

## Youth Unemployment in Australia

Dr Patrick Carvalho

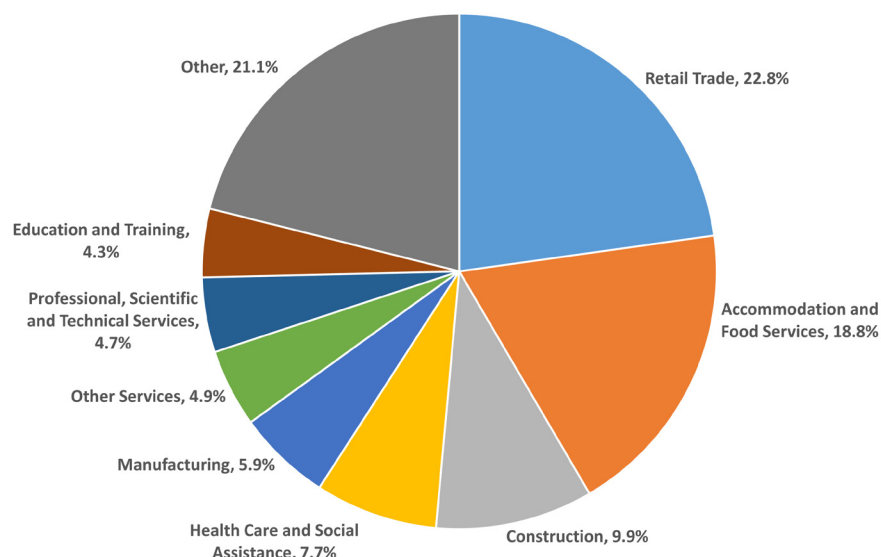
### The rising youth unemployment problem

- Every year a large number of young Australians aged 15–24 enter the labour market but quickly discover that finding a job is tough, and keeping one is not getting easier.
- Youth unemployment has nearly doubled since mid-2008, with more than a quarter million youth now unemployed in Australia, accounting for over a third of total unemployment.
- Youth unemployment has averaged 13.5% in the past 12 months, more than twice the adult unemployment rate.

### Youth Labour Market Overview

- Full-time youth employment positions have been severely reduced for both teenagers and early 20s in the past seven years, with current levels still below the pre-GFC period.
- Worse still, two-thirds of the recent surge in youth unemployment rates was due to the increased number of teenagers looking for part-time jobs — mostly in the hospitality and retail sectors.
- Many of the 360,000 young Australians who are currently not in employment, education or training — also known as NEETs — are not even being technically classified as unemployed, because they are not being actively looking for a job.
- Data shows that, although the number of teenager NEETs aged 15–19 has been in sharp decline due to higher Year 12 attainments, the number of early 20s NEETs aged 20–24 has solidly grown since the GFC, reaching the highest peak since 2003.

