14 December 2020

Submission to the Victorian Government's Youth Strategy

December 2020

Danielle Wood, Tom Crowley, and Cassius Hynam

1 Summary

Even before the 2020 pandemic, many young Victorians were in a weak economic position. The COVID-19 recession has made their situation even more precarious.

Young Victorians are far less likely to own a home than previous generations, and their time if the labour market has been characterised by wage stagnation (and even decline) and rising under-employment. They are in danger of being the first generation in memory to have lower living standards than their parents.

Inexperienced young workers are vulnerable in any recession, but the unique nature of this recession made things worse: the lockdowns hit hardest in hospitality and other services sectors, which disproportionately employ young people.

Government supports eased the lockdown burden a little. The Federal Government's JobKeeper scheme kept almost a million Australians employed during the 'rescue' phase of the crisis. And many more will be returning to work now that Victoria's second lockdown has ended. The Federal Government's JobMaker wage subsidy and the Victorian Government's hiring tax credit will support jobs for young people in this 'recovery' phase.

But many young Victorians will still fall through the cracks. Young people are disproportionately employed as short-term casuals, and they missed out on JobKeeper. And even with the stimulus governments have provided, unemployment is projected to remain unnaturally high for at least four years.

A prolonged stretch of unemployment can create significant economic scarring, especially for young people. And even young people with jobs are not spared: cohorts who graduate during recessions can have lower wages for more than a decade.

There is no 'silver bullet' available to save young people from the pain of 2020, or from the structural disadvantage that predated it. But there are things government can and should do to help young people.

In the short term, more stimulus will be needed as the Victorian economy recovers. Governments should aim to get unemployment back below 5 per cent as quickly as possible, and should not be afraid to use their balance sheets to accelerate this recovery. Stimulus should focus on delivering the greatest economic benefit, including by investing directly in labour-intensive public services, and continuing to support the hardest-hit sectors.

In the medium term, the Victorian Government should make reforms that boost economic growth – a win for all, but especially the young. Replacing inefficient stamp duties with a land tax is an obvious starting point. The Government should also relax planning rules to encourage higher-density living in established suburbs, which would make housing more affordable.

Young Victorians are in a precarious position. The COVID-19 recession should sharpen our focus on ensuring they are not left behind.

2 Young people were struggling before the COVID crisis

The Grattan Institute has published research on the economic challenges facing young Australian in its 2019 report *Generation Gap* (attached to this submission).[1] This chapter briefly presents the report's key findings. The report is national in focus, but its findings apply equally to young Victorians.

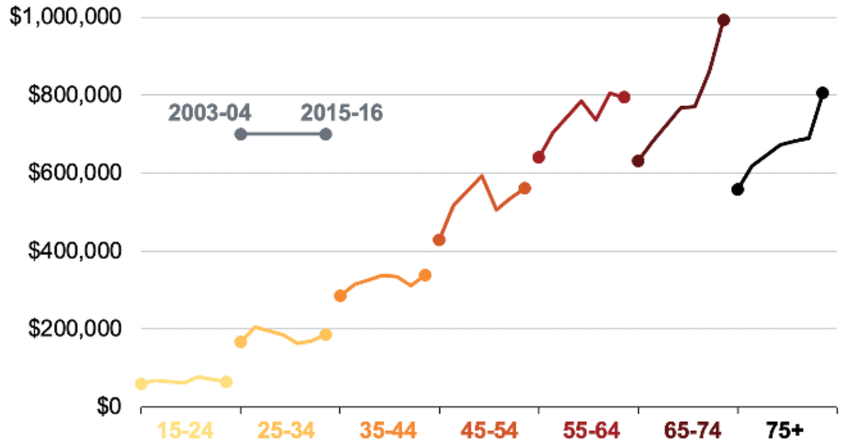
2.1 The wealth gap between young and old is big and getting bigger

Australian household wealth grew strongly over the past 30 years, but young people largely missed out. As Figure 2.1 shows, wealth grew strongly for older Australians between 2003-04 and 2015-16, but barely moved for younger Australians.

Younger Australians are less likely to own a home than young people were in the past. In 1981, 67 per cent of 30-year-olds owned a home; by 2016, this figure was just 45 per cent. And those who do own a home are taking on a lot more debt.

The story is worse for poor young people. As Figure 2.2 shows, the top fifth of young Australians fared OK between 2003-04 and 2015-16, the middle stagnated, but the bottom fifth went backwards.

