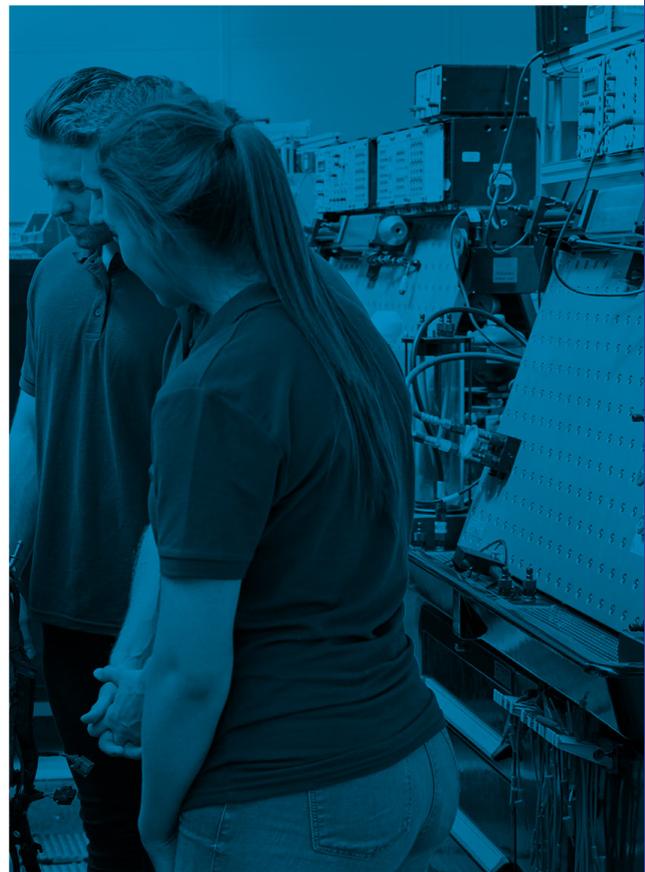


Why Australia needs a youth jobs guarantee



Sonia Arakkal

September 2020



Why Australia needs a youth jobs guarantee

Introduction

Everyone's career started somewhere, but for 250,000 young Australians, graduating this year, finding that start is harder than ever. According to ABS statistics youth unemployment has soared to 16.4 per cent, more than double the headline unemployment rate.¹

What's more, we can't solely attribute the youth unemployment problem to COVID-19. Last year, nearly one in every three young Australians were unemployed or underutilised in the labour market. However, the pandemic has certainly added fuel to the fire. Research from the Centre for Social Impact (CSI) has shown that young people have borne the brunt of job losses and cuts to working hours as businesses closed their doors. For the first time since the Great Depression, almost two in three young Australians do not have enough work to meet their needs.

It is well-established that recessions hit young people the hardest. Young people often have little or no work experience and frequently lack relevant skills. Businesses face higher costs of investment and lower costs of termination when employing young workers. Combined, these factors result in young people entering temporary and insecure employment or moving between joblessness, training and working during recessions.

At an individual level, the underutilisation of young people in the labour force not only negatively impacts their mental health, but shuts them out from participating in society.² Importantly, for too many young people early bouts of unemployment leads to lower wages throughout their working years – the “scarring” effect.

Youth unemployment cannot be seen in isolation from other structural economic barriers young people face in the form of unaffordable housing, the precariousness of social security payments and a biased tax system. In April of this year, nearly half of 18-to-24-year-olds surveyed reported not being able to pay their rent or mortgage on time. The planned removal of COVID-19 supplement from JobSeeker could see many young people living in poverty. Under the current tax system, which over-relies on creeping income tax collections, the burden of structural budget challenges will hit young people twice: first in the initial employment shock, and second with a higher tax burden through their careers.³

Rising youth unemployment is also a burden on the broader economy – it's the taxpayer that's saddled with the cost of youth unemployment benefits. Furthermore, with the cost of health and aged care associated with an ageing population, we cannot afford to miss out on the productivity benefits young people can provide. Though older workers are choosing to work more, they still work less than younger workers and, with relatively more older workers and fewer younger workers, participation rates are declining, further dragging on growth. The declining youth participation rate is the match lighting the fuse of Australia's demographic time bomb.



Why Australia needs a youth jobs guarantee

To understand how governments can tackle youth unemployment we must look to the root causes. Generally, research shows that high youth unemployment is due to a combination of three factors:⁴

1. Lack of work – there is low demand for young workers due to slow economic growth;
2. Lack of skills – young job seekers’ don’t have skills employers look for;
3. Lack of coordination – there are barriers to matching young job seekers with jobs.

To address youth unemployment, the government must create policies that address all three factors.

The most obvious first step is to stimulate demand for young workers through fiscal and monetary policy. This is what the government is trying to achieve with its JobKeeper and JobMaker stimulus packages. However, while we wait for the economy to grow, the government needs to help young people to stay connected to the labour market by playing an active role in providing skills and coordination.

The European Union’s (EU) response to youth unemployment following the global financial crisis is a proven model for achieving this. Launched at the peak of the youth employment crisis in 2013, the EU’s Youth Guarantee ensures people under the age of 25 get a good quality offer of employment, continued education, an apprenticeship or a traineeship within four months of becoming unemployed or leaving formal education. The Guarantee was inspired by a scheme developed in Finland, which successfully allocated a job, traineeship, apprenticeship or further education to 83.5 per cent of registered young people within three months.⁵

According to the European Commission, more than five million people have registered for the Youth Guarantee each year since 2014 and more than 3.5 million took up offers of employment, education, traineeship or apprenticeship thanks to it. The improvement of the economic situation in Europe, together with the efforts that the EU and the national governments made to support young people, reduced youth unemployment from a peak of 24 per cent in 2013 to 14.6 per cent in February 2019. This is “faster than overall unemployment and faster than the macroeconomic trend would have predicted,” the European Commission has stated.⁶

Australian economist Shirley Jackson from policy think tank Per Capita has advocated for a Youth Guarantee in Australia. His version of an Australian Youth Guarantee has four key pillars⁷:

1. Publicly funded post-secondary education and training systems;
2. Study and training allowances that provide a living wage;
3. Increased demand for entry level positions;
4. Employment services that direct young workers towards skills shortages.

