

Executive summary

While governments have initiated policies to encourage higher educational attainment and enhanced skills in young people to enable labour demand to be met, low-skill jobs are not disappearing. Working in low-skill jobs is a fact of life for many young people after leaving full-time education, with many of their jobs not matching their career aspirations or qualifications. The purpose of this research is to explore the characteristics of young people starting out in low-skill jobs after leaving full-time education, examine the short- and long-run impact of starting out in low-skill jobs on wage level, and study the factors that influence young people's decisions to remain in low-skill jobs or move to high-skill jobs. The primary issue is whether a low-skill job for a young person is a 'stepping stone' or a 'low-skill trap'.

The definitions of low-skill jobs and high-skill jobs used in this paper are based on the five skill levels allocated for each occupation in the Australian and New Zealand Standard Classification of Occupations (ANZSCO). Occupations at skill levels 1, 2 and 3 are classified as high-skill jobs, whereas those at skill levels 4 and 5 do not typically require post-school qualifications and are categorised as low-skill jobs. In addition, the term 'not working' is used here in the broad sense to refer to young people who are unemployed or not in the labour force. This study used data from the 1998 base year cohort of the Longitudinal Surveys of Australian Youth (LSAY Y98) to address the research questions. The sample used for this analysis is restricted to 5228 young people who completed their full-time education, who continued to contribute information to the survey, and who had their employment status known up to five years after leaving full-time education.

The majority of young people who choose low-skill jobs as their career starting point have no post-school qualifications. There is little evidence of 'churning' between low-skill jobs and not working. Those who transition from low-skill employment to not working are mainly young respondents who are aged 20 years and under, or those with no post-school qualification. Across five years after leaving full-time education, many young people starting out in low-skill jobs experience increases in wages and occupational status and a shift from part-time to full-time employment and from casual to permanent jobs. After five years around one-third have moved to a high-skill job.

Regression methods are applied to determine the association between starting out in low-skill jobs and their hourly earnings from one to five years after leaving full-time education. The focus is on the wage differential in the earnings of young people starting out in low-skill jobs or not working in the year after leaving full-time education compared with those starting out in high-skill jobs in each of the five years after leaving full-time education. Importantly, panel estimation techniques are used to account for individuals having different, but unobserved, attributes that might affect wages (such as low motivation).

It was found that starting out in low-skill jobs does produce a significantly negative impact on wage levels and results in a long-term penalty, although the negative impact diminishes over time. However, the findings also indicate that starting out in low-skill jobs gives better wage outcomes than having no job at all. Thus there is evidence of scarring, but having a low-skill job is better than no job at all. This puts a young person facing the offer of a low-skill job in a quandary: take it or wait in hope for a better offer?

Taking a job involves a choice, and there is the possibility that young people choose or remain in a low-skill job for good reasons. For example, despite it being a low-skill job, some young people may

achieve high satisfaction from it or a relatively high wage. To understand the extent to which young people choose to remain in low-skill jobs or move to high-skill jobs, logit models (again accounting for unobserved attributes) are fitted.

It was found that males in general have a higher probability of leaving a low-skill job for a high-skill job than females. Young people who have high human capital such as high qualifications, high ability, more experience, or work in low-skill jobs with high occupational status are more likely to move to high-skill jobs. Young people who are part-time workers are likely to remain in low-skill jobs. No evidence was found to suggest that young people stay in low-skill jobs because of the positive features of those jobs such as high job satisfaction or high wages.