Policy Implications and Reflections

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I thought one of the things I might do is try to place 20-24 year olds in a recent historical and comparative context. When researchers focus on an age group, they may well be focusing on outcomes that originate elsewhere – not in that age group itself. For example, what may really be at stake is how adolescents adapt to schooling, or we may really be considering globalisation and seeing the effects on 20-24s.

My comments may sound a little despairing, but should not be interpreted that way. Let me outline three basic starting points:

- there are enormous differences between good and bad micro interventions for 20-24 year olds. No matter how good the nature of particular interventions, they may not produce the desired outcomes in the target group. This is primarily because what happens in this group will depend on broader economic dynamics and trends. There may be - and there are - good and bad education interventions for 20-24 year olds, but education interventions alone will not produce outcomes that will change the circumstances of the most vulnerable in the cohort. Clearly, the major influence within this group is the way in which the economy is changing in Australia, and in many other countries.

- public policy appears to be moving back towards the idea that 20-24 year olds 'belong' in some sense to their parents, and are the responsibility of their parents. This is sensible providing young people are fortunate enough to have parents who are reasonably well off. If they are not, moving young adults back into closer financial relationships with their parents at a point in their life when they are seeking greater autonomy is likely to raise a range of social and economic problems.

- the way the economy is moving puts much more emphasis on all aspects of redistribution policies wherever they lie. The economic situation in most of the English speaking western world and most of Europe has been deteriorating. Based on the key dimensions of available employment opportunities and wage outcomes/incomes, these economies have been deteriorating. The one exception is the United States where employment opportunities have not deteriorated and are in fact are improving, but wage outcomes have been deteriorating.

Wherever you look it is difficult to identify countries in which 20-24 year olds have become a stronger economic group relative to other age groups in recent times. In some respects it is possible to see that 20-24 year olds have moved ahead of teenagers, but they have clearly dropped behind mature workers in the 25-35s, and 35-44s age groups. That means something very powerful is going on worldwide with regard to demands for mature workers relative to younger, less mature workers. This is really quite surprising, because if you look at a number of countries, and especially Australia, you would expect 20-24 year olds to 'have it made.'

There are several factors to consider when analysing the young adult group. Firstly, relative to other groups, this is a population not growing as fast as the 25-44s, and the 44-54s. Because they are shrinking their prospects appear to be better than they actually are. They are also better educated than other groups in terms of years spent in education. So it is really surprising that this group is slipping back as much as it has. It shows the power of these broader economic forces that they are just swamping a major advantage that young adults should have.

Between 1976 and 1984 there was a strong co-relation in movements between age groups. Then from 1984 the gap between the wages of young people aged 20-24 and those aged 45-54 began to open up. It becomes a gap of almost 20 per cent by 1996: the wages of young adult men in full time work have fallen 20 per cent, relative to 45-54s. That raises an interesting issue. If these young adults are relatively cheap, if they are so well educated relative to 45-54s, there must be a huge premium being paid in the market for experienced workers.

A critical thing to bear in mind is that the labour market has become increasingly deregulated since 1990, but it is evident that only certain age groups have done well out of that process – 45-54s, and 35-44s have had real wage increases almost to the order of 18% since 1990. In some ways those cohorts are going through golden years, especially for those in full time employment, compared to some of the things that have happened for this age group in the past. Young people, even though their real wages have stopped falling and started to rise most recently, are nowhere near sharing as much of the gains as older people.

It is not hard to imagine this process continuing. No matter which way we turn, we are going to live in a world where the wage gap for full-time work between the young and middle aged group is increasingly widening. In families where young people have full-time work and the middle aged have full-time work, the economic resources are being redistributed towards the older family members. The extent to which mothers are also working will exaggerate the situation. In the business of getting started in life, in terms of purchasing housing and other crucial commodities, family is going to matter more and more.

This is a pattern that can be drawn not only for Australia but also for the United States, where it is even greater, the United Kingdom, and probably Canada. The most startling point about international comparisons is how many people are working in the United States. Now this raises an important issue being debated in Europe, the OECD, and amongst economists: why is the USA doing so well job wise?

The strength of the US economy extends to young people although it does matter a lot who you are, and what family background you have. There are more 20-24 year olds in the United States participating in the education system one way or another than there are in the UK or Australia. Yet in the USA there are also very high participation rates in employment, not just in part-time work (although part-time work is very important) but full-time work as well. So in the US there is a powerful phenomena of young people combining education and full time work.

One of the arguments being made sometimes is that in the United States young people are cheaper relative to older workers. In Australia, the average 20-24 year old male with a full time job earns per week roughly 63 per cent of a male 45-54 year old. Women earn roughly 75 percent of what a woman 45-54 years old would earn.

In the United States, 20-24 year old men earn 50 per cent less relative to a 45-54 year old than in Australia. And the ratio for young women is just as low. So in the US there are very high employment ratio with young people, but very low wages. It is important to emphasise that if wage mechanisms are used to create more jobs for young people, inevitably these mechanisms result in wage falls. Speaking generally about young people in the United States there have been large wage falls but there has also been a pick up in jobs.

Equally though it is still true about the United States that although there are more low-waged jobs, young people there still get a lower fraction of income relative to 45-54 year olds than they do here. As a result the pressure on family redistribution in the United States is in some senses greater than it is in Australia.

Anyone who has travelled to the USA and knows families there with young adults knows the extent to which this 'story' is built into US society. The American middle class is woven around saving for the future education and endowment of its offspring. It is common for educated middle class parents to take pride in saying about their new children: "I've started saving for university already." It means that family background is tremendously important in determining the life chances of young people.

I am using this set of relations between work, wages, study, and families to caution about the limitations of micro interventions. Equally we need to be careful about some of the macro responses currently being put into the public policy debate. For example there is a major policy proposal that has been floated, and it can be summarised as: *if award wages are frozen or reduced, then we may well create more jobs and because of the importance of employment, that would be a good thing. On the other hand, freezing wages and reducing wages has detrimental effects, so wages should be topped by a type of tax credit or subsidy as the Americans do.*

What does that mean? Superficially it sounds like a win all round. However when you examine countries that try this approach, it seems that providing the work subsidy is expensive, and arguments emerge that it should only be given to the needy. But who are the needy? They inevitably are defined as middle-aged families with younger children. Who do not benefit? Single males or females, because tax credit systems are often tied to families. In terms of young adults, these proposals have the rhetoric that wage reduction has to be forwarded on all groups, but the consequences fall mainly on the young because the young are on the lowest wages and have the least market power. Young people are least likely to benefit from credit subsidies of this type. Macro policies such as these have important implications for income distribution in this group.

Between 1976 and 1995 the average weekly income of teenagers fell $90 per week partly because wages fell, but also because teenagers were increasingly not engaged in employment as participation in tertiary education and training rose over this period.

The average weekly income of young adults fell over this period by about $125 per week. By contrast in 1997 middle-aged groups actually received rising incomes. What this points to is a growing redistribution of income from 'the middles' to 'the ends' over the life cycle.

This has important implications for families and for young people especially as the state at all levels of government is moving away from mechanisms designed to achieve more equitable income redistribution. It means that family background will matter more and more in the future.

What are the implications for policy development of these trends? I am suggesting that a critical variable in the effectiveness of policy is the extent to which young people are independent or dependent on their parents. In terms of policy responses perhaps it means that positive interventions for this age group ought to be done in a family context, or should be done earlier in the development years of young people.