programme runs over 26 weeks, giving participants the opportunity to develop skills such as leadership and improve their career prospects.
74. Work for the Dole provide work experience to young people, aged at least 18, in community-based projects such as heritage and/or history, the environment, community care, tourism, sport, providing community services and restoring and maintaining community services and facilities. Work for the Dole services are delivered through community or government organisations or agencies.
75. JPET is a pre-employment programme that targets the most disadvantaged youth. It provides flexible and holistic assistance to people aged 15-21 who face multiple non-vocational barriers, and are homeless or at risk of homelessness. The objectives of JPET are to stabilise the young person's circumstances in order to re-engage them with education.

Personal Support Programme (PSP).⁷⁶ However, most of these programmes are capped,⁷⁷ and *de facto* oversubscribed. Another aside is that Job Network, Green Corps, PSP, Work for the Dole and JPET will all undergo some modifications under the new Universal Employment Services (UES) model to be implemented from 1 July 2009.

The Australian Government also encourages Job Network members and other providers of employment services, to place jobseekers into Australian Apprenticeships. This includes providing Star Ratings recognition (see Box 4.1) for JN members for education or employment outcomes achieved through the Australian Apprenticeships Access Programme.

Finally JN members have additional financial incentives in the system of outcome payments in order to prioritise and train young jobseekers. For example, a JN member can claim an outcome payment for a 15-20-year-old who has not completed Year 12 (*i.e.* upper secondary education equivalent to ISCED 3), if they are placed in work or in education/training or a combination of both. Normally only an intermediate payment is made for an education/training placement.

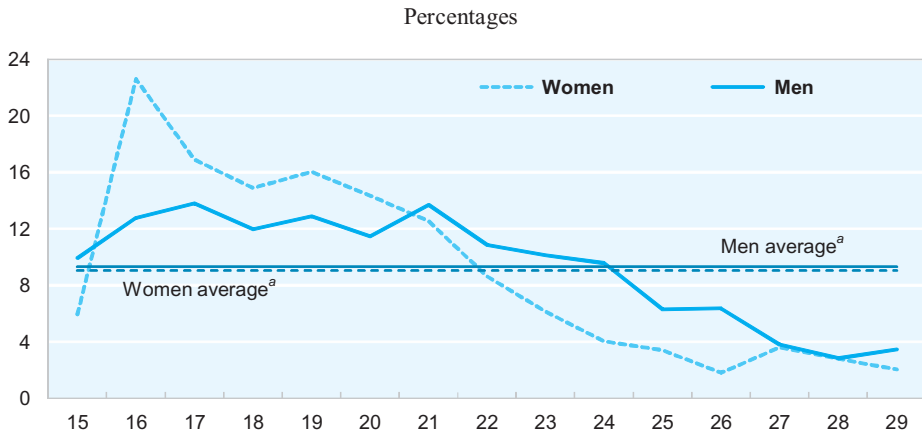
2. Statistical evidence about youth on income support

A. *The aggregate/cross-sectional picture*

Quite many young Australian who no longer attend education receive either Youth Allowance (YA) or Newstart Allowance (NSA). Figure 4.1, based on the 2006 wave of the HILDA survey, shows that the number of beneficiaries, in percentage of a cohort, remains high until the age of 20-22 – above the 10% threshold – and then recedes strongly to stabilise around 2 to 3%.

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76. PSP is another pre-employment programme that provides individual support to participants who, because of multiple non-vocational barriers, are unable to get a job or benefit from employment programmes such as Job Network. People eligible for the PSP receive individualised attention because of their difficult circumstances. They may face homelessness, drug and alcohol problems, psychological disorders, domestic violence or other significant barriers to participation.
77. Meaning that the number of participants eligible for funding is limited.

Figure 4.1. **Incidence of Youth or Newstart Allowance recipiency among youth no longer in education, by single age, Australia, 2001-06**



a) Unweighted average.

Source: Melbourne Institute, HILDA Release 6, waves 1 to 6 pooled.

B. The dynamics of income support among youth

Cross-sectional evidence of the type reported in Figure 4.1 needs to be supplemented by longitudinal analysis, primarily to gauge the persistence of income-support among youth; a phenomenon intrinsically more problematic from a social and economic point of view.⁷⁸ The HILDA survey, being a panel, allows for such an analysis.

Table 4.1 reports the evidence for all individuals observed in 2001 and who, subsequently, provided a valid answer to the question of their status in terms of YA or NSA recipiency. Results show that those initially receiving benefits tend to spend much more time in benefit recipiency further down the road. For this group, up to 49% of the period 2002-06 is synonymous

78. Repeated spells of income support (presumably caused by long-term unemployment or systematic underemployment) can have serious consequences for human resources development at the individual and societal levels. Long-term support recipiency among youth can result in social exclusion. An increase in the incidence may also tend to increase inequalities in income distribution that could become intergenerational. Finally, long-term recipiency may increase the financial burden on the welfare or social assistance system.

with benefit reciprocity. For those who were not initially beneficiaries, the equivalent figure is a mere 2%.