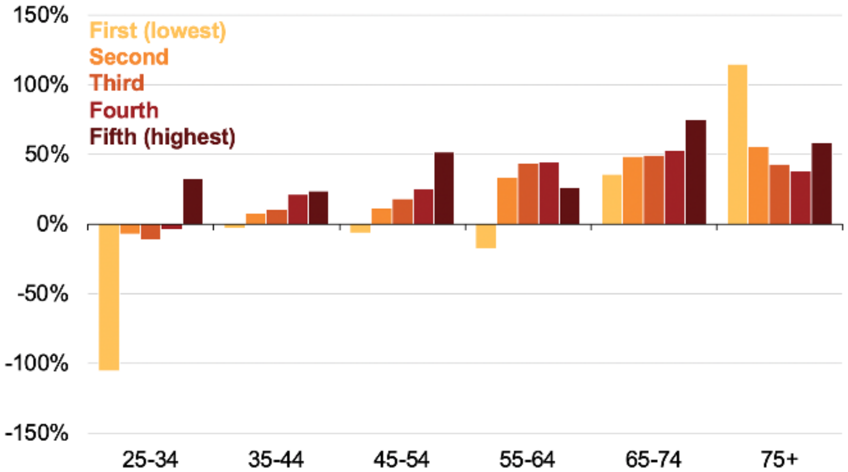
Figure 2.1: The wealth gap between young and old is growing
Average equivalised net wealth by age of head of household, 2003-04 to 2015-16, in 2015-16 dollars



Notes: Equivalised net wealth accounts for households of different sizes. Microdata enabling equivalisation was only available from 2003-04. Age group is the age of the household reference person.
Source: ABS (2018).

[1] Wood and Griffiths (2019).

Figure 2.2: Richer young Australians are faring OK, but poorer young Australians are going backwards
Real change in average household net wealth, 2003-04 to 2015-16, by wealth quintile



Notes: Compares households in 2015-16 to households of the same age in 2003-04. Quintiles are calculated for household net wealth in each age group. Age group is the age of the household reference person.
Source: ABS (2018).

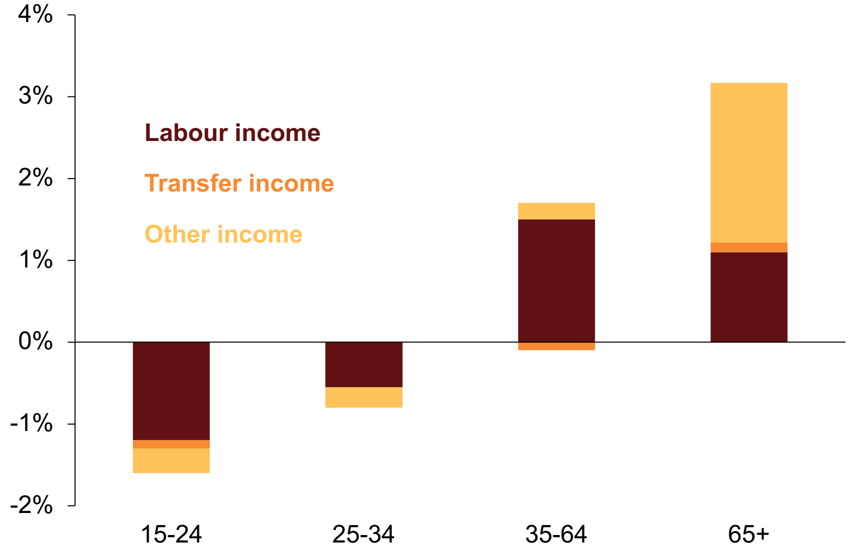
2.2 Stagnating incomes particularly affect the young

Wages for young people never recovered after the Global Financial Crisis. The weaker labour market in the decade after that crisis resulted in wages for young people going backwards in real terms from 2009.

And low wages growth hits young people particularly hard because they are less likely to have other sources of income (see Figure 2.3).