**Figure: Share of Youth Employment by Industry**



**Youth Population: 3.1m**

**Labour Force Participation: 68%**

**Total Employment: 1.8m**

**Full-time positions: 870,000**

**Part-time positions: 950,000**

**Total Unemployment: 280,000**

**Looking for part-time work: 120,000**

**Looking for full-time work: 160,000**

**Total NEETs: 360,000**

**Teenagers (aged 15–19): 102,000**

**Early 20s (Aged 20–24): 258,000**

## IDENTIFYING THE CAUSES AND PROPOSING POLICY SOLUTIONS

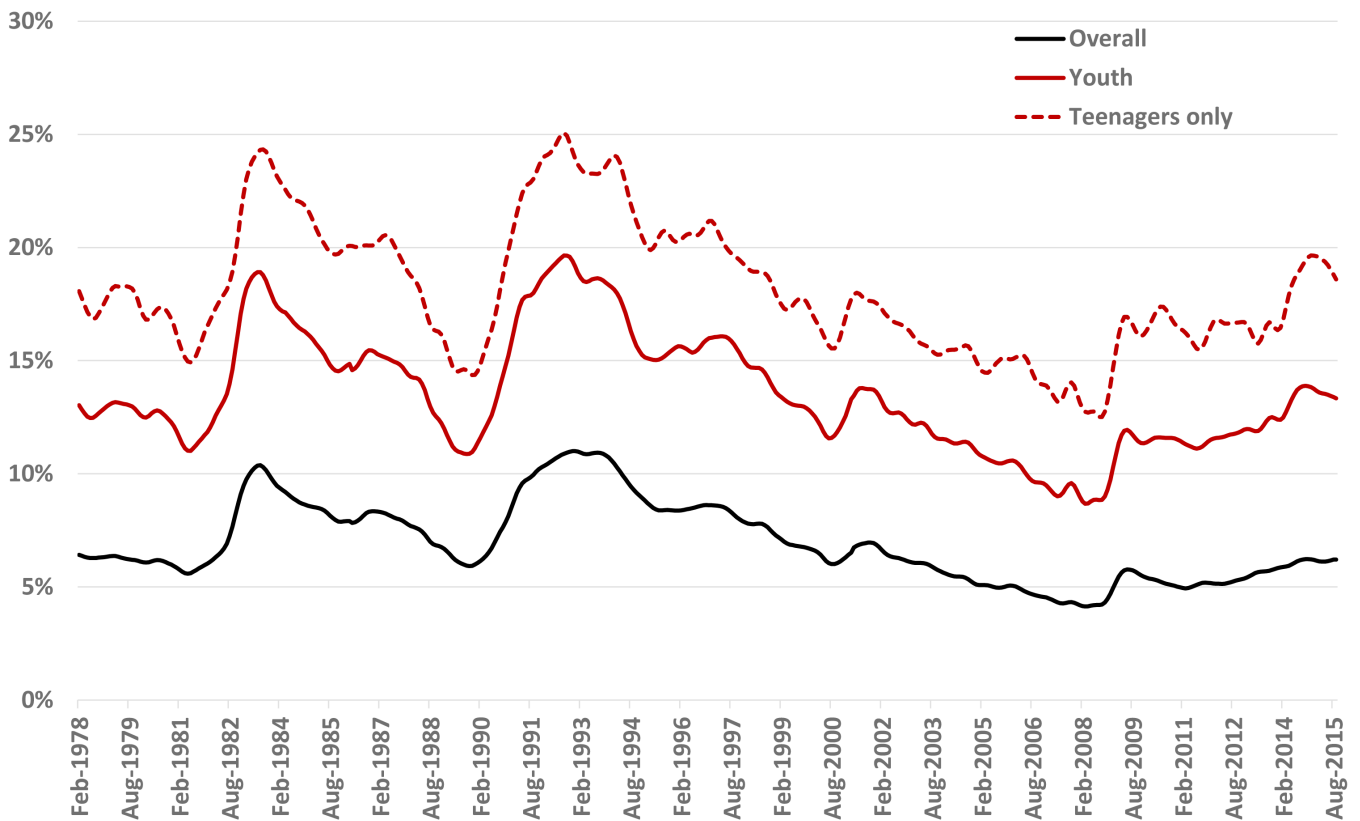
### CAUSE: Lack of economic growth

### SOLUTION: Allow market forces to create wealth and jobs

- The most effective way to reduce youth unemployment is via growing the economy.
- However, in order to grow, Australia needs a tax reform that values production, savings and investment, a competition reform that upholds a level playing field for market participants and workplace relations that promotes job creation.
- In short, growth matters to job creation; and structural reforms matters to growth.
- **Recommendation 1:** Implement structural reforms to promote growth and job creation.

**Figure: Youth Unemployment Rates in Australia**

A low-skilled, inexperienced young workforce with great emphasis on part-time and casual jobs is particularly vulnerable to adverse economic conditions, which leads to youth unemployment being higher and more unstable than overall unemployment.



**Source:** ABS, Labour Force, Australia, trend data.

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## CAUSE: Artificially high pay floors harm young jobseekers