An OLS⁷⁹ regression analysis of the same longitudinal data (Table 4.2) reveals that the characteristics most correlated with continuing benefit reciprocity⁸⁰ are gender and age. Young women tend to spend 11% less time receiving YA or NSA than men. However, this gender gap perhaps reflects transferring⁸¹ within the welfare system, with young mothers becoming eligible for child- and parenting-related benefits.⁸² Quite surprisingly, educational attainment does not seem to be a key driver of the probability to stay on benefits for long. And being of immigrant origin does not matter either; a result in line with all those presented so far in this review that tends to confirm the absence of systematic gap between them and the rest of the Australian population. Finally, it is reassuring to see that the older the individuals the lower the risk of being durably on benefits: each additional year of age translates in a 4 percentage points reduction in the time spent receiving YA or NSA.

Table 4.1. Persistence in benefit^a reciprocity among youth^b no longer in education, Australia

Levels and percentages

Youth or Newstart Allowance reciprocity in 2001	Number of individuals observed	Fraction of time spent in benefit reciprocity (from 2002 to 2006)	Average number of periods for which individual provided valid answers
No	2 425	1.99	4.7
Yes	229	48.78	4.5

a) Youth or Newstart Allowances (YA, NSA).

b) Aged 16-29 in 2001.

Source: Melbourne Institute (MIAESR), HILDA release 6, waves 1 to 6.

79. Ordinary least squares.

80. Individuals considered here where all YA or NSA beneficiaries in 2001.

81. Tseng *et al.* (2006) state that churning occurs when a person exits and then re-enters income support receipt, while transferring occurs when a person on income support moves from one payment-type to another.

82. Like Parenting Payment available for parents (one per couple) with children aged under 6 (if partnered), aged under 8 (if single), or aged under 16 if in receipt of Parenting Payment prior to 2006.

Table 4.2. **Determinants of persistence in benefit^a reciprocity among youth^b no longer in education, Australia**OLS coefficients^c and p-values

	Intensity of the gap (1 = 100%)	Statistical significance (p-value)
Woman	-0.11	0.0025
Lower than ISCED 3	0.10	0.1763
ISCED = 3	0.06	0.4028
Immigrant	-0.01	0.9273
Age (in 2001)	-0.04	0.0000

OLS: Ordinary least squares.

- a) Individuals retained for the analysis where all Youth Allowance or Newstart Allowance beneficiaries in 2001.
- b) Youth aged 16-29 in 2001.
- c) The reference variables are: Man, degree greater than ISCED 3, 16-29-year-olds and Australian-born. The estimated model is $Time_Brec = \beta 0 + \beta 1 Female + \beta 2 Education + \beta 3 Immig + \theta Age + \varepsilon$ where the dependent variable is the percentage of time spent in benefit reciprocity between 2002 and 2006.

Source: Melbourne Institute, HILDA Release 6.

Table 4.3 also focuses on the subgroup of individuals initially receiving benefits, but only those observed six times consecutively (95 out of 229). Assuming that non-responses are not systematically biased, their answers can be used to estimate the distribution of duration (*i.e.* cumulated years) in benefit reciprocity. Results are that 6.3% of youth followed by HILDA declared receiving YA or NSA each of the six times they were interviewed, suggesting that they did not, at all, moved out of benefit reciprocity during the period of observation. About 4.2% declare receiving benefits four out of the six times they were interviewed. And 14.7% give that answer three out of the six times they were asked. In all, 31.6% of the interviewed youth declared at least three-out-of-six times that they received YA or NSA.

Table 4.3. **Duration spent in reciprocity by 2001 beneficiaries,^a youth^b no longer in education, Australia**

Percentages and levels in thousands

	Duration (in years)						Total
	1	2	3	4	5	6	
Percentage	45.3	23.2	14.7	4.2	6.3	6.3	100.0
Number of individuals	43	22	14	4	6	6	95

- a) Youth or Newstart Allowances.
- b) Aged 16-29 in 2001.

Source: Melbourne Institute, HILDA Release 6.

Tseng *et al.* (2006) confirm that a relatively high proportion of the Australian population is on income support. In the early 2000s nearly 3 million persons of workforce age – approximately 22% of the total – received income support (or welfare) payments. This high rate of receipt (for the whole population) accords with the survey-based evidence for youth on display in Figure 4.1.

Tseng *et al.* (2006) use Centerlink administrative data and develop estimates capturing the relative intensity of churning⁸³ and transferring.⁸⁴ One of their findings is that churning and transferring are significant features of income-support receipt in Australia. They further suggest it is, to some extent, reasonable to characterise “churners” and “transferrers” as different groups of income-support recipients.

The key point, in the context of this survey, is that churners tend to be young and single, whereas transferrers and other long-term recipients are more likely to be older, have work-limiting health conditions, and women with young dependent children. The authors conclude that policies to reduce welfare reliance among (predominantly young) churners need to be different to policies aimed at reducing reliance among other recipients. For example, education and training may be more important for (young) churners than for other recipients, for whom lack of access to facilities (such as daycare services) may be more important barriers to sustained exit from income support.

3. The 2008-09 reforms by the Labour government

According to the working paper introducing Australia’s new Universal Employment Services (UES) model (DEEWR, 2008), “the Job Network is no longer suited to a labour market characterised by lower unemployment, widespread skill shortages and a growing proportion of jobseekers who are highly disadvantaged and long-term unemployed. (...) the problem is not simply in finding a job; it is finding employers appropriately skilled labour. Our employment services system must do much more to connect those who can work with the vacancies employers need to fill”.