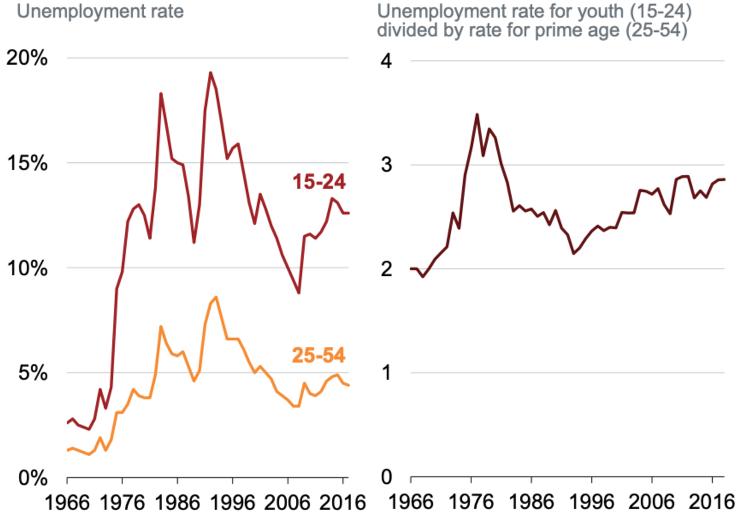
Young people were also disproportionately affected by a lack of employment opportunities, both in terms of unemployment and under-employment (see Figure 2.4 and Figure 2.5).

Figure 2.3: Labour income was the biggest contributor to young people's negative income growth
Average annual growth in per person income 2008-2018 by age



Source: ABS (2019c).

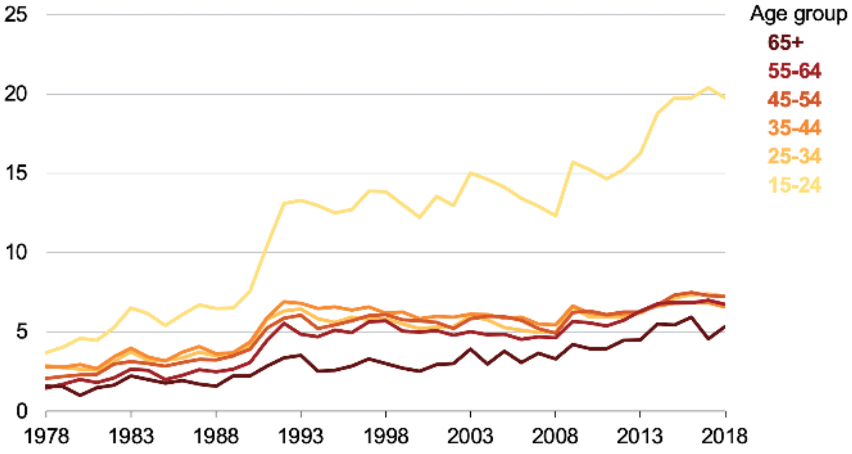
Figure 2.4: Youth unemployment was already rising before the COVID crisis



Source: ABS (2019a).

Figure 2.5: Under-employment was also rising before the COVID crisis

Percentage of employed people who are under-employed



Source: ABS (2019a).

3 Young people were hit hard by the crisis

The COVID-19 recession exacerbated the economic pressures felt by young people. Young people were more likely to lose their jobs. They were also more likely to miss out on key government supports. The consequences of this will last a long time.

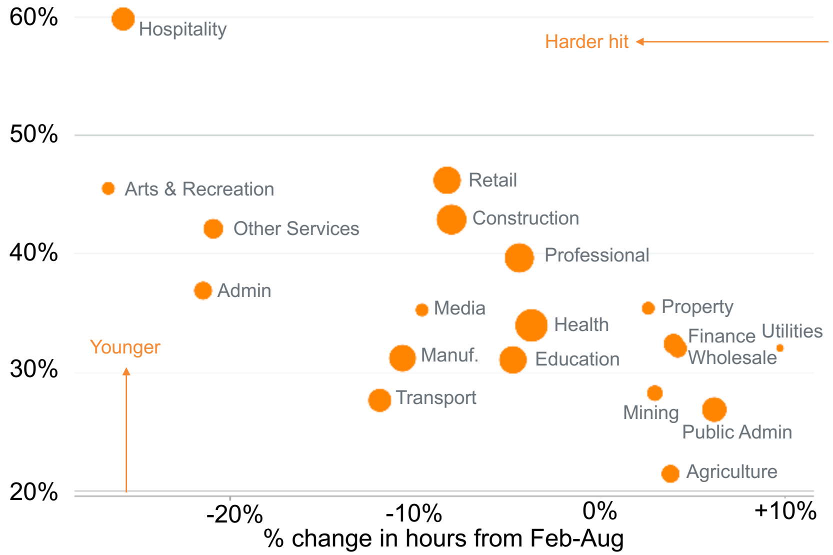
3.1 Young people were the most likely to lose their jobs during the lockdowns

One characteristic of the COVID-19 recession was that its impact was largest in service sectors, especially hospitality and the arts, which were forced to scale back operations or cease operating entirely during lockdowns.

