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# Youth unemployment and employment policy

*A global perspective*

**Niall O'Higgins**

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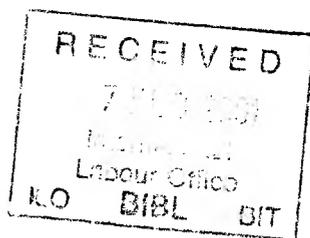
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*A global perspective*





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**Niall O'Higgins**

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## ABBREVIATIONS

ALMP	active labour market policy
ARPE	allocation de remplacement pour l'emploi (French voluntary replacement mechanism of older for younger workers)
CETA	Comprehensive Employment and Training Act (United States)
EU	European Union
FOSIS	Solidarity and Social Inversion Fund (Chile)
GDP	gross domestic product
GED	General Equivalency Diploma (United States)
GNVQ	General National Vocational Qualification (United Kingdom)
HEART	Human Employment and Resource Training (Jamaica)
ICFTU	International Confederation of Free Trade Unions
ILO	International Labour Office/Organization
ILO-ARMAT	Arab States Multidisciplinary Advisory Team
ILO-CAMAT	Central American Multidisciplinary Advisory Team
ILO-CEET	Central and Eastern European Multidisciplinary Advisory Team
ILO-EAMAT	East Africa Multidisciplinary Advisory Team
ILO-EASMAT	East Asia Multidisciplinary Advisory Team
ILO-MDT	ILO Multidisciplinary Advisory Team
ILO-SAAT	South Asia Multidisciplinary Advisory Team
ILO-SAMAT	Southern Africa Multidisciplinary Advisory Team
ILO-SEAPAT	South-East Asia and the Pacific Multidisciplinary Advisory Team
IOE	International Organization of Employers
JCI	Junior Chamber International
JTPA	Job Training Partnership Act (United States)
LEC	Local Enterprise Council (South Africa; United Kingdom)

## Abbreviations

LMI	labour market information
MA	Modern Apprenticeship (United Kingdom)
NES	New Earnings Survey
NGO	non-governmental organization
NVQ	National Vocational Qualification (United Kingdom)
OECD	Organisation for Economic Co-operation and Development
REAL	Rural Entrepreneurship through Action Learning (United States)
SENAI	National Industrial Apprenticeship Service (Brazil)
SENCE	National Service for Training and Employment (Chile)
SMIC	salaire minimum interprofessionnel de croissance (basic minimum legal wage in France)
SSF	Self-Start Fund (Jamaica)
STEP	Special Training and Employment Programme (Jamaica)
SYB	Start Your Business (ILO)
TEC	Training and Enterprise Council (United Kingdom)
TRACE	trajet d'accès à l'emploi (French youth employment programme)
TVEI	Technical and Vocational Education Initiative (United Kingdom)
UN	United Nations
WEP	Work Experience Programme (United Kingdom)
YAA	Young Achievement Australia
YCS	Youth Cohort Study (United Kingdom)
YES	Youth Enterprise Society (South Africa)
YOP	Youth Opportunities Programme (United Kingdom)
YT	Youth Training (United Kingdom)
YTS	Youth Training Scheme (United Kingdom)

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## INTRODUCTION

This study looks at the issue of youth unemployment and examines the policy responses to it. It is not, however, intended to provide a blueprint for solving this particular problem: national and regional contexts vary widely across the world and policies that work well in one country may not be feasible in another because of institutional, social, cultural and/or economic differences. The aim of this book is rather to put forward a number of recommendations on the principles that should guide policy, and to establish the basic elements that policies need for their design and implementation to be successful.

Examples and experiences – both successful and unsuccessful – are drawn from all over the world, although there is an emphasis on the industrialized economies simply because of the more extensive nature of the reporting and analysis of their policies and programmes. Although the situation is certainly improving, there is still a relative dearth of information and in-depth analysis on youth employment in many developing countries. This is regrettable, and more effective information collection and analysis is undoubtedly needed. Unless otherwise indicated, the conclusions drawn and the policy recommendations made in this study are of a sufficiently general nature so as to be applicable to industrialized, transition and developing countries. However, the relative importance of the recommendations will, naturally, vary according to the national context.

Above all, the book argues in favour of moving towards a more demand-oriented strategy based on social partnership. It is critical of the excessive emphasis placed on supply-side flexibility policies, such as sub-minimum wage policies for young people, and, on the basis of the evidence doubts the efficacy of policies that lower youth wages as a means of combating youth unemployment. Supply-side policies that concentrate on the characteristics of young people are not the solution; a more balanced strategy is needed.

The first part of this book, comprising the first three chapters, considers the youth unemployment “problem”. Chapter 1 presents an overview, covering issues such as the size of the problem and the close relationship between

## Introduction

youth and adult unemployment. Chapter 2 examines in more detail youth unemployment characteristics. It considers the extent to which the youth labour market is distinct from the adult labour market, arguing that opportunities for young and older workers to replace each other are limited. The chapter goes on to examine the extent to which the youth labour market problem can be identified with youth unemployment, and how far, although by no means the perfect way to measure such a complex problem, the youth unemployment rate is a useful and widely available basic indicator of the extent of labour market entry problems for young people. Finally, the chapter looks at the unequal distribution of unemployment across different groups of young people, an important theme that underlies the arguments in favour of concentrating efforts on the least advantaged. Youth employment policy, it is argued, should not be aimed at young people as a whole, but rather should concentrate on those who have the most trouble integrating themselves into the labour market. As is shown later in the book, all too often youth employment policy operates in precisely the opposite way – helping those already in a position to help themselves.