Labour government committed to invest AUD 3.7 billion over three years from 1 July 2009 in a new generation of employment services. One of

-
83. Those who repeatedly use one particular type of income support (*e.g.* YA or NSA).
84. Individuals who are transferred from one type of income support to another (*e.g.* from NSA to Parenting Payment).

the key measures will be to promote the up-skilling of jobseekers: an additional 309 000 training places over five years in areas of skill shortages are being made available.⁸⁵ This commitment to employment and training will be supported by complementary investments that promote workforce participation, better childcare and a revised taxation system.

A. The evidence about skill shortages and the changing profile of jobless youth

More disadvantaged jobseekers

When Job Network was introduced in 1998, the unemployment rate was 7.7%. It was 4.2% in September 2008. DEEWR claims that this welcome fall in unemployment has resulted in a higher proportion of jobseekers that are disadvantaged and have experienced long-term unemployment (DEEWR, 2008).

- The proportion of jobseekers on the Job Network caseload who have been in receipt of benefits for five years or more has increased from 18% in September 2004 to 29% in March 2008.
- Just less than 20% of the Job Network caseload was classified as highly disadvantaged in July 2003, compared with 29% in March 2008.
- In 1999 around one in ten unemployment benefit recipients were in receipt of benefits for five or more years. By March 2008 this had increased to almost one in four.

Administrative figures (Table 4.4) accords – up to a certain extent – with those put forth in the Labour government’s discussion paper quoted above. But the shift appears less dramatic than the paper suggests. Between 1999 and 2007, the total number of youth on benefits (YA or NSA) receded from 312 000 to 185 000 (Table 4.4, column 6). But the share of those with a tertiary education attainment (only) dropped from 10.1% to 8.3%. Simultaneously, the share of those with no or limited education (less than upper secondary education) rose from 45.7% to 48.5%.

85. Under the Skilling Australia for the Future initiative, the Commonwealth has funded the Productivity Places Programme which will deliver 701 000 training places over five years in areas of skills shortage. Of the places, 392 000 training places will be allocated to existing workers wanting to gain or upgrade their skills, and 309 000 will be allocated to jobseekers (www.deewr.gov.au/Skills/ProductivityPlaces/Pages/default.aspx).

Table 4.4. Evolution of the educational attainment of youth^a on benefits,^b
Australia, 1999-2007

Percentages and levels

	Educational attainment				Total	Number of benefit recipients	Percentage of youth population
	Unkown	Less than ISCED 3	ISCED = 3	More than ISCED 3			
1999	1.5	45.7	42.8	10.1	100.0	312 080	8.2
2000	1.5	45.9	43.5	9.1	100.0	262 306	6.3
2001	1.3	44.0	45.6	9.0	100.0	292 860	7.1
2002	1.2	43.2	45.8	9.8	100.0	278 517	6.8
2003	1.7	43.3	45.4	9.6	100.0	263 457	6.3
2004	3.2	43.7	44.8	8.3	100.0	245 290	6.0
2005	3.2	45.1	44.1	7.6	100.0	223 726	5.4
2006	1.9	46.3	43.4	8.4	100.0	208 886	5.0
2007	1.2	48.5	42.0	8.3	100.0	185 695	4.4

a) Youth aged 16-29.

b) Youth Allowance (YA) or NewstartA Allowance (NSA).

Source: DEEWR, database on Welfare Benefits, 2008; and ABS (2008).

Job vacancies and skill shortages

OECD data confirm that the absolute number of job vacancies (and the job vacancy rate) had never been higher than in 2007 in Australia (Table 4.5). There were more than 171 000 unfilled positions, compared with 38 500 in the early 1980s.

Table 4.5 data can be used to plot a Beveridge curve (Figure 4.2) which is a graphical representation of the relationship between unemployment (last column of Table 4.5) and the job vacancy rate (the number of unfilled jobs expressed as a proportion of the labour force, 3rd column of Table 4.5). It typically has vacancies on the vertical axis and unemployment on the horizontal axis; it slopes downwards as a higher rate of unemployment normally occurs with a lower rate of vacancies.

If it moves outwards over time – as seems to be the case for Australia and many other OECD countries – a given level of vacancies would be associated with higher levels of unemployment, which would imply decreasing efficiency in the labour market or – more to the point in the context of this review – inadequate provision of skills by the education and training system.

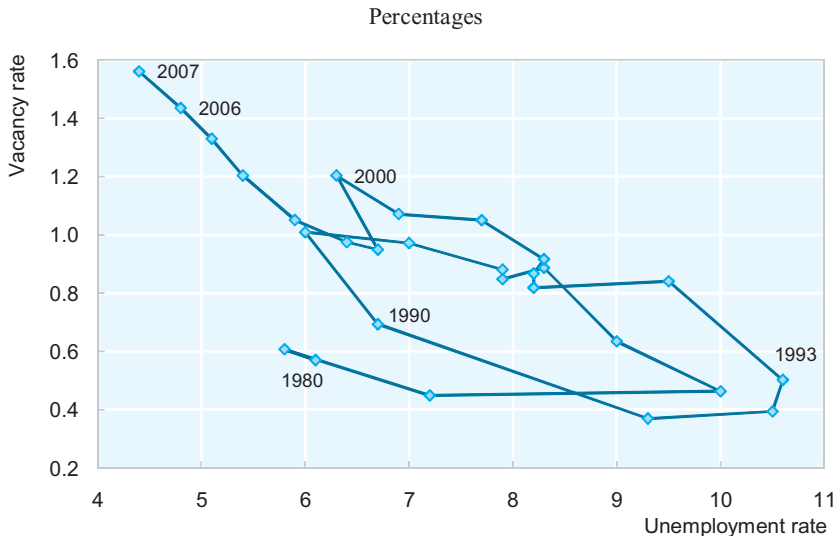
Table 4.5. **Job vacancies, labour force and unemployment in Australia, 1980-2007**