These hardest-hit sectors employ a high proportion of young people, as Figure 3.1 shows. Figure 3.2 shows that the occupation groups that were the hardest hit within a given sector were also more likely to be held by young people – typically more 'expendable' junior roles.

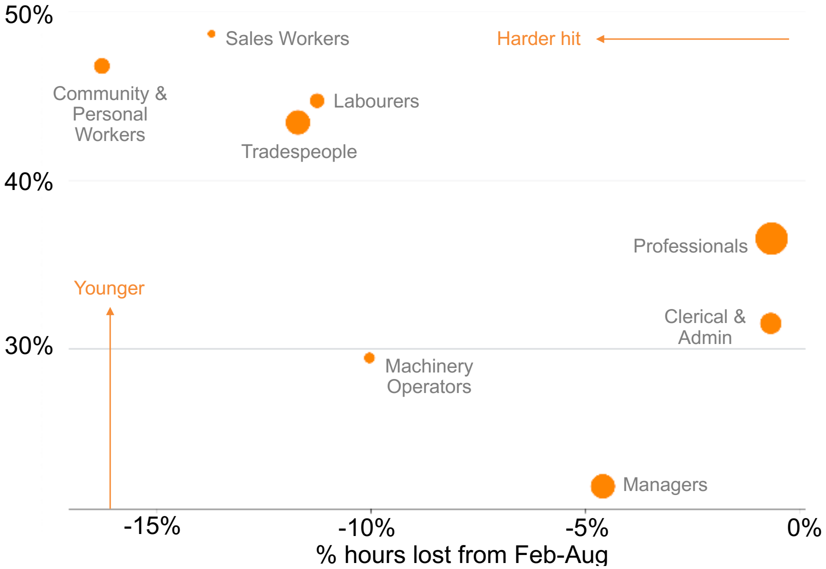
Figure 3.1: Industries with a higher concentration of young people have fared worst in the COVID crisis

Percentage of workers aged 15-34 by industry



Note: The larger the bubble, the larger the industry.
Source: ABS (2020a).

Figure 3.2: Occupations with a higher concentration of young people have fared worse in the recession
Percentage of workers aged 15-34 by occupation



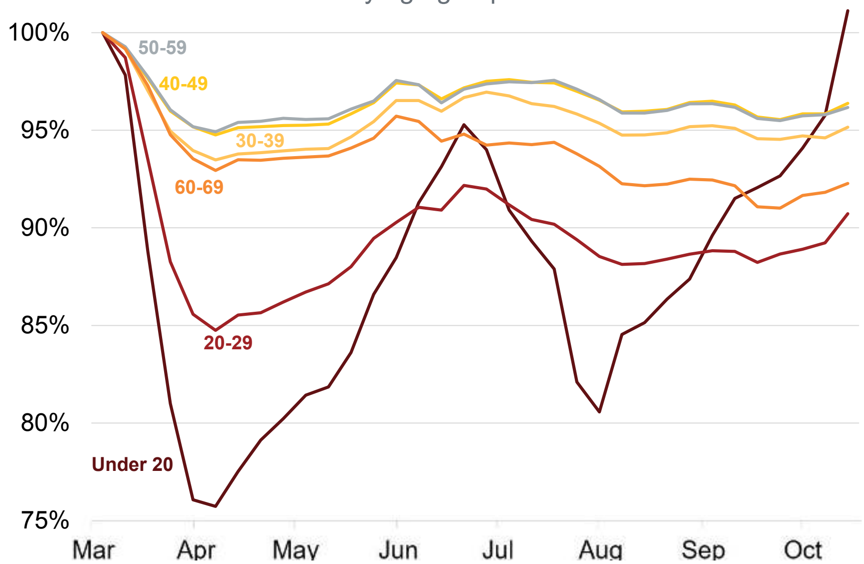
Note: The larger the bubble, the larger the occupation.
Source: ABS (2020a).