Jackson points to local evidence in Victoria to support the case for a Youth Guarantee. For example, over 3000 people have enrolled in free priority TAFE courses provided by the Victorian government, showing that publicly funded post-secondary education can encourage people into training. He also points to the popularity of the Victorian Government’s Youth Employment Scheme, where long term unemployed young people undertake a year-long traineeship in the Victorian public service, as further evidence that a Youth Guarantee could be rolled out across Australia.



Why Australia needs a youth jobs guarantee

However, in order for a jobs guarantee to be effective in Australia, there are some important aspects to get right. Firstly, we must recognise that disadvantaged young people need extra help. In an evaluation of the European Youth Guarantee the International Labor Organisation found that in France disadvantaged young people lived in “a situation of vulnerability that did not allow them to make the most of the programme”, adding that “the programme was not able to break their path of exclusion.” This means a jobs guarantee should come with specialised and targeted help for young unemployed people from low socioeconomic status backgrounds. This could look like a government funding model that supports a localised and partnership-based program so that employers, service providers, local government and welfare organisations can work simultaneously to address the barriers to employment.⁸

Secondly, the quality of traineeships and jobs should be a focus. Increasing demand for young workers through one off subsidies can result in poor-quality traineeships that do not lead to development of skills or permanent employment. Evidence also shows that public sector traineeships perform poorly when it comes to transitioning participants to unsubsidised jobs. According to one study “the pattern suggests private sector employees place little value on the experience gained in public sector programmes – perhaps because many of these programs have little or no skill building component.”⁹ The importance of working with and preparing young people for the private sector is evident in the review of Jobkeeper which found that there has been a 45 per cent decline in private sector employment for young people.¹⁰

The importance of the quality of traineeships and jobs is obvious when you consider the rapidly changing nature of work. Australia’s industry structure has undergone fundamental changes in recent decades, moving from an economy that was highly dependent on agricultural produce and manufactured goods, to today’s economy where service-based industries are increasingly important for employment. Encouraging young people to upskill, train or take up entry level jobs in traditional sectors, such as the public sector or construction, might lead to dead ends.

So in conjunction with a youth guarantee, the government must incentivise the creation of dedicated graduate positions across private sector industries of the future. Inspiration can be found in Singapore’s, recently announced Jobs and Skills package, which includes a partnership with Google. The partnership will see Google providing 3,000 local entry-level and mid-career jobseekers with on-the job training or skills upgrading in Digital Marketing and Cloud Technology.¹¹

Enacting policies that encourage Australian innovation should also come hand in hand with a Youth Guarantee. This could look like software engineering in our national curriculum, an expansion of R&D tax incentives or procurement policies to encourage Australian innovation. Among this year’s 250,000 school graduates could be the founder of Australia’s next Atlassian.

So far the government is yet to announce medium-term policy settings or a comprehensive jobs plan to tackle youth unemployment. The JobTrainer package is an important first step to address the crisis by restoring funding to the training sector and creating wage subsidies, but while it seems to support trades and business sector jobs, its success will depend on this support being extended



Why Australia needs a youth jobs guarantee

to service sector jobs, including non-profit social service organisations. Extending the package to sectors such as these, where women are overrepresented, will also help address women's unemployment rate, which during COVID-19, has been outpacing men's.

JobTrainer doesn't provide any new incentives or subsidies to encourage employers to take on new apprentices or trainees. Some groups such as the Young Workers Centre have argued that the JobTrainer package will push young workers, with little choices available, towards free short courses in industries that are known for low pay and insecure work.

JobTrainer aside, it's a no brainer: government needs to move beyond crisis measures and develop a jobs plan that prioritises young people.

Endnotes

1 <https://www.abs.gov.au/ausstats/abs@.nsf/7d12b0f6763c78caca257061001cc588/a8e6e58c3550090eca2582ce00152250!OpenDocument>

2 Phillip & Mallan, 2015

3 <http://www.if.org.uk/2020/07/08/australia-under-covid-19/>

4 <https://www.mckinsey.com/industries/public-sector/our-insights/how-business-and-government-can-bring-young-people-into-work#>

5 <https://www.isyec.org/en/youth-guarantee/>

6 <https://ec.europa.eu/social/main.jsp?catId=1079&langId=en>

7 https://percapita.org.au/wp-content/uploads/2020/06/Coming-of-Age-in-a-Crisis_FINAL.pdf

8 <http://csmr.cass.anu.edu.au/sites/default/files/rsss/JeffBorland.pdf>

9 Card, David, Jochen Kluge and Andrea Weber (2015), 'What works? A meta analysis of recent active labor market program evaluations', NBER Working Paper no.21431.

10 <https://treasury.gov.au/publication/jobkeeper-review#:~:text=The%20review%20found%20that%20the,continued%20need%20for%20macroeconomic%20support.>

11 <https://www.edb.gov.sg/en/news-and-events/news/google-supports-3-000-locals-through-a-new-jobs-and-skills-initi.html>