

Labour market experiences of Australian youth

Introduction

What happens to our young people when they leave school? Will they get a job? If so, how much will they earn? What are the factors that affect the answers to these questions?

Measuring earnings and patterns of unemployment can reveal the degree of inequality in society, disparities between social groups, and the benefits from education, training and job experience.

Youth unemployment is a major issue in Australian society. The rise in general unemployment levels during the early 1970s and subsequent rises occurring at each economic recession, together with the structural changes decreasing the demand for unskilled workers, have exacerbated youth unemployment. It is now a widely-held view that youth unemployment has increased to unacceptable levels.

How important are literacy and numeracy in preventing unemployment? What effects do participation in higher education and other forms of post-school education and training have on unemployment and earnings? Is the gender gap in earnings changing? What is the effect of social background on unemployment? Do long bouts of unemployment decrease the chances of leaving unemployment? The

Longitudinal Surveys of Australian Youth (LSAY) data help to answer these questions.

This *LSAY Briefing* draws on research which investigates the long term outcomes of four groups of young people - born in 1961, 1965, 1970 and 1975 as well as another sample of young people aged 19 years in 1994 and 1995.

Labour market outcomes at age 19

Earnings

Earnings at age 19 are related to a range of factors including social background, where young people live, and the schools they attend. Early school achievement is also a strong influence.

For example, young people who enter the labour market with very good literacy and numeracy skills command above average earnings at age 19. For males, the average weekly earnings of high numeracy achievers is 8 per cent greater than for an average achiever. The gap is even larger when compared with low achievers.

Women with very good literacy skills earned 7 per cent more per week on average than those with very poor literacy skills. The pattern for females is fairly linear: as literacy levels decline so do average weekly earnings.



Longitudinal Surveys of Australian Youth BRIEFING

HIGHLIGHTS

- School achievement in literacy and numeracy improves employment and earnings.
- The gender gap in earnings is declining.
- Apprenticeships bring initial advantages which decline over time.
- Increases in the national unemployment rate relate to decreases in hourly earnings.
- Having a degree is one of the main positive influences on earnings.
- Year 12 completion decreases the chances of unemployment.

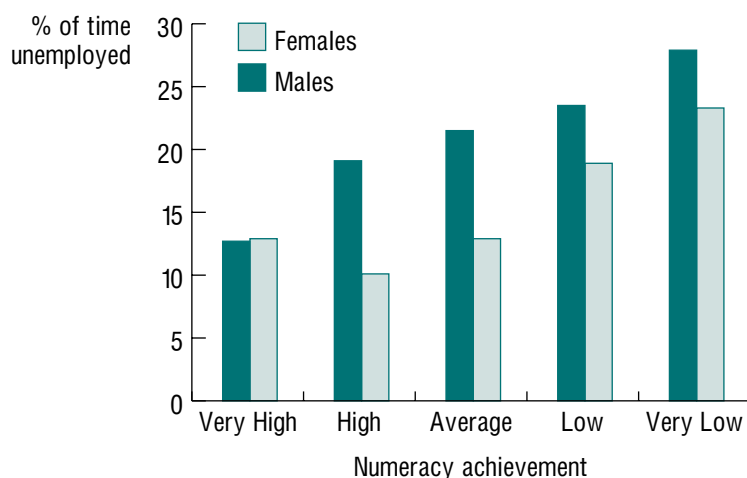
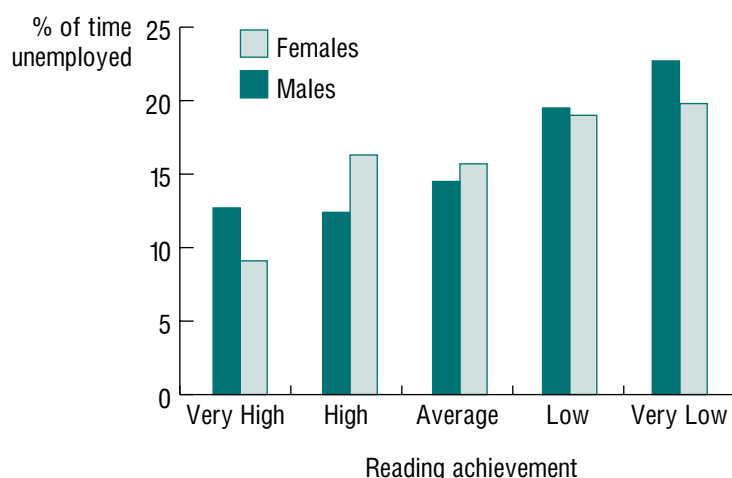