As Figure 3.3 shows, the most expendable group of young people were those under 20, many of whom appear to have been laid off during lockdowns and rehired thereafter.

Although those under 20 are likely to have had a difficult year, the sluggish recovery of jobs for young people in their 20s, even in the first weeks of Victoria's emergence from lockdown, may be a more significant concern, as Section 3.2 will explain.

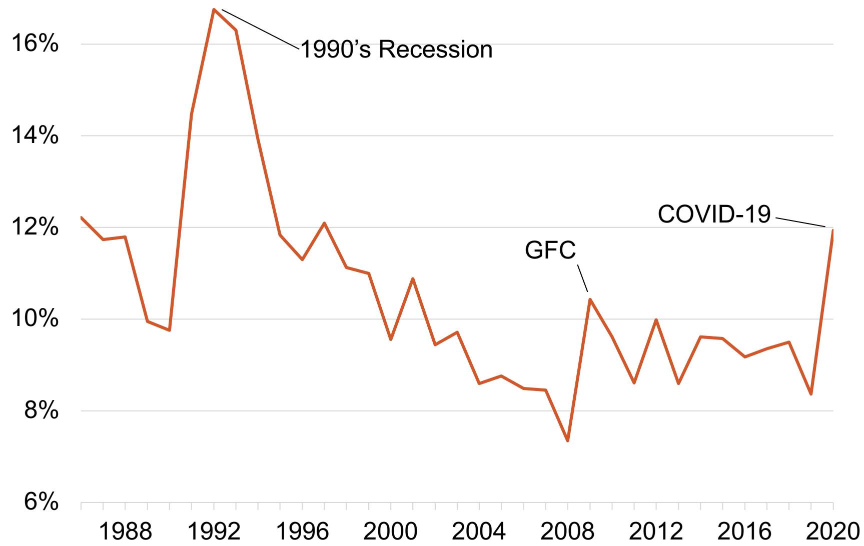
It also does not appear that young people who found themselves out of work filled in their year by entering education. The proportion of young people who were not in employment, education, or training spiked to 12 per cent, its highest level in 25 years (see Figure 3.4).

Figure 3.3: Workers under 20 were the most expendable during lockdowns, but workers in their 20s are now lagging far behind
Jobs relative to March levels by age group



Notes: Excludes over-70s. Includes only employers who use Single Touch Payroll.
Source: ABS (2020b).

Figure 3.4: The proportion of young people neither working nor studying is the highest it has been in 25 years
Percentage of Australians aged 15-24 not in education, employment, or training (NEET)



Note: Uses June figures for each year.
Source: ABS (2020a).

3.2 Government supports helped, but young people were more likely to miss out

The major government support at the onset of the crisis was the Federal Government's JobKeeper payment, which provided employers $1,500 per fortnight to retain eligible employees.[2] The Reserve Bank of Australia estimates this saved 700,000 recipients from unemployment.[3]

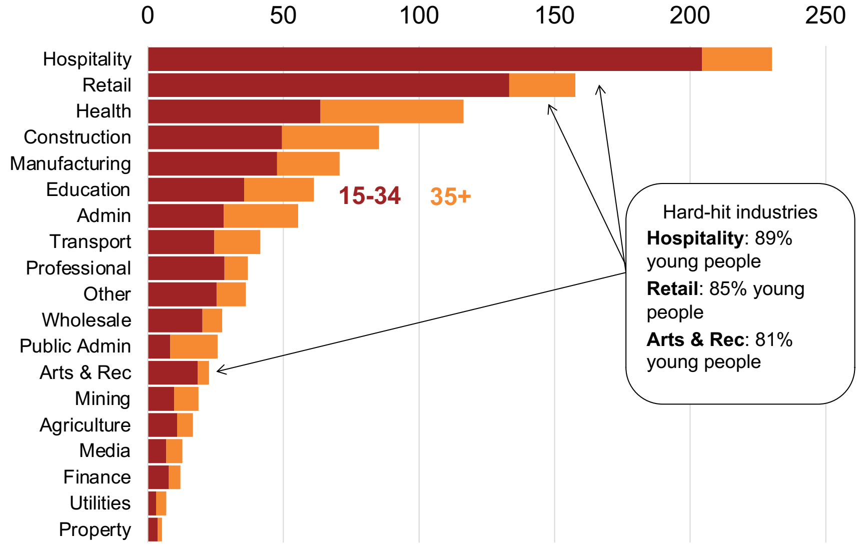
Many of these workers will have been young people, and most of those who worked are likely to have received a significant pay rise on JobKeeper.