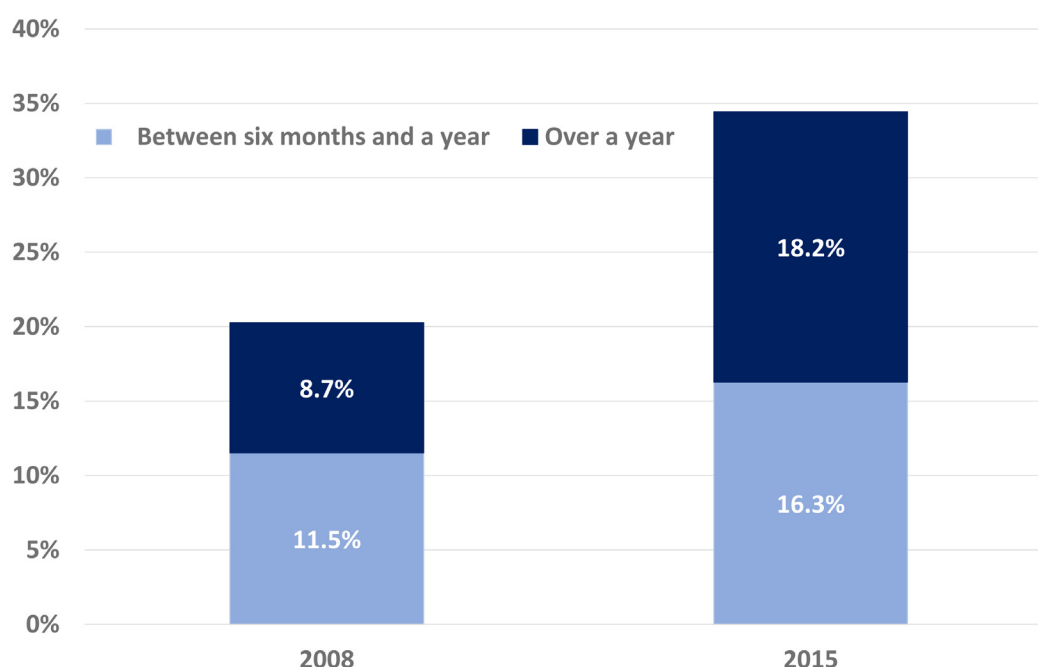
### SOLUTION: Smart regulation

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- Another impediment to youth job creation in Australia is counterproductive workplace regulation, in particular high minimum wages and industry-specific award rates.
- At high levels, nationally regulated pay floors can be detrimental to job creation, making it difficult for low skilled young jobseekers lacking job experience, and the long-term unemployed, to get into the workforce.
- **Recommendation 2:** Local discounts to nationally regulated pay floors, taking into account diverse intra- and inter-state living costs and disparities in youth unemployment across the country.
- **Recommendation 3:** the local discount to minimum wages should be coupled with fixed-period discounts to all nationally regulated pay floors for those who are long term unemployed.

#### Figure: Share of Young Jobseekers on Long Durations of Unemployment

There has been a steep increase in the number of long-term unemployed since the GFC. Currently there are more than 50,000 young Australians currently failing to find a job for more than 12 months.



**Source:** ABS, Labour Force, Australia; Author's calculation; 12-month average; Share as a percentage of the total pool of young jobseekers.

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## CAUSE: Welfare dependence and disadvantaged background

### SOLUTION: Targeted welfare assistance that maximises effective outcomes

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- Some jobseekers, particularly youth with disadvantaged backgrounds, genuinely struggle to get access to the job market regardless of pay floor levels or job search efforts.
- Welfare payments should be structured to enable and incentivise recipients to return to the workforce as quickly as possible, including well-designed activity tests that effectively improve the chances to land a stable job.
- Effective welfare assistance for some disadvantaged groups at risk of long-term income support reliance can require a considerable amount of public resources. However, targeted intervention through transition-to-work programs could be a sound investment decision.
- **Recommendation 4:** adopt an actuarial long-term management of the welfare system, following the New Zealand model to rationalise the use of public funds and maximise effective outcomes.

