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**Financing and regulating vocational  
education and training (VET) in Australia**

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**Gerald Burke**



**MONASH UNIVERSITY - ACER**

**CENTRE FOR THE ECONOMICS OF EDUCATION AND TRAINING**

CEET, Faculty of Education,  
Monash University, 3800 Australia  
Phone 61 3 9905 2865 Fax 61 3 9905 9184  
gerald.burke@education.monash.edu.au  
[www.education.monash.edu.au/centres/ceet](http://www.education.monash.edu.au/centres/ceet)

# **Introduction: Australian economy, society and education and training<sup>1</sup>**

## **Economic and social context**

Australia is among the fastest growing high-income economies in which the only nagging issue is the high level of the balance of payments deficit and the accompanying high levels of international private indebtedness. Key aspects to note are:

- Public sector activities have been restructured or privatized from the mid 1980s, and the private sector exposed to greater international competition and the effects of globalisation.
- Australia is a less equal society, in income and educational achievement than most European countries, and more comparable to Britain and the USA but it does target its age and unemployment benefits on low income groups.
- Australian has 20 million people, most living in the major cities on the coast, with a high rate of immigration—and a very high level of international students, many of whom can apply for Australian residency.
- The Australian population is ageing but much more slowly than most rich countries.

## **Education and training context**

Table 1 provides summary information on spending and enrolments in education and training.

- Over a quarter of expenditure on all education and training is privately financed. The private share is growing especially in public universities but it is relatively low in the publicly supported Vocational Education and Training (VET) system.
- VET provides for about a quarter of all enrolments in the education system but less than 10 per cent of expenditure. Most of the VET students are part-time, some taking quite short courses, many of them are adults and proportionately more are from lower socio-economic background than universities.

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<sup>1</sup> This paper draws in parts on Burke, G & Selby Smith, C 2005 in press, 'Economic perspectives on technical and vocational education and training' in Maclean, R & Wilson, D, (Eds) *International Handbook of Technical and Vocational Education and Training*, Springer, Dordrecht. Thanks to Carmel Brown of the Victorian Qualifications Authority for suggested additions and comments.

**Table 1. Overview of expenditure and participation in education and training  
Australia, 2003 (approximate numbers)**

	Total expenditure		Enrolments (million)
	A\$ billion	% Govt	
Government primary and secondary schools	18	100	2.3
Non-government primary and secondary schools	10	57	1.1
Vocational education and training (VET)	5	80	1.7
Universities	12	44	0.9
<b>Total formal education system</b>	<b>45</b>	<b>73</b>	<b>6.0</b>
			Employees trained (million)
Enterprises: direct spending on structured training	5	12	5

Source: compiled from data from Australian Bureau of Statistics, Department of Education, Science and Training and Ministerial Council on Education, Employment, Training and Youth Affairs. Based on Burke (2003)

- Employer expenditure on structured training for employees is about as large as government expenditure on persons enrolled in the formal VET system.
- Australia has a large system of apprenticeships and traineeships:
  - ‘apprenticeships’ for traditional trade training, usually over three or four years involving paid employment and off-the-job training, usually a day a week or periodic weekly blocks spent with a public or private VET provider in the first three years of the training; and
  - ‘traineeships’ for a wide range of occupations, usually of shorter duration than apprenticeships and some undertaken nearly wholly on the job without time release for attendance at the VET provider.
- Training delivered to apprentices and trainees makes up about 20 per cent of training in VET.
- The average quality of school education is good, as indicated in Australia’s high ranking in PISA and other international tests (OECD 2004b).
- The overall rate of participation in education and training is high—Australia has the highest rates of participation in the OECD of persons aged 30 and over (OECD 2004a, Table C1.2).
- There are good lifelong education and training pathways for most people, but not for those with poor initial levels of education and training.

- There has been little change in equity in education in recent years.
- Australia has a federal system of government with an Australian government and eight state and territory governments, with shared and contested responsibilities for funding and regulating education and training.

