

# **THE COST OF DROPPING OUT:**

## *THE ECONOMIC IMPACT OF EARLY SCHOOL LEAVING*



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# The Cost of Dropping Out: The economic impact of early school leaving

## 1. Introduction

The Business Council of Australia (BCA) is vitally interested in Australia's education and training system, as the country's economic and social future will depend on a well-educated and well-trained community.

Education and training are key drivers of economic growth, a higher standard of living and a socially cohesive community. Such a community is fundamental to our ability to succeed in a global economy and to funding the sort of lifestyle to which all Australians aspire.

Effective education and training contributes to improvements in outcomes for the disadvantaged, helps address equity issues, supports greater efficiency and productivity in the workplace, builds social capital and creates direct social and economic benefits.

Given the importance of this issue to Australia's future, the BCA is concerned to see all young Australians have the opportunity to complete twelve years of learning at school or through vocational education and training, including apprenticeships, or through adult community education.

Late last year, the BCA commissioned a range of research<sup>1</sup> to provide an understanding of the trends associated with young people leaving school early, the economic impacts of this situation and details of Government programs in place to address early school leaving.

The BCA was particularly concerned to understand the economic implications of young people leaving school early, without the skills and capabilities to participate in the workforce, and unable to contribute to economic growth.

Australia has an ageing population, with large numbers potentially exiting the workforce over the next decade, coupled with an economy increasingly reliant on technology and skilled and educated young people.

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<sup>1</sup> *Young Persons' Education, Training and Employment Outcomes with Special Reference to Early School Leavers* Applied Economics (2002) jointly commissioned by the BCA and the Dusseldorp Skills Forum  
*Overview of Transition Programs: Policies and Programs*, The Allen Consulting Group (2003)  
*The Economy-Wide Benefits of Increasing the Proportion of Students Achieving Year 12 Equivalent Education: Modelling Results* The Allen Consulting Group (2003)

## 2. Research Context

Australia faces two major challenges over the next decade – how to ensure it has sufficient numbers of people available to participate in the workforce to ensure the economy can continue to grow, and that these people have developed the skills and capabilities necessary to contribute effectively to a cohesive society.

These challenges were highlighted in the 2002 Intergenerational Report released last year by the Commonwealth Government as part of the Budget process. The Report examined for the first time the issues associated with the long-term sustainability of Government finances. Critical components of the Report were both the long-term demographic and economic prospects of Australia.

The Report highlighted the intergenerational obligations of taxpayers. An ageing population, and an associated growing health care and income support bill, together with low fertility rates are "likely to impose a higher tax burden on the next generation."

In this respect, a key area of economic and social policy should be to ensure all young people have the capacity to contribute to the economy in the future.

The challenge will be to develop the skills and capabilities of young people through education so that they can effectively participate in work and society and be less reliant on Government for their economic, social and health needs.

There is no doubt that higher levels of participation in education and training will be critical to building individuals' skills and capabilities. Other gains resulting from improving the education and training outcomes of Australia's young are likely to be a reduction in crime, improved health and reduced reliance on welfare services.

The NSW Bureau of Crime Statistics and Research, for example, concludes:

*" ... elimination of long term unemployment among males aged 15-24 by direct job creation would result in close to a 7 per cent reduction in property crime in NSW. Better still, if these individuals continued in formal education to the end of senior high school (increasing school retention by an extra 7,000 individuals) the reduction in break, enter and steal over the course of a year would amount to almost 15 per cent."*<sup>2</sup>

The importance of providing young people with access to twelve years of education and training cannot be underestimated. Changes in the structures of society and the workplace have lead to the greater need for a broad range of skills and capabilities in people as they make the move from school to work.

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<sup>2</sup> B Chapman, D Weatherburn et al., 'Unemployment Duration, Schooling and Property Crime', *Crime and Justice Bulletin*, NSW Bureau of Crime Statistics and Research, No. 74, Dec 2002, p10



Young people leaving school early will not only lack the skills and capabilities for the workplace but will also not have the capacity to effectively participate in today's society.

Employment trends tell a stark story.

There has been a collapse in the full time labour market for 15 to 19 year olds over the last two decades. The number of jobs available that require little or no skills has significantly declined.

As a result unskilled young people are now much more likely to be unemployed than was the case twenty years ago. Employers increasingly want to employ skilled people able to operate in the new industries and new business production processes.