Figure 1: Percentage of time unemployed since leaving school by reading and numeracy achievement and gender, 19-year-olds, mid-1990s

Unemployment

Early achievement at school also has an effect on unemployment, as shown in Figure 1.

Job seekers who have weak numeracy and literacy skills are more likely to experience long-term unemployment.

These findings highlight the importance of early school achievement in numeracy and literacy when seeking a job as a teenager.

Young people who have very poor literacy and numeracy skills are more than twice as likely to be out of work at age 19 than those with very good skills. The differences are stronger for boys than for girls.

Other factors also influence the chances of getting a job. Completing Year 12, for example, cuts the time that job seekers are unemployed, particularly for females. Social background and place of residence also have an effect.

Labour market outcomes for young adults

Earnings

Earnings for young people are affected by various factors including education, labour force experience, gender, social background and ethnicity.

Achievement effects

Achievement in reading comprehension and numeracy while at school has a moderate, positive impact on earnings as a young adult (up to 10 to 15 years after the tests were taken) regardless of educational qualifications and employment experience (see Figure 2).

Educational qualifications

The qualification with the largest impact on earnings is a university degree (see Figure 3 for the group of young people born in 1961). University degrees increased earnings by 20 per cent in the 1961 cohort at age 23–27 and the gap increased with age.

A diploma from a university or former College of Advanced Education increased earnings among women by over 10 per cent in all groups.

Completing Year 12 brought increases in earnings especially between 18 and 22 years of age. There was a tendency for Year 12 completion to be more beneficial for women than for men.

TAFE certificates and diplomas tended to have smaller effects on earnings. Only the males born in 1965 had markedly increased earnings from TAFE (about 6 per cent), other factors equal.