Levels in thousands, and percentages

	Job vacancies	Labour force	Vacancy rate (%)	Harmonised unemployment rate (%)
	[A]	[B]	[A]/[B]*100	
1980	38.5	6 752.5	0.57	6.1
1990	58.9	8 492.8	0.69	6.7
2000	115.8	9 616.8	1.20	6.3
2001	92.9	9 780.7	0.95	6.7
2002	96.8	9 926.9	0.98	6.4
2003	106.3	10 113.9	1.05	5.9
2004	123.3	10 244.0	1.20	5.4
2005	140.1	10 532.5	1.33	5.1
2006	153.9	10 722.7	1.44	4.8
2007	171.5	10 986.1	1.56	4.4

Source: OECD Main Economic Indicators database for job vacancies, labour force and harmonised unemployment rate.

Figure 4.2. **Vacancy rates^a based on unfilled job vacancies and harmonised unemployment rates, Australia, 1980-2007**



a) The number of job vacancies divided by the size of the labour force.

Source: OECD Main Economic Indicators database for job vacancies, labour force and harmonised unemployment rate.

B. The pending reforms: from job-first to skill-first

In the future, addressing skill shortages will still consist of importing labour and skills. It will also perhaps imply to raise the supply of labour by women which is trailing behind that of other OECD countries (see Chapter 3; or OECD, 2006b). But the long-term adjustment should also come from better (initial) educational attainment, meaning more VET and higher stay-on rate beyond the age of 16, as discussed in Chapter 2.

The evidence of skill mismatch displayed in Figure 4.2 also justifies putting more emphasising on up-skilling jobseekers. As mentioned earlier, Australia released in 2008 (DEEWR, 2008) the key traits of its new Universal Employment Services (UES) model to be implemented from 1 July 2009, in particular its portfolio of new active labour market programmes (ALMPs). In brief, the Australian Government intends to reorient a system that was, so far, predominantly based on a job-first philosophy towards a more skill-first approach.

The implementation of the skill-first option will take the form of a reinforced emphasis on pre-employment programmes with a strong educational component for youth aged less than 21. From 1 July 2009, job placement providers will be encouraged to raise the level of skills of their young clients before putting them into jobs (see Box 4.2 and Table 4.6 for details).

Box 4.2. The future of (youth) employment service in Australia

Under the Labour government's new Universal Employment Services (UES) model to be implemented from July 2009, the level of assistance to be provided to jobseekers will better reflect their level of disadvantage than in the past. Although the overall operation is bound to be budget-neutral, more money will be spent on young and disadvantaged individuals who are not job-ready. The Employment Pathway Fund (EPF) – a lump sum providers can use to cover costs associated with job search/placement (see Table 4.6. for the earmarked amounts) – will be available for a *broader* range of training, services. It will be easier to use than the existing Job Seeker Account (JSKA), and will support a broader range of assistance.

Mutual obligations will remain. But the eight week non-payment period (for participation failures) will be often replaced with a more gradual and work-like “No show, No pay” compliance system. The experience seems to show 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.

From 1 July 2009, jobseekers will be placed into one of four streams by Centerlink, using the profiling Job Seeker Classification Instrument (JSCI). Centerlink will continue to register jobseekers and refer them to an employment service provider as soon as possible. To a large extent, these new streams replicate the logic of the pathways of the existing Job Network system (Box 4.1). The main innovations are to be found in: *i*) a greater focus on up-skilling; and *ii*) a willingness to spend a greater portion of the total (unchanged) budget on the groups identified as the least job-ready.

Stream 1 – “work ready” jobseekers

Jobseekers who are considered work ready will keep being immediately assisted in the preparation of a resume and will be advised about local labour market opportunities and on job search methods. This basically corresponds to the Job Search/Matching service of the existing system.

After three months, if the jobseeker has not found work, providers will carry out a skills assessment, and jobseekers will be required to participate in Intensive Activity (*e.g.* job search workshops, work placements) of 60 hours over a fortnight, a programme designed to improve their ability to obtain or sustain employment. This, in some way, replicates the current Job Search Training (JST) programme.

Between three and 12 months, it is expected that the employment service provider will maintain regular contact with the jobseeker and that the jobseeker will have clear job search requirements.

If, after 12 months, jobseekers have not found employment, they may be reassessed and moved to an alternate stream, or they will be required to participate in Work for the Dole (WfD) or another work-experience activity.

Streams 2, 3 and 4 – jobseekers with a longer pathway to employment

It is expected that jobseekers in streams 2, 3 and 4 may take longer and require more assistance to obtain employment. Resources increase in accordance with the jobseekers' level of disadvantage (see Table 4.6 for details). Jobseekers in these streams will *immediately* develop their individual pathway to employment with their employment service provider.

Streams 3 and 4 will also encompass the current pre-employment programmes for youth with non-vocational as well as vocational barriers to employment (JPET and PSP). The new structure allows for parallel or sequential interventions to address these barriers.