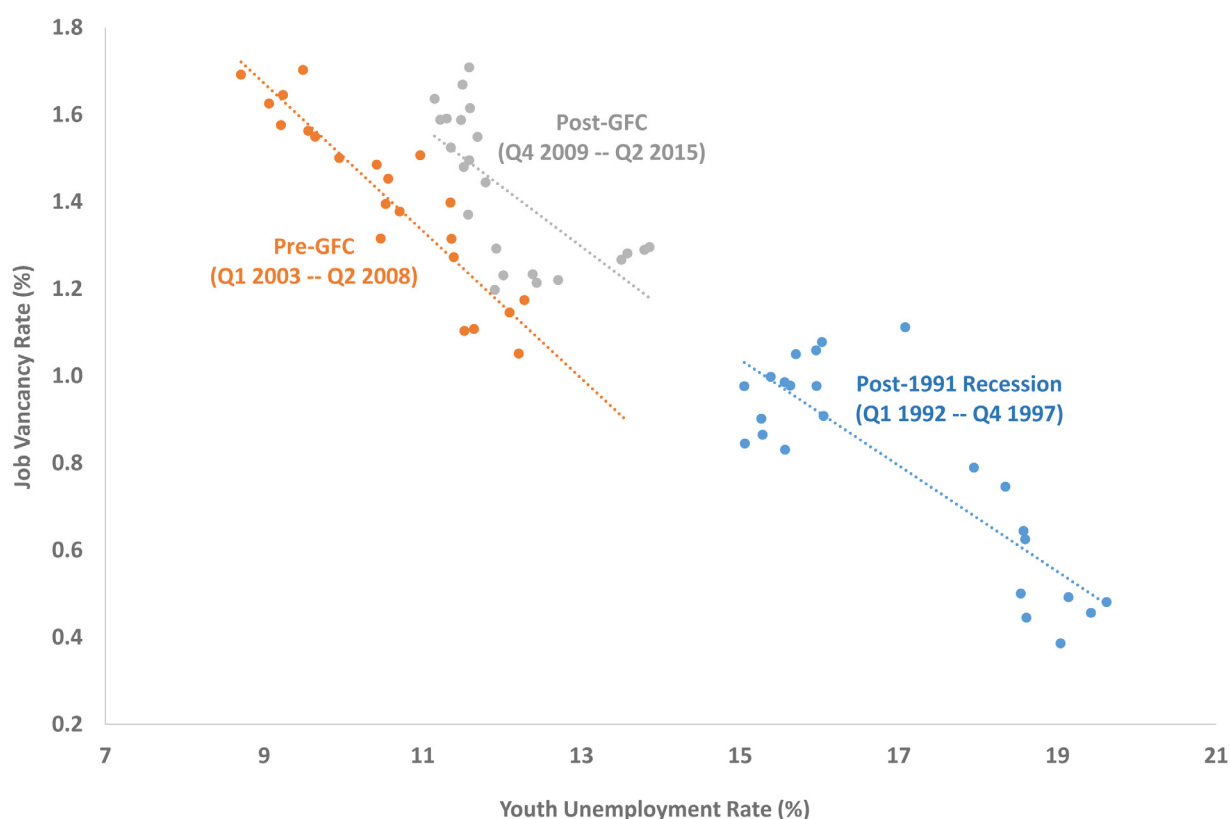
## CAUSE: Low foundational skills to navigate fast-changing labour market demands

## SOLUTION: An educational system fit for purpose

- A good foundation of numeracy and literacy skills directly enhances productivity at work, and can help lower skill mismatches in the job market by better equipping young workers with the basic skills needed to learn new skills.
- Although lifting Year 12 or equivalent attainment rates is laudable, more important is to make sure that, while at school, students are actually learning the basic educational skills in order to boost their employment prospects.
- **Recommendation 5:** lift numeracy and literacy skills of school-leavers to improve employability.
- The current demand-driven system incentivises educational institutions to enrol as many students as possible, regardless of their suitability or job market demands, lowering admission standards and reducing responsibility to teach subjects that improve human capital in the job market
- **Recommendation 6:** investigate innovative ways to increase the accountability of tertiary and VET institutions with respect to job market outcomes.

### Figure: The Beveridge Curve for young Australians

Analysis of the Australia's Beveridge Curve shows a growing mismatch between young jobseekers and current job vacancy positions. A service-oriented, highly specialised economy, such as Australia's, with increasing degrees of automation and information systems, requires a new breed of workers to perform an increasingly challenging set of tasks — increasing the role of education as a decisive factor for employability. This all leads to a wider gap in the supply and demand of skills in the labour market, with the low-skilled, inexperienced youth hit harder.



Source: ABS data; Author's calculation.

## Author

**Patrick Carvalho** is a Research Fellow in the Economics Program at the Centre for Independent Studies, and has published in several Australian and international economics forums. Dr Carvalho was formerly Head of the Economic Studies Division at the Federation of Industries of Rio de Janeiro and a Lecturer in the Research School of Economics at the Australian National University.