In the range of system types in OECD countries, Australia is closer to having a ‘loosely coupled’ system than it is to having the tight connection between the education and the labour market. The USA, which has no national system of qualifications or apprenticeships, typifies the loose connection. German-speaking countries and parts of Scandinavia represent the tight coupling (McKenzie 1998, Soskice 2002).

To complement this introduction a range of data for Australia and Korea from OECD and World Bank publications is provided in appendices 1 and 2.

### **Structure of the paper**

Against this background the paper presents some key features of the Australian system of financing and regulating education and training. Attention is given particularly to:

#### *Financing:*

Tuition fees, income contingent loans and student assistance

In general the fees charged in publicly funded VET are low in Australia and many exemptions are provided for low-income students. However not all students can obtain publicly supported places. There is pressure too to increase fee levels overall and particularly for those courses seen to articulate to higher education—where higher fees are charged and where income contingent loans are provided by the Australian government.

Australia has a system of national grants for support for the living costs of full-time students aged 16 and over based on their personal and parents income and assets. There are ongoing issues of the adequacy of the assistance and the need to extend it to persons in part-time education and training.

Government incentives to employers to engage apprentices and trainees

The Australian government and the state and territory governments provide financial assistance to employers to engage apprentices and trainees. The size of these incentives and the restrictions on eligibility influence the level and distribution of apprenticeships and traineeships.

User Choice

To help employers to get the type of training they want for apprentices and trainees a system called ‘user choice’ was implemented in 1998. The intention was that employers and apprentices/trainees could jointly choose the provider and assessor of training and

the government funds for training would flow to that provider, whether a public or a private provider. The scheme has not been fully implemented, and its operation differs across the states and territories.

#### *Regulating:*

A nationally consistent qualifications system for VET based on industry determined *competency* standards has been developed. A vocational competency comprises the specification of the knowledge and skill and its application within an occupation or industry to the standard of performance required in employment. Industry training boards determined the units of competency that from 1997 have been organised into ‘Training Packages’. These training packages also contain the assessment procedures and the qualification levels associated with groups of units of competency.

## **Financing**

### **Tuition fees, loans and support for living costs**

#### *Tuition fees*

Primary and secondary education in government schools is provided without tuition fees though some small charges may be requested for various materials and services. The non-government school sector providing for about 30 per cent of school students does charge tuition fees and also receives part of its funding from governments.

In the publicly funded VET sector for post-secondary education, tuition fees are charged but they are low, representing less than 10 per cent of course costs. There have been recent increases in fees in some states but they still remain quite low compared with university fees. In addition, students from low-income background or other measure of disadvantage are exempt from most of the tuition fees in the VET sector.

There is though a limit on the public funds made available for VET and, unlike secondary schools, not all students who wish to enrol are able to do so. Public VET institutions and private VET providers also offer programs additional to those supported by public funds but at full cost to students or to employers.

Public VET funding has been constrained in recent years, reducing the real resources available per student trained. There is ongoing pressure to raise the fees in VET. If fee increases continue there will be a strong case to provide income contingent loans, which are available for university students but not for VET students.

#### *Income contingent loans*

University fees were abolished in 1974 but were reintroduced in the late 1980s. A substantial fee was introduced accompanied by an income contingent loan. There have been several changes to the scheme since then, with the fees tending to increase and now generally exceed of 30 per cent of the tuition costs. All undergraduate Australian students

in publicly funded courses are liable for the fee and no exemptions are made for low-income background. However, the undergraduate Australian university student does not have to pay the tuition fee while he or she is studying. An income contingent loan is made available by the Australian Government. Some students and their families do chose to pay up-front, as there is 20 per cent discount for an up-front payment.

Repayment of the loan is not required until the annual income reaches a specified level. This level is AUD36,184 in 2005-06 (about USD26,000). This is about the level of the beginning salary of new graduates. It means that persons who do not get full-time work or only low paid work do not have to repay their loans. The loans are repaid through the income tax system.