Chapter 3 looks at both the causes and consequences of youth unemployment. For the former, the central argument is that youth unemployment is first and foremost a reflection of a country's poor macroeconomic performance. Other factors, such as the rise in the youth population, are also important. However, with sustained economic growth, many of the problems associated with the rapid growth of the youth labour market can be overcome. The chapter also notes that the level of relative youth wages has little or no role to play in determining the level of youth unemployment. The basic implication is that policies based solely on supply-side considerations are unlikely to be particularly successful. They are understandably popular with the interested parties, since they have the effect of shifting the responsibility for the plight of the young unemployed from society as a whole to the young people themselves. According to this viewpoint, young people are unemployed because they do not have the right skills and/or attitudes, not because society has failed to create enough jobs for them. While many might agree with this argument, it is blatantly untrue. Although promoting the skills formation of young people and the quantity and, above all, the quality of jobs are all important aspects of policies, they are not in themselves sufficient to overcome the problem. Furthermore, policies that aim to lower youth wages purely as a mechanism to encourage the employment of young people are also unlikely to be successful.

The second section of Chapter 3 looks at why the failure of many countries to integrate young people into good-quality employment is (and if not should be) a cause for concern, and not simply the result of high youth unemployment levels. A popular argument is that, although young people have higher unemployment rates than older workers, the problem is not that serious because young people tend to be unemployed for shorter periods than older workers.

In other words, youth unemployment is purely a frictional phenomenon, reflecting a transitional phase in young people's working lives, which they quickly overcome, settling down into the ranks of the more or less permanently employed. Section 3.2, however, suggests that in many countries this is simply not the case. Prolonged spells of unemployment at the beginning of a young person's "working" life can lead to serious long-term problems. Being unemployed early on in life has been shown to increase the probability of future joblessness. In addition, joblessness among the young is closely linked to crime, drug abuse and vandalism, patterns of behaviour that, by their very nature, once ingrained are likely to remain and, at the very least, influence the development of young people. High levels of youth unemployment are also likely to lead to alienation and social unrest. Recent and not so recent history has repeatedly demonstrated that dissatisfied young people are usually the driving force behind such turmoil.

The second part of the book looks at the policy responses to youth unemployment. Part II opens with a brief chapter on general issues, such as the usefulness of an overall youth policy, arguing in favour of the importance of coordination between different spheres of activity and, in particular, between educational and employment policies. Chapter 4 also gives an overview of ILO initiatives and the international policy context.

An underlying theme of the book is the important role that adequate labour market information (LMI) can and should play in the design and implementation of labour market policies for young people. Chapter 5 looks at the different forms of LMI and examines in some detail questions relating to policy and programme monitoring, as well as programme evaluation. Adequate programme evaluation is important, *inter alia*, to ensure that appropriate criteria are employed to judge the effectiveness, or otherwise, of programmes. As demonstrated later in the book, the use of simplistic evaluation criteria, such as gross post-programme placement rates, tend to favour the advantaged at the expense of the disadvantaged. This chapter stresses that an effective policy response must be based on providing adequate information, and calls for improved data collection, particularly in developing countries.

It is often argued that young people price themselves out of jobs: that the relative pay of young people is too high. While in Chapter 3 it is found that relative youth wages play little or no role in determining variations in unemployment levels, Chapter 6 considers the effects of a minimum wage on youth employment levels. Many countries have lower rates or exemptions in their minimum wage for young people. This chapter argues that there is little justification for this practice and demonstrates that, theoretically at least, a minimum wage can have either a positive or a negative effect on the employment of young people. Although empirical evidence is mixed, where a minimum wage is found to have a negative effect, its impact is generally fairly small. Consequently, some argue that there is little basis for introducing a lower minimum wage for young people *per se*. However, there are three important reasons why a minimum wage

## Introduction

should be in place, quite apart from any effect it might have on employment levels: first, it is important as an administratively simple redistributive device; second, it enhances the quality of employment; and third, it can also have a positive effect on worker productivity. This chapter considers the ILO position on youth minimum wages, concluding that there is no justification for having differential rates according to age. However, there may well be a case for reducing the remuneration of young people receiving high-quality training: in this way they would be contributing to the cost of their training and consequently encourage firms to provide training. It is important to note here that this is not the same as paying young people a lower wage per se. In this instance, the lower remuneration acts as a form of exchange between the individual and the enterprise.