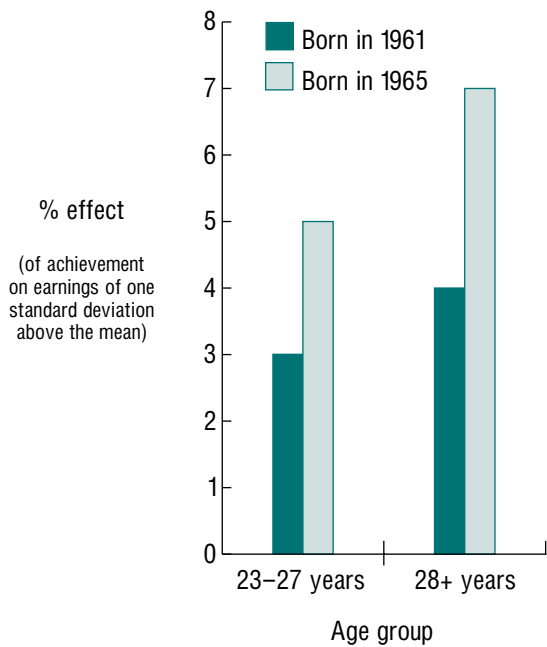


Figure 2: Increase in effect of school achievement on earnings

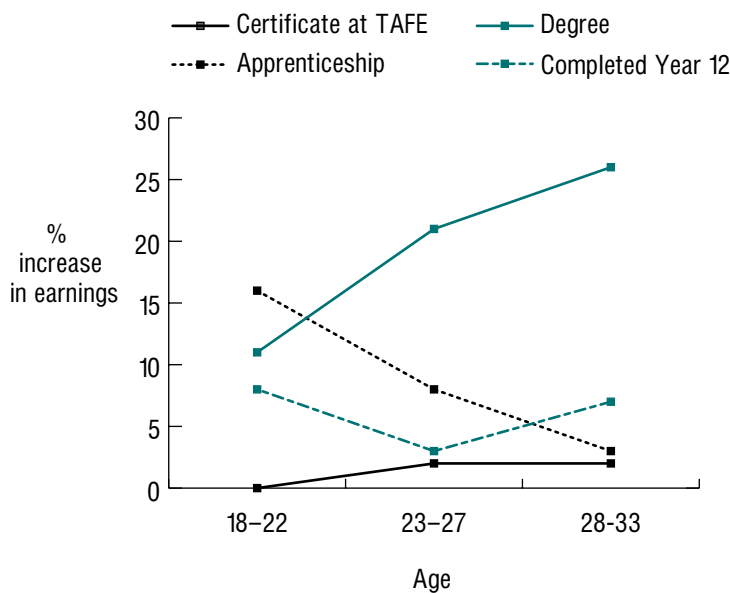


Figure 3: Increase in earnings compared to those with no qualifications: young people born in 1961

Apprenticeships did increase hourly earnings. The effect of an apprenticeship on earnings between the ages of 18 and 22 seems to have become stronger over time, that is, it is greater in the younger cohorts.

It is interesting to note that the relative advantage in earnings of apprentices tended to decline as the groups aged (see Figure 3). Apprenticeships seem to be a very effective way of getting into employment, but in terms of earnings at least, the pay-off gradually reduces over time.

Gender gap

Gender differences in earnings appear to be decreasing. For those born in 1961 and 1965, men's hourly earnings on average were higher than women's by 15 per cent and 10 per cent, respectively. For the group born in 1970 men's hourly earnings were 5 per cent higher than women's.

Among the groups studied, these differences in earnings could not be entirely attributed to educational qualifications and employment experience - which implies that the gender gap in earnings is in part due to occupational segregation and/or discrimination.

The data show that employment experience has a smaller impact on earnings among women than among men.

Unemployment rate

Increases in the national unemployment rate lead to decreases in hourly earnings for young people.

A 1 per cent increase in the national unemployment rate decreased earnings by about 4 per cent for the group born in 1961, 8 per cent for those born in 1965 and around 5 per cent for those born in 1970. It should be noted that these findings cannot be necessarily reversed to claim that a cut in youth wages of 4 to 8 per cent would reduce youth unemployment by 1 per cent.



Unemployment incidence

Effect of achievement on unemployment

Early school achievement in literacy and numeracy was the one consistent factor in youth unemployment and unemployment duration. The effect of early school achievement on both the likelihood of becoming unemployed and exiting unemployment remains until at least the age of 30 even when accounting for post-school qualifications and labour market experience.

Achievement test scores had a large effect on unemployment (see Figure 4). For example, those born in 1961 who achieved an above average test score were half as likely to be unemployed as those who achieved a below average score. For those born in 1965 and 1970 the effects of achievement tend to be larger for women than for men.

This raises the important question of whether increasing skills in literacy and numeracy among students would substantially lower youth unemployment. The findings from the study suggest that increasing skills could lower unemployment, but the extent of this reduction is difficult to estimate. One argument is that employers have a limited number of vacancies and will select the best available no matter what their absolute level of skills. However, one could also argue that the marginal cost of taking on an additional worker is lower if they have higher skills in literacy and numeracy.

The results show that young people with weak literacy and numeracy skills are disadvantaged in the job market. They are less likely to have completed Year 12 and, therefore, attempt to enter the labour market without formal school qualifications. This makes them vulnerable in a labour market which increasingly favours skilled workers.

Educational Qualifications

Although the proportion of young people completing Year 12 has increased during the period investigated, the positive effect of Year 12 completion on reducing the risk of unemployment has remained similar over that time (see Figure 5). This suggests that the number of jobs requiring Year 12 completion has increased at least as fast as the number of Year 12 graduates.