The reviews of the scheme operating over the last 16 years suggest that very few young persons have been deterred from entering higher education. Some older persons who are already earning above the income threshold for repayment have been deterred from enrolling.

The main purpose of the re-introduction of fees in higher education was to reduce government outlays on persons who would go on to earn good incomes. The money saved could be used to expand the overall level of enrolments in higher education and to support other areas of education.

Chapman (2002) argues that income contingent loans should be available for VET students. The exemptions given for low income students do however suggest that very few students would be deterred by the current fee structure for publicly funded VET. The case for income contingent loans in VET would be much stronger if fees were increased substantially in VET. The case for higher fee levels in VET is not as strong as it is in higher education. Students in higher education tend to be from higher socio-economic background and go on to earn above average incomes. In VET a large proportion of the students are from low income homes and tend not to earn above average incomes after their courses, though clearly some do. The case for higher fees for more advanced courses may be stronger than for fee increases for VET in general.

This may emerge more as an issue with the recent inclusion of a range of higher end qualifications into the scope of vocational qualifications (such as the Vocational Graduate Certificate and Diploma, and in the state of Victoria, the provision of some full-cost-fee degree course by providers whose main role is the provision of VET).

#### *Student assistance*

Students have to meet living costs. The national government gives grants for living allowance to full-time students aged 16 and over, subject to a test on the student's and the parents' income and assets. Over a quarter of all full-time students receive a grant. Only about 10 per cent of VET students are full-time but they tend to come from low-income background and therefore are more likely to be eligible. There is a special scheme for Indigenous Australian many of whom in any case are from low-income background.

The level of assistance is higher for persons aged 21 and over than it is for younger persons and it is higher for those with a dependent spouse and children. For adult single persons living at home with their parents the maximum rate of the allowance is less than a quarter of the full-time minimum wage, though the student is permitted a level of earnings from employment. There are ongoing issues of the adequacy of the assistance and the need to extend it to persons in part-time education and training.

### **Encouraging training by employers**

There is a range of ways of encouraging employers to increase their provision of training:

- infrastructure support such as information on 'best practice', a national qualifications framework, and the development of industry competency standards;
- partnerships and general exhortation to train
- legislative requirement to undertake a minimum level of expenditure;
- schemes such as training contracts for apprentices that allow low wages during training; and
- tax relief and subsidies;

#### *Infrastructure support and partnerships*

The government in Australia have collaborated on the development of a national system of qualifications and of industry competency standards. This is discussed further in the next section. Industry training boards (rather than the providers of training) have had the responsibility of developing the competency standards. These training boards or councils, at state and territory and national level, do support collaboration of unions and employer organisations but there is no concept of 'social partnership' as in, for example, Germany.

A range of support for information for employers and employees is provided by governments, including for research on skill needs, job information websites and various support bodies such as Local Community Partnerships for closer links between education providers and employers and New Apprenticeship Centres to facilitate the engagement of apprentices and trainees.

#### *Training levy*

The Australian national government for a few years at the beginning of the 1990s implemented what was called the Training Guarantee Levy. This was a Levy-exemption scheme of the sort described by Gasskov (2001). The scheme required employers except for those with very small payrolls to provide evidence of training expenditure to the extent of 1.5 per cent of payroll or to pay a levy to the government. The scheme appeared

to have lifted the apparent level of training among medium sized employers though nearly all employers with more 100 employees or more appeared to already be at that or higher levels. The scheme was unpopular with employers and abandoned by the mid 1990s.

#### *Training contracts, cash subsidies and tax relief*

The national government and state and territory governments have encouraged arrangements that allow an apprentice/trainee on a training contract to be employed at a reduced rate compared with non-apprentice/trainee employee. The lower rate of payment is in recognition of the time the trainee spends in training and the lower initial productivity of the employee.