Participation in streams 2 and 3 will be for up to 12 months, although it may be longer if the jobseeker has been involved in training. Participation in stream 4 will be for up to 18 months, with an assessment at 12 months to determine the likelihood of the jobseeker benefiting from the further six months of assistance. At the conclusion of a stream, if jobseekers have not found employment, they may be re-assessed and move to an alternate stream, or they will be required to participate in WfD or another work-experience activity.

Movement between the four streams will not be based on a rigid set of rules but determined by individual needs, as measured by the JSCI. Jobseekers will only move to a more intensive stream if their level of disadvantage increases. Jobseekers who complete a stream will participate in work experience including WfD.

Jobseekers who have completed a stream will not be able to re-enter that stream during their current period of unemployment. Jobseekers who leave income support for 13 weeks or more but become unemployed again will re-qualify for a full range of assistance, based on an up-to-date JSCI.

Work for the Dole (WfD), Green Corps and the innovation fund

As a means of helping the jobseeker secure ongoing employment, WfD and Green Corps will remain an integral part of UES, along with other forms of work experience (for example, paid work in an intermediate labour market or social enterprise).

Providers looking after the most at risk youth will be able to tender to deliver projects through a AUD 41 million *innovation fund*. Priority will be given to projects that offer solutions to address barriers to employment of highly disadvantaged jobseekers including, indigenous Australians, the homeless, those with mental illness, and people in areas with entrenched disadvantage. Projects will be evaluated in part on their capacity to work with other services (for example, health or housing), and their ability to form partnerships with the private sector and training organisations.

Source: DEEWR (2008).

Table 4.6. The four pathways of the new Universal Employment Services model, Australia

Work ready		Disadvantaged jobseekers			
Stream 1-12 months		Stream 2-12 months	Stream 3-12 months	Stream 4-18 months	
52% of new jobseekers ^a		25% of new jobseekers	8% of new jobseekers	15% of new jobseekers	
<i>Employment Pathway Fund</i>	AUD 11	<i>Employment Pathway Fund</i>	AUD 550	AUD 1 100	Up to AUD 1 650
<i>Job Placement fees</i>	AUD 385-AUD 440	<i>Outcome^b and Job Placement fees</i>	AUD 385-AUD 3 696	AUD 385-AUD 7 392	AUD 385-AUD 7 392
<i>Service fees</i>	Up to AUD 833	<i>Service fees</i>	Up to AUD 966	Up to AUD 1 202	Up to AUD 2 760

a) Projections.

b) The notion of “outcomes” is broader than that of job-placement as it includes *e.g.* the completion of an apprenticeship

Source: DEEWR (2008), “The Future of Employment Service in Australia: A Discussion Paper”.

UES aims to deliver “work-ready” jobseekers particularly in areas chronically experiencing labour or skill shortages. Employment service providers will be required to assist jobseekers more systematically to develop an individualised pathway to employment [called Employment Pathway Plan (EPP), Table 4.6] drawing on a mix of vocational and non-vocational activities, with a particular focus on developing the skills needed by employers.

Putting a greater focus on up-skilling represents a step in the right direction. But the Australian authorities probably underestimate the difficulty and the cost of implementing an effective skill-first welfare policy. The literature that has evaluated skill-enhancing programmes in the United States and in Europe emphasises the small magnitude (or sometimes the absence) of labour market benefits for youth (Martin and Grubb, 2001).

Australian evidence is currently missing largely. An exception is Gørgens and Ryan (2006). They examine the impact on school drop-outs of completing a VET qualification after they had experienced a period of unemployment of at least six months. That study shows large benefits. However, the study does not explore the relation between the programme

benefits and costs. It is also essentially evaluating the effect of acquiring (on a voluntary basis) additional degrees or certificates⁸⁶ delivered by the educational system, and not the sort of up-skilling activities usually offered (or imposed) to unemployed youth as part of an ALMP. Finally, the study does not seem to control for endogeneity. Choices made by unemployed youth – such as participation *versus* non-participation in post-school VET education – are likely to be related to unobserved factors, such as innate ability, that also influence their chance of being in full-time employment. If so, regressions coefficients reported by Gørgens and Ryan (2006) are likely to exaggerate the benefits of VET for unemployed youth.

The evidence coming for the evaluation literature in the United States is that most up-skilling programmes are not cost-effective at raising future earnings of participants (Heckman *et al.*, 1999). A closer look at the results of this literature reveals that estimated impacts of training programmes for disadvantaged workers on their later earnings vary according to demographic group, with *i*) more positive impacts generally observed for adult women than men, and *ii*) for adults than for out-of-school youth (Holzer, 2008).

The evaluation of the Danish experience delivers results that are similar in nature, although they primarily relate to the (un)employment prospects of programme participants and not so much their future earnings (*i.e.* the outcome generally looked at in the United States). Since 1996, with the enactment of the Youth Unemployment Programme (YOP), Danish drop-outs aged less than 25, and who have been unemployed for six months, have their level of unemployment benefits⁸⁷ cut by 50% and are obliged to enter a special education programme. What is more, they face a total loss of unemployment benefits if they refuse to participate in such a programme. This package has been considered the most effective in reducing youth unemployment in Denmark. But researchers provide evidence that is primarily the threat of participation and the associated financial loss that raise the transition rate from unemployment into employment, whereas the job-finding rate of individuals who complete the various skill-enhancing programmes is more or less unaffected (Svarer, 2007).