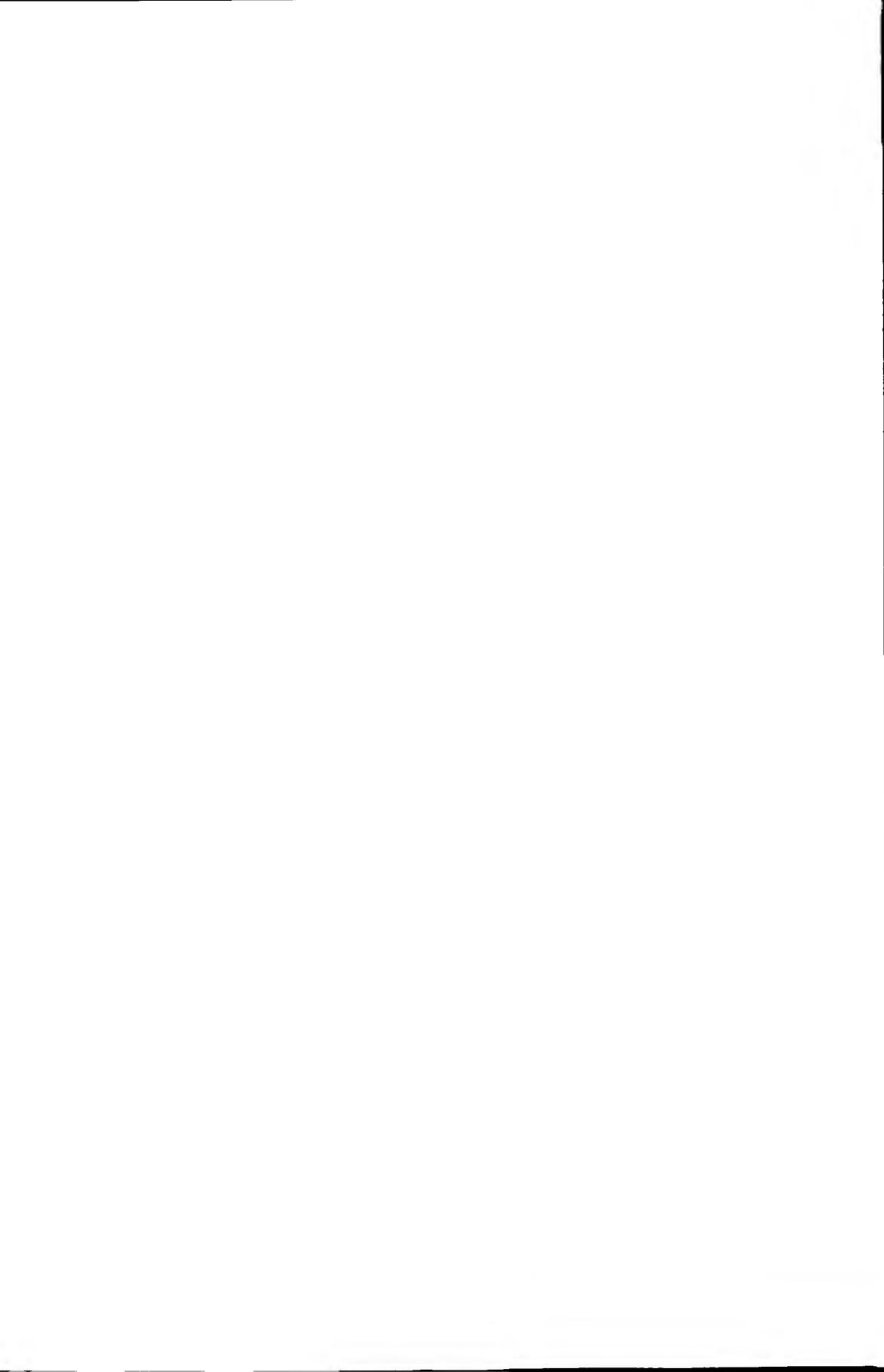
Although the level of youth unemployment is largely determined by macro-economic conditions, some countries have been remarkably more successful than others in maintaining relatively low levels of youth unemployment. This is particularly true of countries operating dual apprenticeship systems, such as Germany. Chapter 7 examines the role of education and training systems in facilitating the transition from school to work. It looks first at design issues, such as the role of certification, sources of finance, school versus work-based training and the differences between sequential and dual systems, and then examines in more detail the system operating in Germany, discussing its strengths and weaknesses and considering the extent to which particular aspects of the German system could be adopted elsewhere.

Active labour market policies (ALMPs) have had varying degrees of success in alleviating youth unemployment and promoting employment. Such policies are a complement to formal education and training systems, and are generally remedial in nature, that is, they attempt to correct the failure of education and training systems to integrate young people into employment. Chapter 8 looks at three types of intervention policies: those aimed at promoting wage employment; those promoting self-employment among the young; and those aimed at disadvantaged young people. Several recommendations are made for improving the effectiveness of youth employment programmes. More attention should be paid to programmes for the disadvantaged, on the grounds of both equity and efficiency, and arguments are also presented against the increasingly obligatory nature of the schemes, particularly in industrialized countries. The type of policy that is most appropriate will depend very much on the state of the economy in question.

Another theme running through the book is the positive role that can be played by workers and employers and their respective organizations in the design and implementation of youth employment policy. Chapter 9 considers several ways in which the social partners can, and should, participate, including action through tripartite bodies involving governments, employers' and workers' organizations, bipartite arrangements reached through collective bargaining between employers and workers, and unilateral action on the part

of employers or workers. The chapter also considers action being taken at the international level, particularly recent initiatives promoted by the International Confederation of Free Trade Unions (ICFTU) and the International Organisation of Employers (IOE).

Finally, Chapter 10 presents a number of concrete policy recommendations drawn from the observations made throughout the course of the book.



PART I

---

THE PROBLEM



# YOUTH UNEMPLOYMENT

# 1

## 1.1 A GLOBAL CONCERN

More and more young people are having trouble when first looking for work, and youth unemployment levels are certainly serious in many member States of the ILO. The rate of youth unemployment is much higher than that of adults in most countries of the world; recent ILO estimates suggest that at least 60 million young people are without a job and that youth unemployment rates are, on average, three times as high as adult rates (ILO, 1998a). In countries of the Organisation for Economic Co-operation and Development (OECD), the unemployment rate of the 15–24 age group in 1998 was 12.9 per cent, more than double the figure for adults, which stood at 5.7 per cent; around 10 million young people are unemployed in the OECD countries.

Figures are less widely available for developing countries, but data suggest that the gap between youth and adult unemployment rates is wider than in industrialized nations. In the Philippines, for example, the youth unemployment rate for women in 1997 was 18.5 per cent, compared with 8.5 per cent for all females; the figures for men were 14.1 per cent and 7.5 per cent respectively (ILO, 1999a). In the same year, Zimbabwean teenagers (15–19) faced unemployment rates of 18.1 per cent. Young adults (20–24) in the country fared slightly better at 15.5 per cent, with the figures for both groups well above the adult rate of 4.7 per cent (Central Statistical Office, 1998). Turning to Latin America, in 1997 the youth unemployment rate in Brazil was 16.7 per cent, compared with 6.0 per cent for adults; in Chile, the figures in 1998 were 19.4 per cent and 6.1 per cent respectively (ILO, 1999b).

In developing countries, open youth unemployment is compounded by substantial levels of underemployment and poor-quality jobs in the informal sector.<sup>1</sup> Both these phenomena are widespread, which suggests that the problem of integrating young people into the labour market in developing countries is even more serious than would first appear.