The national government and state and territory governments have also provided financial support to employers who employ an apprentice or a trainee. This support is reasonably substantial though its value in relation to wage costs varies with the length of course and the level of qualification:

- a cash payment to an employer by the Australian government on commencement of an apprentice or trainee and a cash payment on completion for Certificate III or IV programs; and
- state and territory support such as exemptions from state and territory payroll taxes or some cash payments.

Where a course is taken successfully eg for a Certificate III traineeship in eighteen months the various incentives cover a substantial proportion of employee labour costs, possibly more than 30 per cent.

From the late 1990s Training Packages, which include industry competency standards and assessment procedures, have been developed for a range of occupations previously not covered in the national training system. The training packages place an emphasis on workplace assessment. This has led to programs for trainees based almost entirely on-the-job—with no time release to attend classes at a training provider. Employer incentives have encouraged the expansion in the number of such traineeships. Together with User Choice discussed below has this led to the state and territory governments meeting the costs of the provision of training and assessment for workers where training takes place almost entirely on the job, as well as where training takes place at the campuses of training providers.

There was an explosion in the numbers on traineeships from the late 1990s. The numbers of trainees grew four fold and trainees made up 70 per cent of the total of apprentices and trainees in 2004 compared with less than 40 per cent in 1997. The growth has been largely in traineeships in areas where the traditional form of apprenticeship was not available, areas such as retail, business, transport and hospitality.

The growth in traineeships in the last few years has been largely among older persons. Person aged 25 and over and under made up 20 per cent of the total of apprentices and

trainees in 1998 but over 40 per cent in 2004. Many of the older persons are existing workers rather than persons commencing a job.

Apprenticeships tend to be for 3 or 4 years. In contrast, the majority of traineeships were for an expected duration of one year or less in 1997 but the length of the courses taken by trainees has increased, with most trainees taking Certificate III courses which take longer than a year—and attract higher Australian government incentive for employers.

There has been concern about the balance of training by level and by occupational group and with the quality of training being achieved under traineeships. A number of state and territory reviews have been undertaken. There are quite large differences among the states and territories in the training programs that can be funded under User Choice discussed below. There was a concern that while the rapid expansion in traineeships was occurring there was a stagnation in training for the traditional trades in construction, metals and automotive where complaints about shortages have been made for many years (Shah & Burke 2003).

### **User choice**

User choice was trialled in 1997 and introduced in 1998. It allowed the employer and apprentice or trainee to choose the provider of publicly funded training. This policy along with the development of training packages facilitating workplace delivery and the availability of employer incentives contributed to the expansion of apprentice and trainee numbers.

Despite being a nationally agreed policy User Choice was not uniformly introduced across the eight states and territories. The restrictions that vary across the states and territories relate to:

- the degree of preference for traditional apprenticeships in the trades over traineeships;
- the extent to which particular occupations are favoured; and
- the extent to which existing workers are eligible compared with new employees.

In addition, and possibly most important of all there is considerable variation among the states and territories in the total funding of User Choice, either in public institutions or private institutions. And states and territories are largely responsible for the allocation of public funds to VET institutions.

Evaluations and surveys have consistently found strong support among employers for the flexibilities User Choice offers, as it enables training to be provided that more closely meets needs. Employer associations have expressed dissatisfaction that the full range of choices and flexibilities is not available because of restrictions imposed by states and territories (see Ferrier and Selby Smith 2003a,b).

## Regulating

A major thrust of reforms in Australia in the 1990's was the desire to make education and training programmes more relevant to the needs of clients—particularly to employers. In part this thrust was supported by reforms to funding, encouragement of a training market and User Choice as just discussed. It was also strongly supported by the move to a national system of training and qualifications underpinned by Training Packages. Oversight of the national system is undertaken by state and territory authorities. These have agreed to abide by what is called Australian Quality Training Framework (AQTF).