But young people were also more likely to miss out altogether, because eligibility for casual employees was restricted to those who had been with their employer for at least 12 months. As Figure 3.5 shows, young people are less likely than older people to meet that criterion, especially in hospitality and the arts.

A Melbourne Institute report published in December found that young people were disproportionately likely to have receive no financial support since the crisis began, either from JobKeeper or the JobSeeker unemployment payment.[4]

Figure 3.5: Young people were far more likely to be excluded from JobKeeper because they were short-term casuals

Short-term casual employees by industry and age, August 2019 ('000s)



Notes: 'Casual employees' defined as those without paid leave entitlements. 'Short-term' defined as with their current employer for less than 12 months, the threshold for eligibility for JobKeeper for casual employees.
Source: ABS (2019b).

[2] Commonwealth of Australia (2020a), pp. 167-9.
[3] Bishop and Day (2020), p. 1.
[4] Broadway et al (2020), p. 8.

Now that Victoria's second lockdown has ended, many of those workers who either lost jobs or hours will return to a normal level of work. Figure 3.3 shows that this has already happened for workers under 20, and there were some signs of recovery for workers in their 20s in October.

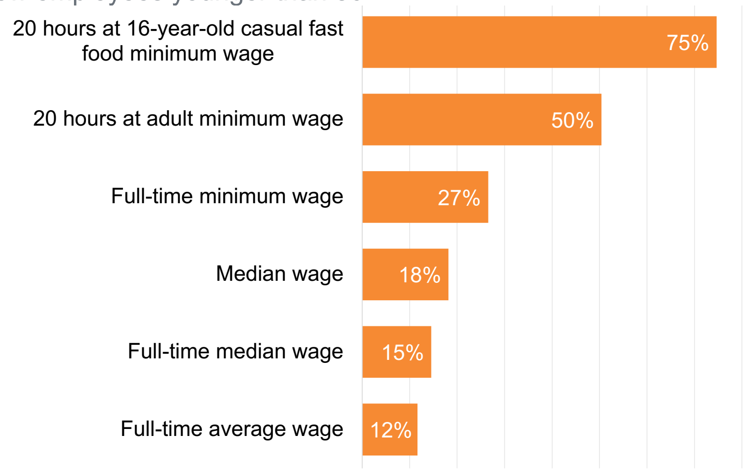
The wage subsidies that have been introduced by the Federal Government and the Victorian Government will support this process. The Victorian scheme offers a payroll tax credit of 10 cents for each dollar of increased wages for the next two years.[5]

The federal scheme (the 'JobMaker' hiring credit) is specifically targeted to young people, offering employers $200 per week for hiring someone aged 16-29 who was previously unemployed, and $100 per week for someone aged 30-35 who was previously unemployed.[6]

But these schemes are unlikely to address the structural insecurity that made young people vulnerable before the crisis. The flat rate of subsidy offered by JobMaker covers a larger proportion of a low wage than a high wage (see Figure 3.6). This encourages creation of the low-paid, insecure work that is already common among young people.

Figure 3.6: JobMaker subsidises a larger proportion of wage costs for low-paid jobs than high-paid jobs

JobMaker ($200 per week) as a proportion of different wage benchmarks for new employees younger than 30



Notes: $200 per week hiring credit is for people younger than 30. Fast food minimum wage includes casual loading; casual loading not included in other wages.
Sources: Fair Work Commission (2020), ABS (2019b), ABS (2020c), Grattan calculations.

[5] State of Victoria (2020), pp. 51-2.

[6] Commonwealth of Australia (2020b), p. 162.

And even then, it's unlikely that employment will return to pre-crisis levels quickly. The Victorian Budget forecasts that unemployment will remain well above 5 per cent for at least four years.[7] This is too high for too long and will particularly hurt young people.

