

Research Brief

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Title: How does the transition from school to work affect later lifetime prospects?

Introduction

Education is generally a profitable investment for individual as well as for countries. Shultz (1960), Lucas (1988) and more recently Baldwin et al. (2008) attribute growth in per capita GDP in the US to its increased investment in education. Research undertaken for Indonesia has revealed, however, has shown that the payoff to the acquisition of extra years of education is much lower than in many other comparable countries. Moreover, at many levels of educational attainment, the payoff to the investment in higher education has declined over the past decade (Purnastuti et al., 2012). It has also been shown that the returns to education do not vary greatly according to the attributes of individuals, such as gender (see Patrinos et al., 2006; Blossfeld et al. 2015).

This study provides new knowledge on the relationship between educational investments and labour market outcomes in Indonesia. It does this by conducting a detailed examination of the transition from school to work of young Indonesians, using multiple data sets, including data from a field survey and focus groups. Initial and follow up surveys have been conducted with more than 3,000 Indonesians aged 15-29 in 12 provinces. The focus of the analysis of this new and rich data set is on variations in the way that the transition from school to work affects the lifetime prospects of men, women, the children of various social classes and children in urban and rural areas. The main objective is to better understand the links between education and training of young people and their labour market integration.

Issues and questions

This study explores the role of three related factors in producing the variations in the labour market outcomes of young Indonesians:

First, we explore the importance of early childhood health and the quality of schooling or education. The extant literature on the economics of education highlights the likely importance of these factors (see Le et al. 2004; Betts 2010). Factors such as poor childhood health have been shown in studies of Western countries to lead to double disadvantages in later life. In the first instance, poor childhood health and associated problems are associated with lower educational attainments. This by itself results in lower lifetime earnings. However, in addition, poor childhood health and related problems are also linked to lower lifetime earnings even when account is taken of these lower educational attainments. This line of research has accelerated in recent years, and has covered a much wider range of issues, following the papers written on the topic by Nobel Laureate James Heckman and his co-authors (see Heckman and Kautz, 2012). The important lesson from this research is that early childhood and schooling events can have lasting impacts that affect a person's lifetime prospects.

Second, the study explores aspects of the transition from school to work that can lead some individuals to do better than average in the labour market, and also result in some individuals 'under-performing'. This is a heterogeneity across individuals approach. Previous research on this topic has covered many matters, including the role of the initial job placement as a stepping stone to better jobs in the future, and the role of further study (Buchmann 2011; Bukudi and Dex 2010). The current study focuses on the links between family and schooling background (an inter-generational transmission of inequality argument), and the transition from school to work. It has addressed key issues such as whether the better educated are more rapidly absorbed into the labour market, whether spatial mobility is conducive to a more successful transition to more rewarding jobs, and whether education can be used to break the inter-generational transmission of inequality.

Third, the study examines the allocative function of the labour market, to ascertain the extent to which workers are employed in jobs that make effective use of their educational qualifications. It has been established in previous research that large numbers of workers are employed in jobs that do not appear to make effective use of their qualifications: that is, these workers are not effectively absorbed into the labour market. This phenomenon of over-education is a prominent characteristic of the labour markets of Western countries (see Hartog, 2000). It has also been shown to be highly relevant to the labour market of transitional economies (Ren and Miller, 2012), which is important because it calls into question whether the expansion of a country's education sector is the panacea that it is often seen as. For example, Dolton and Silles (2008, p. 125) argued, "Yet, as the average educational attainment of the workforce has increased, there is an indication that the occupational structure of the labour market does not have the capacity to absorb the increased number of educated workers into traditional graduate occupations". In this situation, a cost-effective approach may be to focus on achieving a better match of the skills of workers and the requirements of the occupations in which they work rather than engage in further expansion of the education sector.

Major research findings

To date the study has uncovered important features of the school to work transition:

- A significant share of 'older' youth remain stuck in transition, having yet to achieve stable and/or satisfactory employment. The 2016 survey data reveal that 44.3 per cent of all the youth had achieved a school-to-work transition; 39.5 per cent are still in transition; and 19.0 per cent have yet to start a school-to-work transition.
- Better education does not mean easier/faster transition: contrary to popular belief, attainment of higher education levels among youth is evidently not enough to improve their chances for an easier and more successful transition.
- The largest share of successfully transitioned youth had finished their education at the secondary level only.
- The labor market transition process of many young people is not smooth and takes time. More than 20 per cent of the unemployed youth that we surveyed had been actively looking for job more than 12 months.

The study has also revealed significant gender gaps in the school-to-work transition:

- Young women are disadvantaged with regard to their activity status and face a gap in pay.
- In spite of their higher educational attainment, young women have a lower labour force participation rate than young men (38 per cent against 48 per cent for young men).
- The survey findings confirm the national statistical finding that the gender gap in education is decreasing. However, this should not be interpreted to mean that the gender gap no longer exists in Indonesia.
- There are important disadvantages for young women in the labour market, despite their higher educational attainment. They work with lower wages than their male counterparts.

The study provides important new data on the education, job search, employment and earnings experiences of young Indonesians, as well as insights to their expectations:

- Four per cent of the respondents graduated from primary school. Twelve percent finished their junior secondary school. Nearly one-half (46 per cent) of youth graduated from senior high school (general and vocational), and twenty seven per cent graduated from tertiary education.
- About 40% ... stated that his/her job is in a different field to his/her education
- 11% and 12 % of respondents revealed that they experienced under education and overeducation respectively.
- Subject selection by students is often not driven by job market considerations or availability of jobs in that specific sector.
- More than 10% employees respond that they need more than 12 months to find their first job.
- More than 20 % of unemployed have been actively looking for job more than 12 months.
- It has been found that entry into the labour markets most frequently took place through social ties of family and friends (more than 52%), regardless of youth characteristics.
- Generally youth prefer non-agricultural jobs to jobs in the agricultural sector.
- Twelve per cent of the respondents is self-employed, this does not mean that all respondents considered self-employment to be ideal. Instead, many are unable to find wage employment.
- Many Indonesia youth are involved in informal employment.

Concluding remarks

The results of this survey confirm that the seriousness of the national employment problems in Indonesia. This study has revealed major challenges for the Indonesian youth labour market. Policies aimed at improving the overall quality of education and creating a match and highly skilled young workforce are needed, Equipping young people with the skills and knowledge to successfully transition and integrate into the labour market will help them reach

their full potential.

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