Any organisation wishing to deliver nationally recognised training has to become a Registered Training Organisation (RTO) under the rules of the AQTF. RTO's registered in any state and territory can deliver training in any part of the country and the qualifications awarded are similarly recognised. The standards to be met in order for a provider to become registered include generic standards, covering aspects such as compliance with legislation and ethical marketing, and standards that have to be met for each VET course offered, covering aspects such as the qualifications of trainers and the approach to assessment. Providers are audited for compliance with the standards before they are registered and are then audited on an ongoing basis to ensure that they remain compliant with the standards. Providers who are found to be non-compliant will be required to implement an action plan to ensure compliance but if a re-audit shows that they continue to be non-compliant, they may have their registration suspended or cancelled.

The quality assurance procedures provided by the arrangements for registration and audit aims to ensure minimum standards are met. On top of this it is expected that choice in the market will provide incentives for better quality provision. Students and employers will seek the better providers, assuming sufficient information is available.

However it is also recognized that there is a need for additional incentives to stimulate and develop staff and providers to continuous improvement. There are various ways in which this is pursued including state and national training awards for high performing students and providers of training. Teacher development is supported in various ways. In Victoria the state government has just established a Technical and Further Education (TAFE) Development Centre aimed at raising the standards of the teachers in the major providers of vocational education and training.

A major part of the reform in the VET sector was to base certification on industry determined competency standards. A vocational competency comprises the specification of the knowledge and skill and its application within an occupation or industry to the standard of performance required in employment. A system of national industry training boards, now being replaced by a small number of National Skills Councils, with employer and union membership, advised on industry standards across occupations covered by VET sector training. The providers of training, of which the major ones are the government funded TAFE Colleges, were not directly represented in this process. Industry boards were given control of the content of training.

From 1996 the competency standards have progressively been assembled, as already mentioned, into Training Packages'. Training Packages contain (at least) the details of units of competency, assessment procedures, and the qualifications that can be awarded from successful completion of particular units of competency. The development of training packages stressed the need for the assessment of competency to be undertaken in the workplace or in a simulated workplace. The development of training packages facilitated the development of, and recognition of, training accomplished in the workplace including training almost entirely on-the-job.

By 2004 there were over 80 training packages, 9 of which were enterprise training packages (developed privately by enterprises). These can lead to some 1000 qualifications ranging in the categories Certificate 1 to 4, Diploma and Advanced Diploma (Schofield & McDonald 2004). Nearly 60 per cent of the training delivered in the VET sector, perhaps 70 per cent of publicly funded VET and nearly all the training delivered to apprentices and trainees is based on training packages.

Where a training package does not provide a suitable course to meet a local employment need, the AQTF permits states and territories to accredit other courses to meet that need. A set of nationally-agreed criteria apply to such accreditations, including the requirement to show that the course is distinctively different to any offered in a Training Package. A course accredited in one State or Territory is placed on the national register of accredited courses and therefore becomes available for offer in all States and Territories.

There has recently been a major review of Training Packages and a range of shortcomings have been identified—though the training authorities remain committed to the concept of Training Packages. The criticisms centre on the neglect of more generic or employability skills and of broader educational outcomes, the flexibility of training packages to be adapted to emerging skills and their appropriateness for all clients of the VET sector including those who wish to progress to higher education. There is the ongoing concern that the providers of training who have the most understanding of the processes of teaching and learning have not been directly part of the process of development and revision of the training packages, and perhaps as a result, that there is patchy understanding of, and commitment to, the training package system by those who have an important role in its delivery. Reform to address several of these issues is underway

Note that education provided in secondary schools is not based on competency standards, except for vocational subjects in the final two years of schooling. An ongoing issue is the credit given to VET graduates when they seek entry to higher education institutions. Assessment in VET units is intended to lead to a decision on whether the student is “competent” or “not yet competent”—not to a grade or rank as commonly understood in schools and universities. This has led many VET providers to also provide their students with graded results but there is no common system and the issue is unresolved, if beginning to receive attention.