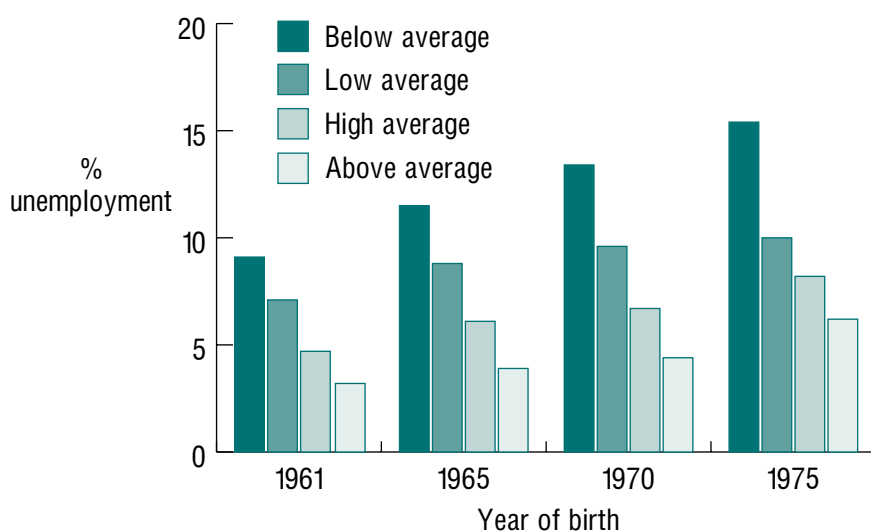


Figure 4: Unemployment incidence by achievement in literacy and numeracy

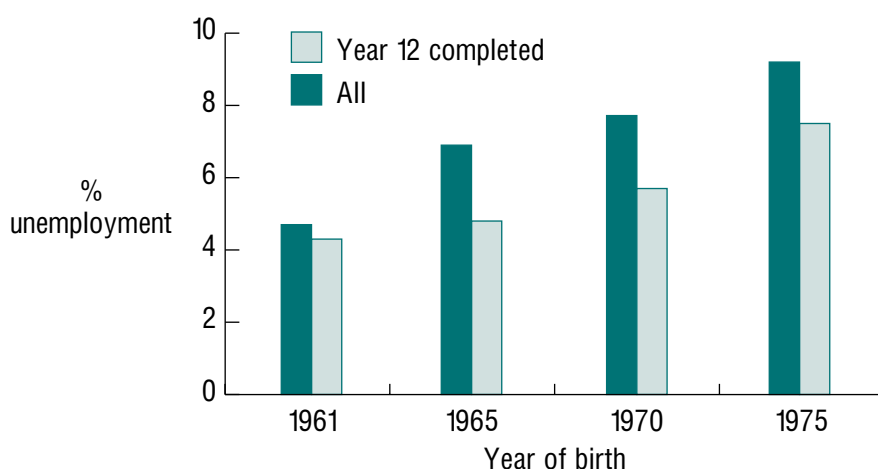


Figure 5: Unemployment incidence by Year 12 completion

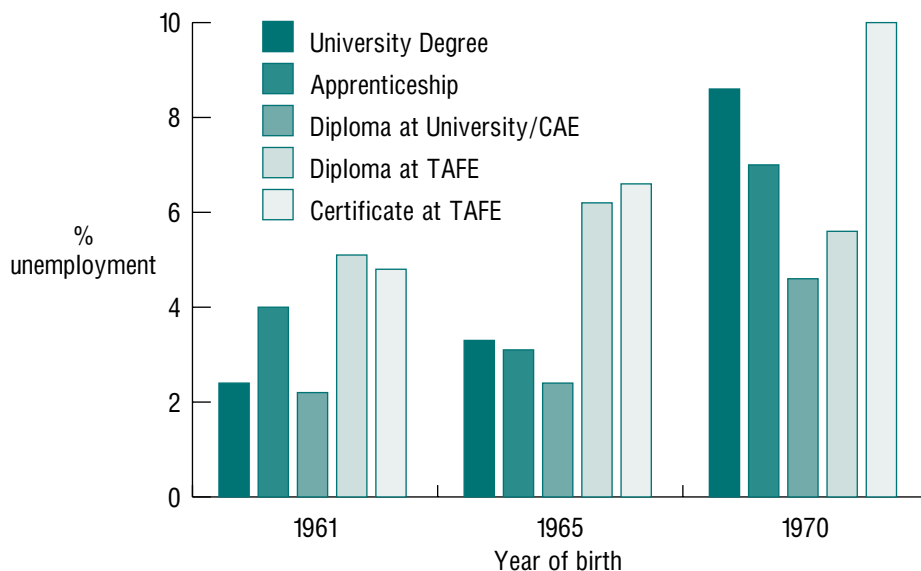


Figure 6: Unemployment incidence by qualification

The effect of Year 12 completion is independent of the effect of early school achievement, suggesting that low achievers should be encouraged to stay at school.