## Youth unemployment and employment policy

In many transition economies, youth unemployment levels show a similar pattern. Given the massive reductions in output in many of the countries moving towards a market economy, the problem is undoubtedly more serious than in most industrialized nations. For example, despite a partial recovery of output, in 1997 youth unemployment in Poland was 24.7 per cent, compared with an adult rate of 8.0 per cent. Similarly, in Hungary in 1997, the rate of unemployment for young people was 16.0 per cent, compared with 7.5 per cent for adults. In addition, the informal sector has grown rapidly in recent years. Also, many countries in Central and Eastern Europe still have substantial levels of hidden unemployment, with workers nominally being retained by firms but not fulfilling any productive task or collecting any wages. More research needs to be done on the extent of both hidden unemployment and informal sector employment in Central and Eastern Europe to provide an accurate picture of the situation and, in particular, to show the extent to which these phenomena affect young people. However, it is not unreasonable to suggest that as many young people as adults are likely to be involved in informal sector employment in particular.

### 1.2 DEFINING YOUTH

According to the standard United Nations definition, "youth" comprises young people aged from 15 to 24 years inclusive (United Nations, 1992). In practice, the operational definition of youth or young people varies widely from country to country, depending on cultural, institutional and political factors. In industrialized countries and in the Central and Eastern European transition economies, the lower age limit usually corresponds to the statutory minimum school-leaving age; the upper limit tends to vary more widely. In the United Kingdom's New Deal, for example, introduced in 1998, "youth" refers to the 18–24 age group, with 16- to 17-year-olds getting special treatment, while in Italy the term is used to describe policies for people aged between 14–29 (in the north) and 14–32 (in the south).<sup>2</sup>

Developing countries often have no minimum school-leaving age, and standard reporting of the labour force can begin as early as 10 years of age (for example, in Argentina and Indonesia) or even at birth (in Burkina Faso and Niger). While recognizing that the absence of a minimum school-leaving age will undoubtedly have significant consequences for the early labour market experiences of large numbers of young people, the labour force participation of children (as opposed to youths) is a separate issue and so is not examined in this study.

The United Nations definition is employed for the purposes of this report, with a further distinction made between teenagers and young adults, since the problems faced by these two groups are quite distinct. In Germany, for example, the rate of unemployment of those aged 16–24, taken as a whole, is roughly the same as the adult (25–54) unemployment rate, which might give

the impression that the German dual apprenticeship system is relatively successful in dealing with youth unemployment. However, if one looks at teenagers (16–19) and young adults (20–24) separately, one finds that the rate of teenage unemployment is actually considerably lower than that of adults, while the rate for young adults is well above that of their older counterparts. Thus, while the German system has effectively solved the initial entry problem of young people into the labour market, a new problem of unemployment among young adults is developing. In other words, more young people who have completed an apprenticeship in the country's dual system are now having trouble finding a job once they have qualified.<sup>3</sup>

### 1.3 YOUTH AND ADULT UNEMPLOYMENT

The nature of youth unemployment varies from country to country, although a number of features are remarkably constant in quite different national contexts.<sup>4</sup> First, youth unemployment is higher than adult unemployment in almost every country for which figures are available, and this is the case whether aggregate unemployment in a country is high or low.<sup>5</sup>

A second key feature of youth unemployment is that it is closely linked to adult unemployment. A simple linear regression of the youth unemployment rate on the adult rate in the OECD countries gives a coefficient on adult unemployment of 1.8 ( $R^2 = 0.86$ ).<sup>6</sup> For transition economies, the corresponding coefficient is 1.5. Thus, a one percentage point rise in adult unemployment is associated with an increase of almost two percentage points in the youth unemployment rate in the OECD countries and a one-and-a-half percentage point increase in transition economies. In other words, youth employment appears to be more affected by shocks hitting the aggregate labour market than adult employment.

Gaude (1997) has estimated this type of relationship over time in the form of elasticities, using information on a variety of countries for which ILO comparable data are available.<sup>7</sup> There is a certain degree of cross-country variation, but for most countries the elasticity is close to 1, implying that variations in youth unemployment rates are directly proportional to movements in adult rates. The two are highly correlated in most cases. These estimates reinforce the idea that youth and adult rates are inextricably linked and that changes in the youth unemployment rate are directly proportional to changes in the adult unemployment rate.<sup>8</sup>

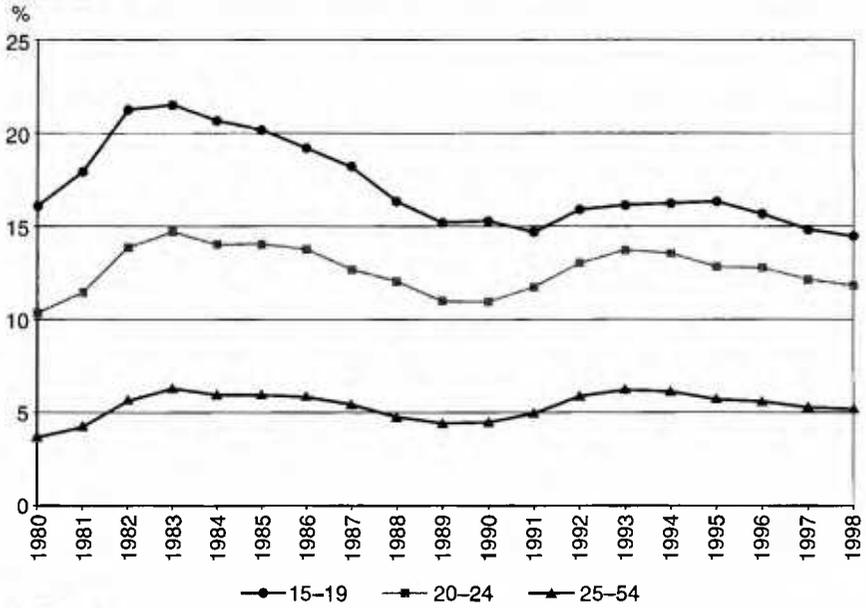
Figures 1.1 and 1.2 demonstrate these phenomena graphically. Figure 1.1 plots unemployment rates by age over the period 1980–98 for the OECD as a whole, and figure 1.2 plots the corresponding rates for Jamaica over the period 1975–95.<sup>9</sup>