3.3 Prolonged stints in unemployment are particularly bad for young people

Unemployment is harmful in the short run, but it also has long-lasting effects. People who suffer unemployment can be 'scarred' by the experience, particularly if they're out of work for a long time – their skills erode, their experience becomes less relevant, they lose touch with professional networks, and they become less attractive to employers.[8]

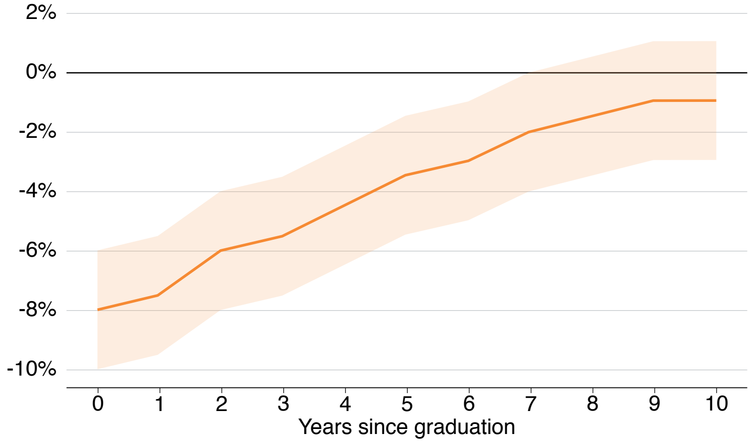
This effect is particularly significant for young people. A recent paper by the Productivity Commission examining scarring effects after the Global Financial Crisis found that young people had more difficulty getting jobs in the occupations they aspired to, and that poor initial opportunities for young people can have serious long-term consequences.[9]

The latter finding is supported by recent research from the Australian Treasury on the effect of graduating into a weak labour market. It found that when the youth unemployment rate goes up 5 percentage points, wages for graduates are about 8 per cent lower than they would otherwise have been, and remain depressed for years (see Figure 3.7).

The cost of this scarring is substantial: over a decade, young workers lose the equivalent of half-a-year's salary compared to otherwise-equivalent young people who graduated into more benign economic conditions.[10]

[7] State of Victoria (2020), p. 21.
[8] There is an extensive literature on this; see for example Arulampalam et al (2001) and Rothstein (2020).
[9] de Fontenay et al (2020).
[10] Andrews et al (2020).

Figure 3.7: Graduating into a bad labour market depresses wages for years after graduation
Effect on wages of a 5-percentage point increase in the state youth unemployment rate



Note: Shaded area is a two-standard error confidence band.
Source: Andrews et al (2020).

4 There's no 'silver bullet', but governments can do plenty to help young people

There is no 'silver bullet' available to governments that can save young people from the severe consequences of the COVID-19 recession, or from the structural disadvantage that predated it. But there are several things governments can and should do to help.

4.1 In the short term: get unemployment down, fast

The best thing governments can do to help everyone, including young people, is to drive down unemployment as quickly as possible. Well-targeted stimulus is the most powerful tool.

The Victorian Government provided $25 billion in stimulus in its October budget, which was a strong down-payment on Victoria's recovery. But given the current unemployment forecasts, more will be required in the May state budget.

The principles for good stimulus are simple: governments should give priority to areas of greatest need and areas with the greatest 'bang for buck'. The October Victorian budget contained good examples of both of these, including the voucher program for the regional tourism industry, social housing spending, and substantial investment in labour-intensive public services. Further stimulus in the May budget should follow similar principles.

The Victorian Government need not be too constrained by its debt position. The historically low cost of debt, even with a weaker credit rating, means that the additional interest cost associated with taking on more debt for targeted spending that boosts jobs is economically worthwhile.

And there are things the Government could do to help young people that do not require much additional funding. For example, eligibility for employment in the Government's new tutoring program for students disadvantaged by COVID-19 disruptions should be broadened to allow university graduates of any discipline to be tutors. There is a substantial body of evidence that tutoring by university graduates can be at least as effective as tutoring by teachers. Allowing graduates to enlist as tutors would help school students and support jobs for young people at the same time.

4.2 In the medium term: make 'win-win' reforms that will be especially good for young people

Once the recovery is on track, the government should make reforms that will boost economic growth – a win for everyone, but especially young people.

The attached *Generation Gap* report includes several recommendations for both levels of government. The most significant recommendation relevant to the Victorian Government is replacing stamp duties with a broad-based land tax.

The Victorian Government should also act to reduce one of the biggest contributors to disparities in wealth accumulation across generations – house prices which have been growing faster than incomes for two decades.

The biggest lever state governments have to improve housing affordability is to boost supply. Building an extra 50,000 homes a year for a decade would leave Australian house prices 5-to-20 per cent lower than they would have been otherwise.