Why is it that many skill-enhancing programmes apparently deliver little results? Skill-enhancing programmes logically try to reach out to the relatively unskilled and less able individuals. But initial skills and training are “complementary” inputs in the human capital production function. In

86. Including VET diplomas and Certificates.

87. The level of unemployment benefits is known for being very generous by international standards.

non-technical terms this means that the benefits of training are intrinsically lower for (initially) low-educated individuals than highly educated ones. And if basic cognitive skills of disadvantaged adults are very weak, it is unlikely that (generally short) training programmes effectively raise their skills (Holzer, 2008). Moreover, the production of skills requires a minimal dose of two ingredients that are not particularly abundant among disengaged youth; *i*) patience; and *ii*) a certain willingness to learn, as opposed to a willingness to earn (an ingredient most “job-first” activation strategies mobilise).

The cost of a successful skill-first strategy targeting at-risk youth is another important issue. Economics Nobel Prize winner James Heckman explains that, in the United States, only the Job Corps programme has a demonstrated positive impact on earnings. Such a programme is a notable example of a residential attempt to combat the multiple barriers to employment some youths suffer from. It consists of taking (very) disadvantaged youth aged 16-24 out of their regular locality (family, group of peers, neighbourhood, etc.) and putting them into a boarding-school type environment, giving them intense face-to-face adult mentoring, work experience, and remedial basic education. But this is an expensive programme, costing more than USD 20 000 per participant.

Australian policymakers are committed to a number of programmes that bear some likeness with Jobs Corps (*e.g.* Green Corps, JPET). There are also a number of State government initiatives that also complement what activity the Commonwealth undertakes in this area, for example, Get Set for Work in Queensland, Flexible Learning Options, and the Alternative Learning Options programme in South Australia to name a couple. Although these programmes primarily focus on education and training pathways they do also include work and job placement. But none of these programmes seems to combine the full range of ingredients present in Job Corps, in particular the residential element. Moreover, at first sight, they do not seem to match Job Corps’ level of spending per capita.

A tentative conclusion on this point is that further progress on the (disadvantaged) youth employment front will most probably require a fine combination of *i*) traditional carrot-and-stick activation mechanisms, and *ii*) skill upgrading activities that are tailored to the profile of jobless youth (short training programmes taught outside traditional schools with regular exposure to work experience, etc.). And the fact that so many of similar programmes around OECD countries fail to deliver strong employment or pay improvements pleads for rigorous evaluation to identify what works and what does not work.

C. *Reforming indigenous policy*

The challenge

One group that remains critically underemployed is the indigenous youth (see Chapter 1). Although that group's absolute size, at about 3% of a cohort, is fairly limited, there is no doubt that it represents a pool of labour that, if properly mobilised, could alleviate some of the labour and skill shortages the Australian economy chronically faces. Furthermore, raising labour force participation is an objective in its own right, given the large strings of individual and social benefits stemming from employment and participation.

There are programmes and/or proposals to mobilise Australia's indigenous youth population and help alleviate some of the labour and skills shortages (e.g. the Australian Employment Covenant, which is a commitment by Australian business to provide 50 000 guaranteed jobs for indigenous Australians, including indigenous young people, over the next two years). These are welcome initiatives. But effectively raising the employment rate of indigenous youth living in remote areas is likely to prove tremendously difficult. For the 68% of the indigenous population that live away from the major cities (ABS, 2007b), implementing a mutual obligations policy – be it with a job-first or skill-first focus – has been, and will probably always be, a challenge.

Remoteness is a significant obstacle, generally synonymous with poor infrastructure (e.g. lack of housing, education and health facilities and transport). Within the Centrelink system, there exist Remote Service Fees⁸⁸ to compensate for the significantly higher cost of remote servicing. But the evidence suggests this financial incentive fails to ensure a level of servicing equivalent to what is offered in urban and semi-urban areas. There is also a widespread view that a lack of economic opportunities (in particular in relation to jobs) in many of these areas means that any credible employment strategy implies almost inevitably geographical mobility and relocation. At the very least, mobility needs to be an option for indigenous youth to engage in the broader economy if they wish.

88. For example, under the new Employment Services Model from 1 July 2009, in remote areas there will be additional funding (based on a 1.7 multiplier) for service fees and the Employment Pathway Fund (EPF, Box 4.2) recognising the greater challenges involved in servicing these areas. There will also be broader range of educational outcome payments in remote areas, including helping indigenous jobseekers to return to school and to gain greater literacy and numeracy skills.

However, this view is being challenged by the more recent recognition of the employment opportunities available to indigenous people in remote areas. Mainstream jobs in these areas are supplied in the mining, tourism, the arts, horticulture and forestry industries, for instance. Each of these industries has the potential to stimulate other micro-economies to support them. Similarly, only 25% of the Australian indigenous population lives in very remote regions, so that employment strategies targeted at most indigenous young people need not always to factor in location as a barrier.

Implicit and explicit exemptions to the standard activity test

Until recently, individuals who live in remote parts of the country have benefited from two intertwined forms of exemptions to the standard activity test (*i.e.* the obligation to actively seek work or training exchange for income support from Centerlink).

- First, participation in Community Development Employment Projects (CDEP)

The CDEP scheme, introduced in 1977 involved a decision by beneficiaries to give up their entitlements to unemployment benefits. These benefits were transferred to community leaders, who could use them to pay these people to do work of value to the community.