Finally, there is the link between (un)employment and economic growth. Increasingly, fears are being expressed over the emergence of “jobless growth”, although the ILO report *World Employment 1996–97* has demonstrated that,

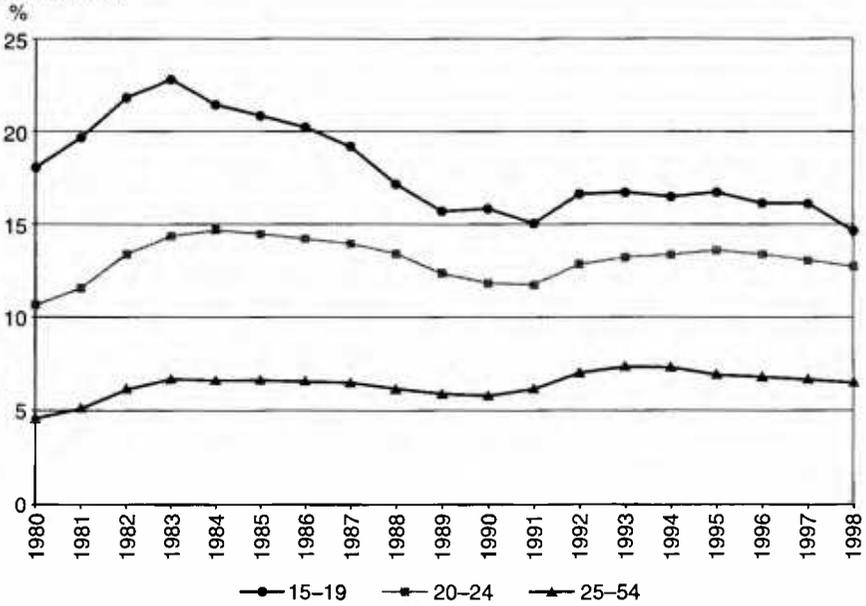
Youth unemployment and employment policy

Figure 1.1 Unemployment rates by age in the OECD countries, 1980–98

1.1a Males



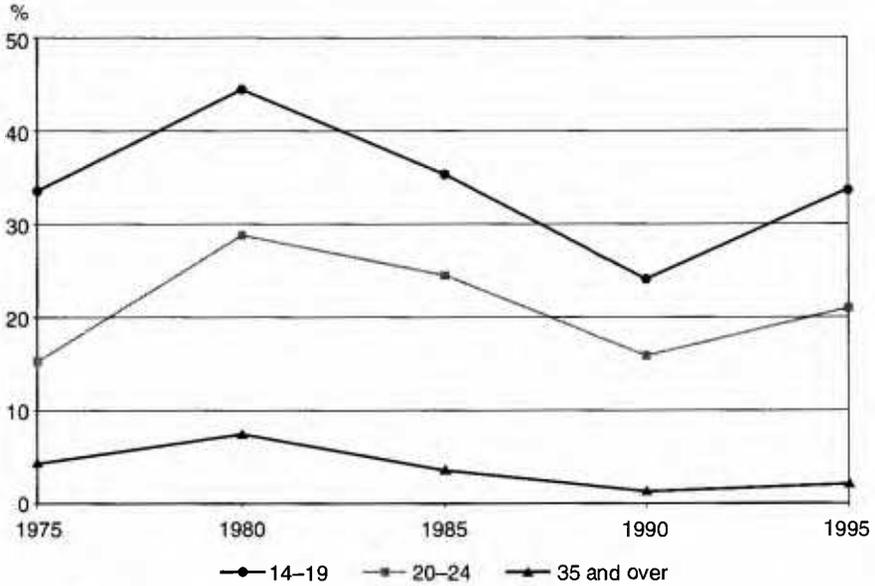
1.1b Females



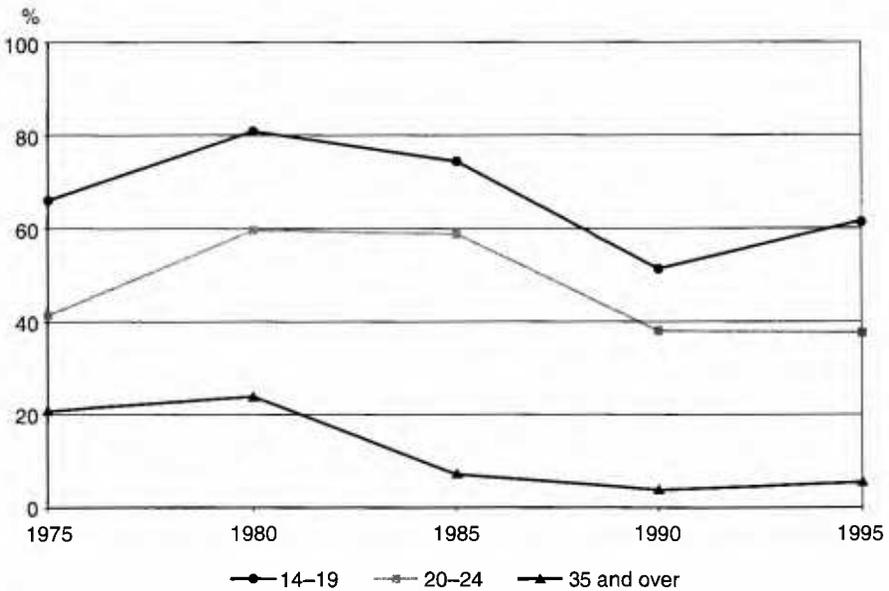
Source: OECD Labour Force Statistics database.

Figure 1.2 Jamaica: Unemployment rates by age, 1975-95

1.2a Males



1.2b Females



Source: Statistical Institute of Jamaica: *Labour Force Surveys*, 1975, 1980, 1985, 1990, 1995 (Kingston).

## Youth unemployment and employment policy

for industrialized countries at least, this is simply not happening (ILO, 1996, table 2.3, p. 20). If anything, growth has become more job intensive. In the period after the first oil shock of 1973 the rate of economic growth slowed down dramatically and the rate of growth required for economies to start creating jobs fell.