### **3. Existing Programs To Reduce Early School Leaving**

*“Stepping Forward: improving pathways for all young people”*, released by the Ministerial Council on Employment, Education, Training and Youth Affairs (MCEETYA) in April 2002, highlights the importance the Commonwealth, State and Territory Governments have given to providing all young people with the opportunity to access education, training and work.

This Report builds on over a decade of discussions, research and reports that have highlighted the importance of a minimum of twelve years learning in either education or training.

As early as 1991, in *“Young People's Participation in Post-Compulsory Education and Training* (the Finn Report) and as recently as 2001, in the report of the Prime Minister's Taskforce on Youth Pathways (the Eldridge Report) the need to provide young people with access to education and training to year 12 or equivalent has been stressed.

The Commonwealth, State and Territory Governments have introduced a range of programs and pilot projects designed to increase access to education and training. These include building stronger community relationships, improving institutional and funding arrangements and piloting initiatives designed to identify and support students at risk of leaving school early with no future plans.

Critical initiatives have included the introduction of vocational education and training in schools, and more recently, school-based apprenticeships. Other, recent changes have been the creation of new qualifications that recognise students may want to undertake both vocational and general education simultaneously. Some States are piloting re-entry certificates designed for people who having left early seek to return to education and training.

#### 4. BCA Research

The BCA has been concerned to understand why - despite the real commitments and efforts made by Governments to provide an environment where all young people could access education, training and work - Australia has seen little change in the retention and completion rates of young people undertaking year 12 or equivalent over the last decade and why there is still a significant level of unskilled youth in unemployment.

The BCA commissioned three pieces of research. The first report "*Young Persons' Education, Training and Employment Outcomes with Special Reference to Early School Leavers*" quantifies the patterns of early school leaving, implications for the economy and for individuals, and outlines possible policy solutions.

The second research report "*Overview of Transition Programs: Policies and Programs*" provides an overview and broad evaluation of the various reviews, policies, programs and pilot projects in place through Commonwealth, State and Territory Government agencies.

The third research report "*The Economy-Wide Benefits of Increasing the Proportion of Students Achieving Year 12 Equivalent Education: Modelling Results*" provides an economic analysis of the cost and benefits of implementing a particular program to address the issue of increasing the number of young people undertaking year 12 or equivalent education and training.

#### 5. Research Findings

The report "*Young Persons' Education, Training and Employment Outcomes with Special Reference to Early School Leavers*" highlighted that:

- each year about 270,000 young people leave school;
- each year about one third of these young people leave school before completing year 12 at school;
- each year about one third of those who leave school before completing year 12 will go into some other form of education and training; and
- each year about two thirds of those who leave school before completing year 12 will not be in education and training. They are usually unemployed or employed in casual and short-term arrangements. Others are engaged in a range of activities including family duties.

Whilst a third of the young people leaving school early take up other education and training opportunities such as vocational education and training or apprenticeships, over 50,000 young people leaving school before year 12 will never gain further qualifications.

Approximately 80% of young Australians each year undertake some form of education and training to year 12 equivalent in school or vocational education and training. This is a disappointing outcome when compared with 88% in the US and Canada, 91% in Germany and 94% in Korea.<sup>3</sup>

More specifically, the Australian national year twelve at school completion rate has hovered at about 67% for the past decade.

The research also highlights that at any point in time there are at least 40,000 young people aged 15 to 19 who, having left school early, are not in some other form of education and training and are employed for less than 15 hours a week usually in low skilled and casual roles.

In effect, each year it can be assumed that approximately 8,000 young people enter this cohort of unskilled and unemployed or minimally employed and experience the difficulties associated with leaving school early and not being able to find sustainable work. If changes do not occur, another 80,000 young people will experience these difficulties over the next decade.

The impact of twelve years education and training on the employability of an individual cannot be underestimated.

Unemployment data indicates that seven years after leaving school only 7% of all year 12 leavers are unemployed. By comparison, young men who have left school in year 9, have a significantly higher level of unemployment - 21%, after the same period. For women it is even worse at 59% unemployment.

### ***5.1 Causes of Early School Leaving***

The research has found that the causes of early school leaving are multiple and complex.

For many early school leavers it can be the desire to do an apprenticeship or get a job. Young people, who are successful in attaining an apprenticeship or other viable employment, are building the foundations for long term engagement in the workforce.

However, a significant proportion of young people leave school early as a result of disaffection with the system, skill limitations such as poor literacy and numeracy skills, or because the range of courses and how they are offered to students are inflexible. Many early school leavers come from lower socio economic backgrounds and are located in regional and rural locations.