These homes should not all be on city fringes. The Victorian Government should reform planning rules to allow more homes in the inner and middle rings of Melbourne. This would also produce economic dividends by enabling more people to live closer to the higher-productivity city centre.

5 References

ABS (2018). *Microdata: Household Expenditure, Income and Housing, 2015-16, Cat. 6540.0.* 2015-16 and past releases. Australian Bureau of Statistics. https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6540.0Main+Features32015-16?OpenDocument

(2019a). *Labour Force Survey, Australia, May 2019, Cat. 6202.0.* Australian Bureau of Statistics. https://www.abs.gov.au/ausstats/abs%5C%40.nsf/mf/6202.0

(2019b). *Characteristics of Employment, Australia, August 2019, Cat. 6333.0.* Australian Bureau of Statistics. https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6333.0.00.001Main+Features1August%202019

(2019c). *Survey of Income and Housing, 2017-18, Cat. 6553.0.* Australian Bureau of Statistics. https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6553.02017-18?OpenDocument

(2020a). *Detailed Labour Force Survey, Australia, October 2020, Cat. 6291.0.* Australian Bureau of Statistics. https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia-detailed/latest-release#data-download

(2020b). *Weekly Payroll Jobs and Wages in Australia, week ending 17 October 2020*. Australian Bureau of Statistics. https://www.abs.gov.au/statistics/labour/earnings-and-work-hours/weekly-payroll-jobs-and-wages-australia/latest-release#data-download

(2020c). *Average Weekly Earnings, Australia, May 2020.* Australian Bureau of Statistics. https://www.abs.gov.au/statistics/labour/earnings-and-work-hours/average-weekly-earnings-australia/latest-release

Andrews et al (2020). Andrews, D., Deutscher, N., Hambur, J. and Hansell, D. *The Career Effects of Labour Market Conditions at Entry.* The Australian Treasury. https://treasury.gov.au/sites/default/files/2020-06/p2020-85098-202006.pdf

Arulampalam et al (2001). Arulampalam, W., Gregg, P., and Gregory, M. "Unemployment Scarring". *The Economic Journal* 111.475, pp. 577-485. DOI: 10.1111/1468-0297.00663.

Bishop, J., and Day, I. (2020). *Research Discussion Paper: How Many Jobs Did JobKeeper Keep?* Reserve Bank of Australia. https://www.rba.gov.au/publications/rdp/2020/pdf/rdp2020-07.pdf

Broadway, B., Payne, A.A., and Salamanca, N. (Eds.) (2020). *Coping with COVID-19: Rethinking Australia.* Melbourne Institute: Applied Economic & Social Research, the University of Melbourne. https://melbourneinstitute.unimelb.edu.au/__data/assets/pdf_file/0004/3562906/Coping-with-COVID-19-Rethinking-Australia.pdf

Commonwealth of Australia (2020a). *Economic and Fiscal Update, July 2020.* Commonwealth of Australia. https://budget.gov.au/2020-efu/downloads/JEFU2020.pdf

(2020b). *Budget 2020-21, Budget Paper No. 2: Budget Measures.* Commonwealth of Australia. https://budget.gov.au/2020-21/content/bp2/download/bp2_complete.pdf

Fair Work Commission (2020). *Order: Annual Wage Review 2019-20.* Fair Work Commission. https://www.fwc.gov.au/awards-and-agreements/minimum-wages-conditions/annual-wage-reviews

de Fontenay et al (2020). *Climbing the jobs ladder slower: Young people in a weak labour market.* Productivity Commission Staff Working Paper. https://www.pc.gov.au/research/supporting/jobs-ladder/jobs-ladder.pdf

Rothstein, J. (2020). *The Lost Generation? Labor Market Outcomes for Post Great Recession Entrants.* 27516. National Bureau of Economic Research. DOI: 10.3386/w27516.

State of Victoria (2020). *Victorian Budget 2020/21, Budget Paper No. 2: Strategy and Outlook*. Department of Treasury and Finance. https://s3-ap-southeast-2.amazonaws.com/budgetfiles202021.budget.vic.gov.au/2020-21+State+Budget+-+Strategy+and+Outlook.pdf

Wood, D., Griffiths, K., and Emslie, O. (2019). *Generation gap: ensuring a fair go for younger Australians*. Grattan Institute. https://grattan.edu.au/wp-content/uploads/2019/08/920-Generation-Gap.pdf