In developing countries the picture is not quite so clear. In *World Employment 1996-97* (table 5.3, p. 153), the employment elasticity of output growth for a range of developing economies was examined. In nine of the 16 countries for which a comparison is possible, the employment elasticity of output growth in manufacturing declined between 1975-80 and 1986-92. However, the picture is not as bleak as it first appears. In three of the countries where the elasticity declined (Guatemala, Kenya and the Philippines), the initial value was greater than 1, indicating that a reduction was in fact desirable.<sup>10</sup> In a further two countries, the Republic of Korea and Thailand, the rate of output growth was at such a level that the declining employment elasticity was accompanied by rapid employment growth.

The two basic points that can be deduced from these figures are: first, output growth is a precondition for employment growth and in most cases there are strong links between the two; and, second, youth unemployment is closely linked to the aggregate unemployment situation, which means that solutions to the problems of young people cannot be separated from the general context.

### 1.4 KEY QUESTIONS AND ISSUES

This book looks at the issue of youth unemployment and examines the policy responses to it. In particular, stress is laid on the necessary or desirable factors that contribute to the design and implementation of an effective youth employment policy. Given that national and regional contexts vary widely across the world, the main aim of the book is to put forward a number of recommendations on the *principles* that should guide policy and to establish the basic *components* that policies need for their design and implementation to be successful.

This report looks at seven key questions and issues.

1. Why should youth unemployment and the failure of many countries to integrate young people into good-quality employment be a major cause for concern? Indeed, it has been argued that although young people have higher unemployment rates than older people, this may be less severe than it first seems, since the period of time they spend unemployed is generally shorter than that of older adults. The characteristics of youth unemployment are, therefore, analysed separately, followed by their causes and consequences, primarily to establish whether young people experiencing long and especially repeated spells of unemployment early in their working life are likely to be at a disadvantage in the long term, and whether unemployment levels are spread evenly among young people or not.

2. Is a growth-promoting macroeconomic environment essential for overcoming the problem of persistently high levels of youth unemployment? Analysis confirms that implementing supply-side interventions alone (such as training to raise employability) are unlikely to be successful. It is equally important to ask under what conditions such policies promoting the skills of young people can reinforce economic growth, as well as promote the quantity and quality of youth employment.

3. Does the relative pay of young people affect their job opportunities? This book examines the question in terms of both the effects of relative pay levels on youth unemployment and, then in more detail, in Chapter 6, of the effects of the minimum wage on youth employment and unemployment levels.

4. What is the role of LMI, monitoring and programme evaluation in improving the design and implementation of youth employment? Before dealing with specific policies designed to alleviate youth unemployment, the central role that can and should be played by different types of LMI is considered.

5. Why have some countries been notably more successful than others in maintaining relatively low levels of youth unemployment, compared with adult rates? The roles of education and training systems are examined, including dual apprenticeship systems, in facilitating the transition from school to work.

6. What is the role of and how successful are ALMPs in alleviating youth unemployment and promoting youth employment? Three types of intervention are analysed: policies and programmes aimed at promoting wage employment; those promoting self-employment among young people; and those aimed specifically at disadvantaged groups of young people.

7. Finally, what is the role of workers and employers and their respective organizations in the implementation of youth employment policy and how can the involvement of the social partners in policy formulation and implementation enhance the effectiveness of employment policies for young people?

Based on an analysis of these key issues, a number of concrete policy recommendations are drawn up and presented in the final chapter of this book.

## Notes

<sup>1</sup> Of course, adults as well as young people are affected by underemployment and informal sector employment, and whether young people suffer disproportionately could be the subject of further research. However, as yet, information collected on a systematic basis is unavailable on this question.

<sup>2</sup> The distinction between northern and southern Italy arises because of the country's objective to make employment policies more widely available to Italians in the relatively impoverished southern part of the country.

<sup>3</sup> This issue is taken up in Chapter 7, where the German education and training system is examined in more detail.

<sup>4</sup> The extent to which the youth labour market problem can be identified with youth unemployment is considered in Chapter 2, where the basic position adopted is that, although by no means a

## Youth unemployment and employment policy

perfect indicator, the youth unemployment rate does provide a rough guide to unemployment levels and has the advantage of being used in a wide variety of countries – industrialized, transition and developing.

<sup>5</sup> In addition to the unemployment rates cited in section 1.1, see also the more systematic presentation of youth and adult unemployment rates in Chapter 2.

<sup>6</sup> This and the following estimates have been taken from Blanchflower and Oswald (1997). The results are based on 20 OECD countries for 1993; for the transition economy equations, the result is based on 20 countries in the early 1990s. Such estimates only provide an impression of the close relationship between the variations in youth and adult unemployment, and should not be taken as a full explanatory model of the causes of youth unemployment, ignoring as they do many other contributory factors that might affect youth (or indeed adult) unemployment. However, the closeness of the two phenomena is striking. More formal evidence on the *causes* of youth unemployment is considered in Chapter 3, in particular the relative importance of aggregate demand and the relative wages of young people. The close relationship observed between youth and adult rates could reflect the important influence of aggregate demand conditions on both youth and adult unemployment rates.

<sup>7</sup> This simply involves estimating the natural logarithm of the youth unemployment rate on the natural logarithm of the adult rate, rather than by using absolute values. The resulting coefficient on adult unemployment captures the proportionate increase in the youth unemployment rate associated with a given variation in the adult rate. Again, the caveat of note 6 should be recalled.

<sup>8</sup> For example, take the adult unemployment rate in a country to be 5 per cent and the youth rate 10 per cent. Suppose that the adult unemployment rate now doubles (to take an extreme example), increasing by 5 per cent to 10 per cent. Then, other things being equal, the youth unemployment rate will also double, moving from 10 per cent to 20 per cent. In other words, variations in youth unemployment rates are much larger than variations in adult unemployment rates, even though the two variations are proportional to one another.