The scheme appears to be based on a work-for-the-dole philosophy as the rest of Australia's policy vis-à-vis unemployed people. But there are many incentives issues however. And the final outcome might be that CDEP *de facto* – although implicitly – exempts people from a genuine activity test. Experience shows that CDEPs have not been expelling participants. It often appears that CDEP participation is equivalent to granting subsidised wage without time limits and/or a clear obligation to work in return for it (OECD, 2001). Moreover, as CDEP participation is voluntary, it is probably difficult to insist that CDEP participants must work in return for the equivalent of the Newstart Allowance.

There is a growing consensus in Australia that too many young people in remote areas see CDEP jobs as their only future. Although CDEP internally provides work experience skills and training for participants, it tends to be a barrier to education, training and self-supported employment outside CDEP (Australian Government, 2008a).

- Second, remote area exemption

A person who lives in a remote area can be granted an explicit exemption from the activity test if: *i)* there is no locally accessible labour market and locally accessible vocational training course or a CDEP in which

the jobseeker can participate; and *ii*) the person is unemployed, and capable of, and willing to, undertake suitable paid work.

What has already been done

Regarding activity test, the Liberal-National government started eliminating the explicit exemptions. There is also less need for these exemptions, given the range of employment alternatives now offered to jobseekers in remote areas. The Labour government is committed to further restrictions concerning the use of CDEP wages (more on this below).

Concerning mobility, indigenous youth in remote areas, who wish to participate in the mainstream economy, can receive financial support from the Indigenous Youth Mobility Programme, or from the Employment Pathway Fund (EPF, Box 4.2) under the new model to be introduced from 1 July 2009.

In the area of education it is worth mentioning the Indigenous Australians Opportunity and Responsibility commitment under which two initiatives – Indigenous Youth Mobility Programme (IYMP) and Indigenous Youth Leadership Programme (IYLP) – are delivered. IYLP provides up to 200 indigenous youth (a year) with access to education opportunities at high performing government and non-government schools and up to 50 university places. The programme aims to ensure that indigenous youth from remote areas receive the educational opportunities and experiences they deserve to take on future leadership roles in their communities. Students also receive mentoring, targeted orientation, study tours and practical leadership experiences. Through the IYMP, indigenous young people (aged 16-24) from remote areas can relocate to one of the IYMP Host Locations⁸⁹ to complete the qualifications they need to obtain sustainable employment.

Under the new Universal Employment Services model to be implemented from 1 July 2009, a certain number of other measures have already been adopted and will be enforced.

First, for jobseekers in remote areas the new model will provide more resources in recognition of the higher costs of running services in these areas. These higher service delivery costs, resulting from infrastructure and staffing difficulties and the significant disadvantage of jobseekers in the labour market, will be addressed by the application of a 1.7 multiplier to service fees and the Employment Pathway Fund compared to non-remote locations. Providers will also be paid a broader range of educational and

89. In Cairns, Townsville, Toowoomba, Newcastle, Dubbo, Canberra, Shepparton, Adelaide, Perth or Darwin.

foundation skills outcomes in remote areas. This is in recognition of the need for a broader range of payments to support remote jobseekers to further develop their foundation skills, such as literacy and numeracy skills.

Second, providers will be assessed in part on their servicing strategies to improve the employment outcomes of indigenous Australians. Providers must demonstrate how they will work in partnership with employers, CDEP providers (where they exist), Indigenous Employment Programme (IEP) providers and community service organisations to assist indigenous Australians with skills acquisition and mentoring, and to maximise indigenous employment in local jobs, including within their organisation. Service providers in remote locations are required to further demonstrate how they will develop the local workforce and support capacity building of indigenous organisations to achieve better outcomes.

Third, the new Universal Employment Services model (DEEWR, 2008, Box 4.2) – echoing the new skill-first motto – will also better support initiatives with a human capital content. In remote areas, there will be placement and outcome payments for a broader range of educational and skill-related outcomes, including helping indigenous jobseekers to return to school and gain greater literacy and numeracy skills. Services operating in remote areas will also be able to explore alternative community enterprises, in addition to Work for the Dole (WfD).

Future steps

The new approach to delivering employment services in remote areas is only one element however of current government interventions to address indigenous disadvantage. The development of a new Indigenous Economic Development Strategy (IEDS) has commenced (Australian Government, 2008a, 2008b). The IEDS will attempt creating the foundations of sustainable economic development across Australia, particularly in remote areas where many indigenous communities are located. It should be rolled out in early to mid-2009.

In May 2008 the Australian Government released its first discussion paper on Indigenous Employment Programme reform (Australian Government, 2008a). Detailed consultations on the future of CDEP followed around Australia. In October 2008, it released and updated a discussion paper “Increasing Indigenous Economic Opportunity: Proposed Reforms to the CDEP and Indigenous Employment Programmes” (Australian Government, 2008b). This paper builds on community consultations and outlines the government’s planned reforms for the future. It details the government’s proposed model of Indigenous Employment Programme reform (see Box 4.3 for more details). It builds on feedback from the first round of consultations on the future of CDEP

and IEP. A second round of consultations is currently underway. The new IEDS will be implemented from 1 July 2009.

It is not surprising that a crucial parameter of the proposed reform is the future of CDEP (Box 4.3). In non-remote areas CDEP would no longer operate, and services would be provided by the Universal Employment Services (UES). In remote regions, the government's approach is more gradual. The intention is to reform CDEP and to progressively align the status and pay regime of its staff and beneficiaries on those applicable elsewhere in Australia. For instance CDEP positions that have been used for the delivery of public services would be converted to properly paid jobs. New CDEP participants would receive standard income support payments (and would be subject to the standard activity test) rather than be paid CDEP wages. Existing CDEP participants would be eligible to receive CDEP wages until 31 March 2010 to allow for an adjustment period. Simultaneously, more resources would become available to achieve both community development and job readiness for individuals (Australian Government, 2008b).