## Conclusion

Australia has made major changes in the ways in regulates and funds vocational education and training, with an increased emphasis on competition to promote the efficient delivery of the types of programs that students but, especially, employers want. Australian national and state and territory governments have increased the role of employers in several ways:

- by basing nationally recognized training on industry determined competencies;
- by giving employers and apprentice/trainees some choice (under User Choice) of the VET providers which the governments fund;
- by enhancing the subsidies to employers of apprentices and trainees;
- by giving employer organizations representation on government authorities and advisory committees concerned with vocational education and training. .

Equity in access to VET has been supported by a system of low tuition fees and exemptions for low-income students—in the face of a very different system of higher fees and income contingent loans for higher education. However a limitation on the number of publicly supported places means some students cannot obtain entry.

A national system of student income assistance means that low-income students aged 16 and over in full-time schooling, VET and higher education students are provided with an important if minimal level of assistance for their living costs.

Competition and employer demand affects the balance of provision of VET across occupational skill areas but this is still partly determined by direction from state and territory training authorities, which make assessment of industry and community needs before allocating public funds. These authorities also take account of individual student demand based on their reaction to job prospects and personal career aspirations—if students do not wish to take particular courses it is wasteful to fund places that are not filled.

Australia still has the large majority of its VET students in government owned public institutions. User choice extended the degree of market competition for the provision of apprentice and trainee programs but there are boundaries set by state and territory government on the extent to which public funds flow to the private sector or even among public providers under user choice. Market competition has made both public and private providers of training more responsive to employer needs but it has also increased the marketing and management costs at the expense of resources for delivery (Anderson 2005).

Most of the programs now taught by public and private providers of VET are based on nationally agreed industry determined competencies—organized in Training Packages. Providers in order to be registered to deliver nationally recognized training have to meet nationally agreed standards, and they are audited against these. There is still uneasiness

about the quality of some of the traineeship provision especially where there the training occurs almost wholly in the workplace.

Despite the range of policy aimed at making training more aligned with the needs of the economy some employer groups remain dissatisfied—drawing attention to the continuation of shortages in the skilled trades. This has led to Australian government policy to propose to fund some specific purpose technical colleges additional to the current provision by states and territories, and to set up a national centre for trade skills excellence to encourage quality improvement.

Closer analysis of the issues of skills shortages suggests that their extent is not well measured and that the causes of shortages are complex—they may reflect relatively less attractive employment prospects rather than lack of availability of training places. There may, though, be a case for closer scrutiny of the operation of employer incentives schemes and of User Choice policies so that incentives can be targeted more closely with emerging job opportunities. There is also a strong case for developing better information on the labour market as a basis for advice by authorities to public providers of VET and to students. The Australian government's establishment of a network of industry careers advisers in 2005 is a further step in this direction.

Another line of criticism of the current system is not its failure to meet all employer expectations but that it has gone too far and that the individual student needs have been somewhat neglected in the reforms. Some Training Packages are seen to have too much emphasis on current vocational skill needs rather than on employability skills and the underpinning knowledge that will allow for future learning. Some remedies for this are considered in the reviews of Training Packages but the development of broader programs apart from training packages is also advocated especially for school leaver entrants to vocational education.

The broad policies on fees and of student support have not changed though pressures remain as public funding per student has been restrained. There is little indication that educational equity among socio-economic groups has improved in Australia in the recent decade. One continuing issue is that whereas secondary schools take all students who apply there are some thousands of students each year who cannot obtain a place in publicly supported VET. Additional places are available at full cost but this is clearly not an option for low-income students.

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**Appendix 1. Korea and Australia: indicators of population, labour, the economy, education and training**