<sup>9</sup> Jamaica was chosen as an example since it is one of the few developing countries for which data are available over a substantial time period.

<sup>10</sup> This is because the employment elasticity of output growth is inversely related to labour productivity. A value greater than 1 indicates that employment growth was associated with declining productivity; therefore, a reduction would normally be desirable (ILO, 1996).

## THE CHARACTERISTICS OF YOUTH UNEMPLOYMENT

# 2

### 2.1 A YOUTH LABOUR MARKET?

Does a youth labour market actually exist, or, to phrase the question differently, to what extent are the labour markets for young people and adults distinct entities? There is real concern that by targeting young people, policies may simply be promoting the substitution of younger workers for older ones. Certainly, some types of policy might encourage employers to engage young workers rather than older adults, but there are a number of reasons for believing that the extent to which this would occur would be extremely limited. First, as new entrants to the labour market, young people cannot realistically compete for jobs with skilled and experienced workers; competition will tend to be limited to unskilled jobs and, to some extent, to another category of new entrants, or at least re-entrants, to the labour market, that is, older women wishing to return to work after having had children. However, even in this case, the belief that one age group of worker can be substituted for another is not likely to be widespread. Employers are unlikely to regard younger and older workers in the same way. Some types of work may require "youthful" qualities, such as adaptability, while other jobs may require more "adult" qualities, such as responsibility or reliability. The extent to which different age groups are perceived to possess different characteristics and the value attached to such characteristics vary from country to country and from region to region. The fact remains that young people are rarely seen as good substitutes for older workers (or vice versa) and the formal evidence, where it exists, tends to show that replacing one kind of worker with another, according to age, is limited.<sup>1</sup> Certainly, more direct evidence is needed on the issue. Further lines of research might look at employers' perceptions of younger workers, in terms of their adaptability in relation to new technology, the ease with which they can be dismissed and their relations with other workers, as well as the actual and perceived potential for worker substitution.<sup>2</sup>

There have certainly been programmes explicitly designed to encourage the substitution of younger workers for older ones. One such example is France's *Allocation de remplacement pour l'emploi* (ARPE). Under this measure, which was initiated by a tripartite agreement on 6 September 1995, early retirement was subsidized by the Government on condition that the employer hire a replacement under the same contractual agreement as the person retiring. Although not aimed explicitly at young people, job applications from those under 26 years of age were given special consideration.<sup>3</sup> This type of measure is rather unusual, however, in that its aims were to encourage a renewal of the labour force through the voluntary replacement of older workers with younger ones. It was also introduced with the full backing of the social partners. But, even under these special conditions, the programme did not achieve its target take-up level: the objective was to reach between 80,000 and 90,000 beneficiaries by the end of 1996, but the programme approached only 60,000 (Gineste, 1997). Thus, the degree of substitution, or in this case replacement, that took place was extremely limited, despite the explicit aim of the measure.

Of more concern are measures that encourage the recruitment of young people instead of existing older employees by reducing the relative cost of employing young workers. The United Kingdom's Youth Training Scheme (YTS), examined in detail in Chapter 8, was one such scheme. Although essentially a training measure that subsidized the employment of 16- to 18-year-olds on condition that employers provided a minimum period of off-the-job training, one of the (more or less) explicit aims of the scheme was to make young people more attractive to employers by lowering the wage expectations and, therefore, the wages of participants. A marginal improvement in the participants' chances of finding a job was brought about by the programme, but research has shown that employment prospects improved mainly because of lower wages, not because of the quality of their skills (O'Higgins, 1995a, 1995b, 1996). Despite this, Begg et al. (1991) have found that, even at the lowest point in the programme's net job creation (1989), when 80 per cent of the jobs "created" were, in fact, positions that already existed or would have been created had the scheme not existed, only 9 per cent of those jobs were for workers aged 19 and above. Even here, most of the substitution was probably between the very young and slightly older young people in the 16-24 age group. This supports the view that young people are unlikely to pose a real threat to older workers.

### What is unemployment? Is this "the problem"?

It is important to define what is precisely meant by youth unemployment. According to the ILO definition, which is now the most widely used, the unemployed are described as those people who have not worked for more than one hour during the short reference period (generally, the previous week or day) but who are available for and actively seeking work.<sup>4</sup> However, even

in industrialized countries, cross-country differences can arise from this fairly unambiguous definition. For example, in most countries students are considered to be outside the labour force; in others, such as Norway, they are included if they are actively seeking work. Some national authorities also prefer to use a longer working period than the one-hour rule. Thus, the Netherlands have implemented a 12-hour (per week) rule, so that people are defined as unemployed if they have worked less than 12 hours in the reference week (Bochove, 1994).

Another issue is the classification of people traditionally defined as being "outside the labour force", notably "discouraged" workers, that is, people who wish to work but are not actively seeking a job since they see no possibility of obtaining gainful employment. Their position outside the labour force is simply a question of prevailing economic conditions; if and when the chances of finding work improve, some of these people will probably return to employment without ever having been classified as unemployed. Therefore, it could be argued that introducing a broader concept of unemployment or non-employment would be more useful than what is now generally understood by "unemployment". Thus one could argue the case for including in the unemployment figures all young people who are neither in education nor employment, which would provide a more accurate indicator of the extent of the problem. There are others who favour using the unemployment/population ratio (such as Gaude, 1997), which can often radically change the impression of the extent of the problem, particularly when cross-country comparisons are carried out. This is especially true of teenage unemployment, owing to the generally widespread and increasing participation rate of teenagers in education.