Many of Australia's young indigenous people are also affected by all these issues and are potentially more at risk.

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<sup>3</sup> Education at a Glance 2002 OECD

The following table highlights some of the research findings with regard to the causes of early school leaving.

### **Most important reason for leaving school before Year 12**

Reason for leaving school	Male % N=467	Female % N=328	All % N=795
I wanted to get a job/apprenticeship	64	40	54
I was not doing well as school	4	7	5
I wanted to do job training that wasn't available at school	3	8	5
I didn't like school	11	15	13
Financially it was hard to stay at school	0	3	1
Teachers thought I should	3	2	2
To earn my own money	7	5	6
The school didn't offer the subjects/courses I wanted to do	3	8	5
Other reasons	7	14	10
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Source: Mark & Fleming, 1999 in "Young Persons' Education, Training and Employment Outcomes with Special Reference to Early School Leavers" (p 12) Abelson (2002)*

## **5.2 Economic and Social Impacts of Early School Leaving**

The Intergenerational Report highlights that there will be a higher tax burden on the next generation of Australians unless efforts are made to offset the impact of an ageing population.

In this context, efforts need to be made to maximise the skills and capabilities of all young Australians so they can effectively participate in the workforce. Currently, each year, there is a significant group of 15 – 19 years who are leaving school early and are not in education and training or employment.

The trend of young people not completing year 12 or equivalent will inevitably result in lower employment rates, increased welfare payments, lower productivity and lower tax revenue for Australia.

It also means serious problems ahead for the individuals in terms of their employment prospects and income levels, and all the associated issues that arise for people who can't attain an acceptable lifestyle. Many early school leavers will become the long-term unemployed and unskilled adults of the future.

The Australian community will fail to benefit from the potential skills, ingenuity and know how of these young people if we do not identify successful approaches to support them into learning and employment options.



## 6. Potential Solutions

Many Governments have recently reviewed their approaches to helping young people move from school to further education and employment.

Commonwealth, State and Territory Governments have identified the need to improve education and training participation and retention rates and called for greater collaborative efforts across all levels of Government and with business and the community.

The challenge is now to convert this commitment into a framework of sustainable policies and programs that will target those young people who leave school early and opt not to pursue further education and training or productive employment.

The research indicates that progress to date by Commonwealth, State and Territory Governments has been variable and opportunities exist to make improvements. Many of the existing efforts are of a pilot nature and seen to be outside mainstream programs, thus putting their sustainability and funding at risk. The table on the following page highlights progress to date<sup>4</sup>.

In short, we urgently need a more concerted and coordinated effort to tackle this problem.

The key to success in increasing the number of young people who complete twelve years of education and training is the existence of well-organised and flexible options that connect initial education with work or further study or training.

An essential next step is to implement an ongoing and systematic approach to identifying and assisting young people at risk of leaving school early. These young people require a supportive education environment where they gain assistance to move into further education and training or employment.

Poor literacy and numeracy skills are a feature of many young people leaving school early. There is a need to focus on ensuring the literacy and numeracy skills of those in the early years of school are developed to an appropriate standard.

Research suggests that those young people in the bottom 25% of the literacy and numeracy tests in year nine at school, are four times more likely to leave school early, than those in the top 25%.<sup>5</sup>

Increased flexibility is required between schools, vocational education and training and universities to assist students in continuing in some form of education and training or returning to education and training.

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<sup>4</sup> *Overview of Transition Programs: Policies and Programs* Allen Consulting 2003

<sup>5</sup> *Young Persons' Education, Training and Employment Outcomes with Special Reference to Early School Leavers* (p 12) Abelson 2002