Box 4.3. Proposed reforms to the CDEP and Indigenous Employment Programmes (IEP)

The government is proposing a model of employment programme reform that will benefit indigenous jobseekers, communities, service providers and employers. The proposed reforms would see CDEP and the IEP working in partnership with the government's new Universal Employment Services (UES) to provide greater support to indigenous Australians in finding sustainable employment.

The government recognises that needs are often different between remote and non-remote Australia and that solutions must be adapted to local needs and to local economies.

In areas where the local economy offers greater employment opportunities and better access to services, the intention is to stop CDEP wages, and to focus on intensive support for indigenous jobseekers to help them get and keep jobs through UES. Community support funding is also proposed to assist indigenous people to link to employment and other services.

In many parts of remote Australia there are limited economic opportunities. Supporting the capacity of organisations and communities in these areas is vital as they are focal points for community life and service delivery.

Remote Australia

The CDEP programme would be restructured to:

- Build individual skills and capacity to take up work where opportunities arise;
- Provide on-the-job work experience;

- Provide voluntary mobility assistance;
- Build capacity of communities including through supporting priority projects;
- Build capacity of local indigenous organisations to deliver a range of services, including UES and IEP; and
- Make sure community members undertaking similar activities have the same income and participation requirements.

CDEP positions that have supported the delivery of government services would be converted to properly paid jobs. New participants in reformed CDEP would access the programme while on relevant income-support payments rather than be paid CDEP wages. Existing CDEP participants would be eligible to receive CDEP wages until 31 March 2010 to allow for an adjustment period, subject to allowable breaks of two weeks. Funding agreements for reformed CDEP would be offered for a three-year period.

Non-remote Australia

CDEP would no longer operate in non-remote regions. Instead, services would be provided by the Universal Employment Services (UES) and IEP. CDEP providers are encouraged to consider submitting a tender to become providers of Universal Employment Services. A new Community Support programme would be introduced to support indigenous Australians to link to a range of services. This would be separate from reformed CDEP.

Source: Australian Government (2008b).

4. Key points

Policymakers in Australia have, for long, recognised the importance of mutual obligations to maximise the chance that jobless youth (re)enter the labour market. In exchange for income support young jobseekers are subject to an activity test (*i.e.* obligations): they need to participate in training, job-search or job-placement activities.

Australia's strategy for tackling unemployment is also based on an innovative system of employment service provision: most job-placement or up-skilling activities are delivered by external providers, selected through a competitive bidding process, that are financially rewarded partially on the basis of their job-placement achievement.

The share of Australian youth who receive either Youth Allowance (YA, for those aged 16 to 20) or Newstart Allowance (NSA, for the older ones) is relatively high until the age of 21. The positive element is that this figure recedes strongly after, to stabilise around 2 to 3%.

On the negative side, there is evidence of income-support persistence and transfer for a minority of youth. Longitudinal data reveal that, on average, youth who were YA or NSA beneficiaries in 2001 remained so

during 49% of five subsequent years (2002-06). The equivalent figure is merely 2% for those who were not beneficiaries in 2001. Young women spent less time receiving YA or NSA, probably because young mothers become eligible for child- and parenting-related benefits. Also young women may lose YA or NSA when they cohabit or marry.

Until very recently, a welcome fall of Australia's overall unemployment rate meant that the group of people for whom finding a job is intrinsically difficult (those with a record of underachievement at school, mental illnesses, substance or alcohol addiction, homelessness, etc.) represented a more important share of the public employment service's clientele. In the same vein, OECD data show that both the absolute number of job vacancies and the job vacancy rate in Australia had never been as high as in 2007.

These two trends amply justify the Labour government's decision to reorient a system that was predominantly based on a WfD philosophy, in order to put a greater focus on skill upgrading. But the Australian authorities probably underestimate the difficulties of implementing a skill-first welfare policy. The production of skills requires ingredients that are presumably in short supply among low-educated teenagers: *i*) patience, and *ii*) a certain willingness to learn. And the lack of these inputs cannot easily be compensated by extra monetary or pedagogical resources.

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Jobs for Youth

AUSTRALIA

Improving the performance of youth on the labour market is a crucial challenge in OECD countries facing persistent youth unemployment. As labour markets become more and more selective, a lack of relevant skills brings a higher risk of unemployment. Whatever the level of qualification, first experiences on the labour market have a profound influence on later working life. Getting off to a good start facilitates integration and lays the foundation for a good career, while a failure can be difficult to make up.

Ensuring a good start will require co-ordinated policies to bring the education system closer to the labour market, to help disadvantaged young people to find a job or participate in a training course and to facilitate the hiring of young people by firms.

OECD has launched a series of reports on the school-to-work transition process in sixteen countries including Australia. Each report contains a survey of the main barriers to employment for young people, an assessment of the adequacy and effectiveness of existing measures to improve the transition from school-to-work, and a set of policy recommendations for further action by the public authorities and social partners.

This report is based on the proceedings of a seminar and is published in English only. However, a French translation of the summary and main recommendations has been included in this volume.

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