Unexpectedly, having a university degree (net of achievement) did not substantially decrease the chances of unemployment (see Figure 6).

In fact for those in the groups born in 1970 and 1975, having a degree slightly increased the odds of being unemployed. (Refer LSAY Research Report No 7) Since having a university degree increases average earnings, other things equal, this suggests that university graduates may be prepared to wait longer to find the right type of job. Further, it is important to note that those in the later cohorts were still in their early twenties and had only recently graduated at the time of the survey.

Gender differences

Although there initially seemed to be no gender difference in unemployment rates, when

taking into consideration qualifications and labour market experience, the results showed a relative disadvantage for men. Therefore, it may be the case that men generally have more work experience than women which improves their employability. However, if all factors are held equal, men were more likely to be unemployed than women.

Age

As people age their employment rate falls. For those born in 1961 and 1965, age was a benefit regardless of qualifications and experience, suggesting that the maturity gained with age is beneficial in finding employment.

Social background

Background factors such as father's occupational status or coming from a non-English speaking background only had a small impact on the likelihood of becoming unemployed, other factors equal. Nevertheless, it seems that people from a lower socioeconomic background, non-metropolitan area or non-English

speaking background are more likely to be unemployed, possibly because of lack of access to resources which help find jobs. Men from a non-English speaking background are still disadvantaged in employment terms after taking into account all other factors.

Exiting unemployment

Factors affecting the duration of unemployment included achievement, marriage and gender.

Previous bouts of unemployment meant that young people were less likely to leave unemployment. Interestingly, however, increased duration of unemployment did not decrease the chances of leaving unemployment.

Marriage tends to shorten the duration of unemployment for both men and women, other factors equal. This influence of marriage may arise from a greater incentive to gain financial support, or perhaps a wider pool of support networks to draw on to find work.

About the Longitudinal Surveys of Australian Youth

The *Longitudinal Surveys of Australian Youth* is a research program jointly managed by ACER and the Commonwealth Department of Education, Training and Youth Affairs.

The program includes more than 20 years of data on young Australians as they move through school and into tertiary education, the labour market and adult life.

LSAY commenced in its present form in 1995 with a new national sample of Year 9 students. Another sample of Year 9 students was drawn in 1998.

Advice and guidance is provided by a Steering Committee with representatives from DETYA, DEWRSB, the Conference of Education System Chief Executive Officers, the

Conference of ANTA Chief Executive Officers, non-government schools, academics with expertise in the area, and ACER.

The data collected through LSAY are deposited with the Social Science Data Archives for access by other analysts.

Further information on the LSAY program is available from ACER's Website: www.acer.edu.au

Further Reading

For further information please refer to the following reports, available from ACER Customer Service on: Telephone: 03 9835 7447; Fax: 03 9835 7499; sales@acer.edu.au

Lamb, S. (1997) *School Achievement and Initial Education and Labour Market Outcomes*, Longitudinal Surveys of Australian Youth Research Report No. 4, Melbourne: ACER.

Marks, G. & Fleming, N. (1998) *Factors Influencing Youth Unemployment in Australia 1980-1994*, Longitudinal Surveys of Australian Youth Research Report No. 7, Melbourne: ACER.

Marks, G. & Fleming, N. (1998) *Youth Earnings in Australia 1980-1994: A Comparison of Three Youth Cohorts*, Longitudinal Surveys of Australian Youth Research Report No. 8, Melbourne: ACER.

This paper was prepared by John Ainley, Gary Marks, Phillip McKenzie and Julia Robinson. It was designed by Susanna Murray.



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ACER

Australian Council for Educational Research
19 Prospect Hill Road (Private Bag 55)
Camberwell VIC 3124 AUSTRALIA
Telephone (03) 9277 5555 Facsimile (03) 9277 5500
www.acer.edu.au