<b>TYPES OF EFFECTIVE PROGRAMS TO REDUCE EARLY SCHOOL LEAVING</b>	<b>PROGRESS TO DATE BY THE COMMONWEALTH, STATES AND TERRITORIES</b>
Courses and programs that assist young people make the move from school to further education and training or employment, which are well understood by young people, the education and training sector and industry.	<p><b>There has been strong progress</b> in the development and implementation of vocational education and training subjects in schools.</p> <p><b>There has been moderate success</b> in providing young people with access to school based apprenticeships which allow the student to pursue a vocational program including work experience whilst still at school.</p> <p><b>There is moderate progress</b> in the development of new qualifications that allow for a mix of both vocational and general education.</p> <p><b>There is limited progress</b> in the development of qualifications that assist people wanting to return to school.</p>
Education and training options available to young people in schools and through other education and training providers that are designed to develop broad learning and employability skills in young people.	<p><b>There has been limited progress</b> in ensuring all young people have access to education and training that develops and assesses these skills.</p> <p>The Enterprise and Career Education Foundation has been established to assist in this area.</p> <p>Governments are considering how schools can be involved in the development of employability skills such as enterprise, teamwork, communication and problem solving in young people.</p>
Programs and processes to identify and assist young people who may leave school early with no future plans	<p><b>There has been slow progress in this area.</b></p> <p>A number of pilot projects have been established in different States and found to be successful. However no long term mainstreaming of these services is in place.</p>
Professional and relevant careers information and guidance	<p><b>There has been slow progress in this area.</b></p> <p>The quality, ease of access to and level of guidance is variable and uncoordinated across States and individual schools.</p>
Cooperation between schools, industry and the community to support programs	<p><b>There has been strong progress</b> in building community partnerships to support young people as they move from school to further education and training or employment. Examples include companies providing work based learning experiences and companies working with local schools to identify the skills required in school leavers. Schools and vocational education and training providers sharing resources.</p>
Institutional and funding arrangements support programs	<p><b>There has been moderate progress</b> in establishing flexibility and cooperation between the different sectors of education and training ie schools, vocational education and training and universities in areas such as student monitoring, resource sharing and data collection.</p> <p>Funding models are not designed to support cooperation and cross sector innovations.</p>
Monitoring and Evaluation of Programs to ensure they are effective	<p><b>There is moderate progress</b> in this area. The challenge is in agreeing outcomes measures and data collection that is comparable on a national basis.</p>

The challenge now is to put concerted and coordinated effort into providing:

- all young people with the opportunity to access education and training to year 12 or equivalent through school or vocational education and training, including apprenticeships and traineeships, or through adult and community education;
- support to all young people who need guidance to help them decide an appropriate option to make the move from school to further education or training or work;
- young people, who leave school early, with the opportunity to return to education and training through flexible qualifications and programs; and
- young people with access to careers advice and job search training.

## **7. The Costs and Benefits of Tackling Early School Leaving**

Ensuring 50% of those young people who are currently leaving school early and not going into some other form of education and training are able to participate in education and training to year 12 equivalent would achieve a 10% overall increase in participation in education and training.

No longer would Australia lag behind its competitors, as we currently do, with only 80% of young people undertaking twelve years of learning. Australia would achieve a 90% participation rate by young people in education and training to year 12.

One approach to achieving these outcomes is identified by Applied Economics.<sup>6</sup>

The program outlined in the Report includes the systematic introduction of case management services to identify those young people at risk of leaving school early, increased access to career advice and support services, broadening the range of education qualification options and increasing flexibility in school structures and operations.

In practical terms, the main costs of this program are extra school and vocational education and training places; extra apprenticeships and traineeships; extra school books and uniforms; and lost earnings for early school leavers during their extra school years.

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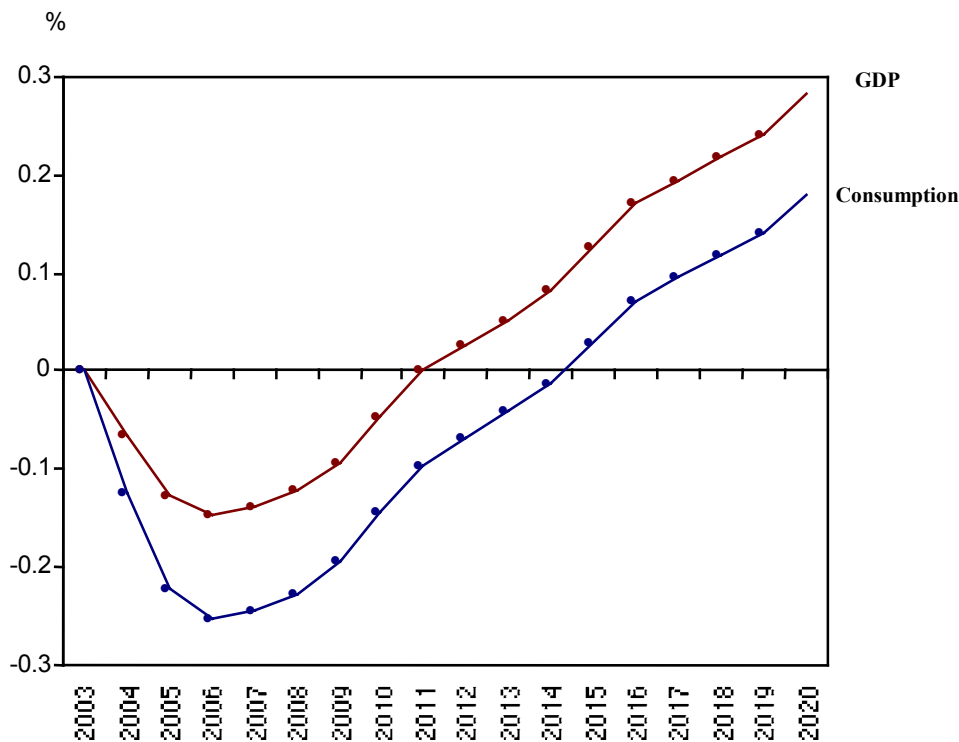
<sup>6</sup> *Realising Australia's Commitment to Young People* a report prepared for the Dusseldorp Skills Forum by Applied Economics in November 2002