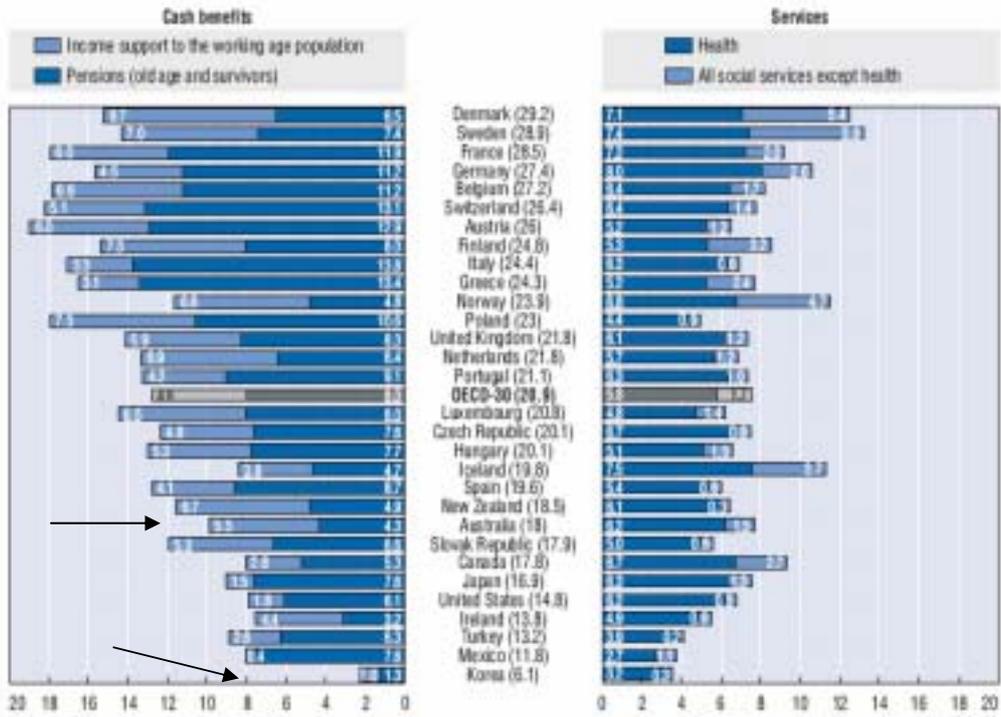
	Korea	Australia
<b>Total population</b> 2003 million	48	20
Age structure 2003		
0 - 14 %	21	20
15 - to 64 %	72	68
65 and over %	8	13
Projected annual population growth rate to 2015, % per annum	0.4	0.8
Migration stock % population 2000	1.3	24.5
Annual <b>employment</b> growth 1990 to 2003	1.8	1.4
Distribution of employed 2000 to 2002		
Agriculture	Male 9	6
	Female 12	3
Industry	Male 34	30
	Female 19	10
Services	Male 57	64
	Female 70	87
Labour force participation rate 2003	Male 80	82
	Female 60	67
Part time employed 2003	Male 5	17
	Female 11	42
Unemployment rate 2003	3.6	6.1
Long term unemployed % all unemployed	3	22
PPP US\$ <b>Gross National Income</b> per head (2003)	18,000	28,780
Annual real GDP growth rate % (1990 to 2003)	5.5	3.8
General Government total outlays all purposes % of GDP (2004)	27	36
<b>Participation in education by age</b>	% of population	
15-19	79.9	82.6
20-29	26.5	32.9
30-39	1.7	15.2
40 and over	0.4	6.7
<b>Outlays on education</b>	% of GDP (2001)	
Direct government expenditure and subsidies for institutions	4.8	4.5
Private expenditure, less public subsidies, on institutions	3.4	1.4
Total expenditure on institutions	8.2	6.0
Aid to students (loans and grants)	0.1	0.5
<b>Expenditure on labour market programmes</b>	% of GDP (2004)	
Total	0.36	1.13
of which—Training	0.06	0.03
—Unemployment benefits	0.19	0.74

Source: OECD, World Bank

## Appendix 2. Public social spending in OECD countries

### EQ5.1. Public social spending represents close to one-fifth of GDP on average

Gross public social expenditure by broad policy area, in percentage of GDP, 2001



Note: Countries are ranked by decreasing order of total public social expenditure as a percentage of GDP. Spending on Active Labour Market Programmes (ALMPs) cannot be split by cash/services breakdown. ALMPs are however included in total public spending in brackets.

Source: OECD 2005, *Society at a Glance 2005*