The benefits of this program include increased earnings for early school leavers once their extra school years are completed; improved social outcomes (eg reduced crime); and gains for employers (eg increased productivity and profitability).

The BCA commissioned economic modelling to extend the work of Applied Economics<sup>7</sup> and determine the impact of implementation of the program on key macroeconomic indicators such as GDP.

The modelling, as indicated in following graph, highlights that an investment now to increase the proportion of young people who achieve year 12 equivalent education from 80% to 90% will bring a significant economic and social benefit in the longer term.

**NET GAINS IN GDP AND CONSUMPTION 2004 TO 2020 RELECTING THE IMPACT OF IMPLEMENTING THE PROGRAM**



<sup>7</sup> The Allen Consulting Group and the Centre of Policy Studies at Monash University were asked to measure the economy-wide benefits of implementing the Applied Economics program using the data in “*Realising Australia’s Commitment to Young People*” and incorporate the indirect costs and benefits of the program and the ongoing implementation of the program beyond the five years used in the Applied Economics research.



The key results of the modelling are:

- the program will reduce GDP initially but deliver substantial gains by 2020. GDP is estimated to be \$1.8 billion (ie .28% GDP) higher in 2020 than it would otherwise have been;
- the same is true for consumption. Consumption will initially reduce but is estimated to be \$720 million (ie .18%) higher by than would otherwise have been the case;
- the program will have a positive long-term impact on economic welfare. In today's dollars this is estimated to be equivalent to a one off increase in consumption of around \$10.7 billion; and
- the program will attain an internal rate of return of between 8% and 10%.

## **8. Conclusion**

The BCA's aspiration is for Australia to be the best place in the world to live, to learn, to work and to do business. We recognise that education and training are key drivers of a higher standard of living.

Australia's young people face many challenges as they transition from school. For many, the opportunities are greater than has ever before been the case, largely as a result of Australia's sustained economic growth of the past decade.

However, for others, especially those who leave school early and do not undertake further education and training, the move from school to work is increasingly difficult given the complexity of today's society, and the declining youth labour market and limited demand for unskilled employees.

The BCA is concerned to see all young Australians have the opportunity to complete twelve years of learning at school or through vocational education and training, including apprenticeships and traineeships, or through adult community education. This will reduce the risk of a poor transition from school to life in the broader community and the world of work.

Whilst Governments have clearly shown a commitment to improving access to education and training for all Australians, progress over the last decade has been slow.

Now is the time to invest in long term and sustainable solutions that ensure we increase the education and training outcomes of Australia's youth.

Failure to act now will have serious long-term consequences.

Those young people who leave school early and do not pursue other forms of education and training or find sustainable employment will face a life characterised by unemployment and poor living standards.

However, there are flow on effects beyond the individual. The broader community pays through higher welfare costs, higher health costs, higher crime rates and other social impacts. Business faces labour and skills shortages.

The research carried out for the BCA highlights that an investment now to increase the proportion of young people who achieve year 12 equivalent education from 80% to 90% will bring a significant economic and social benefit in the longer term. The benefits of investment now, flow through to individuals and the Australian economy for the long term.

Copies of the supporting research papers can be found at [www.bca.com.au](http://www.bca.com.au).

Should you wish to discuss this paper or related research papers further please contact Ms Maria Tarrant, Director Policy, [maria.tarrant@bca.com.au](mailto:maria.tarrant@bca.com.au)

**KATIE LAHEY**  
**CHIEF EXECUTIVE**