Table 2.1 compares the unemployment rates of 18-year-old males with their non-employment rates<sup>5</sup> (i.e. including among the unemployed all those who are neither in education nor in employment) in selected OECD countries. The ranking of the countries using the two indicators is extremely similar (the rank correlation coefficient is 0.98), which implies that in cross-country comparison both indicators provide a similar impression of the extent of youth unemployment. Data from the informative report produced by the OECD (1999, table 9, pp. 70–71), and on which this table is based, indicate that in most OECD countries, and most notably in the United Kingdom, there is an increasing tendency for young men to drop out of both education and the labour market, despite the increasing range of educational and training initiatives now available to them.<sup>6</sup> In as much as this trend suggests increasing disaffection with mainstream educational and labour market alternatives, it is of serious cause for concern. Certainly, the reasons for this widespread phenomenon need to be better understood. However, the central point remains that the unemployment rate is closely related to the broader non-employment rate and can, therefore, also be reasonably used as a rough proxy of the broader problem. At the same time, the unemployment rate has the advantage of being far more widely used than the non-employment rate.

## Youth unemployment and employment policy

**Table 2.1** Unemployment rates and non-employment rates<sup>1</sup> for 18-year-old males in selected OECD countries, with rankings, 1997

Country	Unemployment rate (%) <sup>2</sup>	Ranking	Non-employment rate (%)	Ranking
Australia	23.3	9	27.2	11
Austria	8.8	15	12.1	16
Belgium	45.7	2	70.5	1
Canada	22.2	10	29.3	9
Denmark	11.7	14	14.2	15
Finland	50.0	1	51.3	2
France	25.7	6	34.2	7
Germany	5.0	17	10.5	17
Greece	31.4	4	44.1	4
Ireland	24.1	8	30.7	8
Italy	30.0	5	43.4	5
Luxembourg	25.2	7	35.8	6
Netherlands	8.8	16	17.2	14
Portugal	16.6	12	22.4	13
Spain	43.6	3	51.2	3
United Kingdom	16.7	11	27.8	10
United States	16.1	13	25.0	12

<sup>1</sup> See note 5 for a definition of the unemployment and non-employment rates.

<sup>2</sup> Numbers have been rounded up.

Source: OECD (1999).

Table 2.2 compares the unemployment rates of 15- to 19-year-olds, as a whole, with the unemployment/population ratios for a larger range of countries. A comparison between the two indicators in the table demonstrates a much weaker link than observed in table 2.1. The table displays quite different rankings of countries by unemployment rate and unemployment/population ratio (the rank correlation coefficient in this case is only 0.53), which can be explained by the varying rates of educational participation across the different countries. This then points to a second important issue. Although one might wish for low values on both indicators, these indicators give two quite different types of information; therefore, the results can vary considerably. For example, although youth unemployment rates in Belgium, Finland, the Republic of Korea and Poland are relatively high, the extent of unemployment among the teenage population of these countries as a whole is not. The unemployment rate essentially reflects the probability of not finding work for those young people in the labour market, while the unemployment/population ratio indicator refers to the extent of the problem seen in the context of the population as a whole. Throughout this study, arguments are made in favour of paying particular attention to those young people having the greatest difficulty in finding good-quality employment. For this purpose, the youth unemployment rate is perhaps the more useful and widely available indicator.

## The characteristics of youth unemployment

**Table 2.2** Unemployment/population ratio and unemployment rates of 15- to 19-year-olds, with rankings, 1998

Country/territory	Unemployment/population ratio (%)	Ranking	Unemployment rate (%)	Ranking
Australia	11.5	4	20.0	23
Austria	3.0	37	7.2	41
Belgium	2.1	40	28.1	13
Canada	10.1	6	21.0	19
Chile	3.2	36	21.0	20
Colombia	12.7	2	37.7	6
Costa Rica	6.8	17	16.0	27
Denmark	5.6	23	7.9	38
Ecuador	9.6	7	25.1	16
Estonia	4.7	27	27.5	14
Finland	9.1	11	28.3	12
Honduras	3.5	31	7.5	39
Hong Kong, China	3.9	28	20.5	22
Hungary	3.9	29	24.8	17
Iceland	5.8	22	9.0	37
Ireland	3.9	30	14.3	30
Japan	1.9	42	10.6	36
Korea, Republic of	2.2	39	20.9	21
Latvia	7.1	15	40.2	4
Lithuania	4.9	25	29.5	11
Macau	3.3	34	19.0	25
Mexico	2.0	41	4.4	43
Netherlands	6.7	18	11.9	35
Netherlands Antilles	7.5	13	47.0	1
New Zealand	9.4	9	17.5	26
Norway	6.6	19	13.5	31
Panama	12.0	3	35.2	7
Philippines	7.2	14	19.1	24
Poland	3.4	33	30.4	9
Portugal	3.5	32	13.2	32
Puerto Rico	7.0	16	38.8	5
Romania	6.4	21	24.2	18
Russian Federation	6.4	20	46.3	2
Singapore	1.1	43	7.3	40
Slovenia	5.4	24	26.7	15
Spain	10.9	10	44.7	3
Sri Lanka	9.2	5	30.3	10
Sweden	3.2	35	12.0	33
Thailand	2.7	38	7.1	42
Turkey	4.8	26	12.0	34
United Kingdom	9.6	8	15.7	28
United States	7.7	12	14.6	29
Uruguay	13.0	1	35.0	8

Notes: Teenagers in Iceland, Norway, Puerto Rico, Spain, Sweden, the United Kingdom and the United States are defined as young people aged 16-19; teenagers in Lithuania, Macau and Uruguay are defined as young people aged 14-19. Numbers have been rounded up.

Source: ILO (1999b).

Further complications arise when developing countries are examined. In countries with no widespread unemployment or social security benefits, the interpretation of “open unemployment” as “the problem” is perhaps more debatable. The link between unemployment and poverty is not as direct as in more industrialized countries. Extremely poor people simply cannot afford to be unemployed and so scrape a living as best they can through some form or another of occupation or self-employment. Open unemployment is often a predominantly urban phenomenon,<sup>7</sup> although this does not imply that the underlying difficulties arise only in an urban setting, nor that the solution necessarily lies in developing employment opportunities in urban areas. This is particularly true if one takes into account the substantial degree of migration from rural to urban areas in many of these countries. This, in turn, raises the issue of underemployment, which tends to be particularly common in rural areas and which is discussed in section 2.2.

The second consequence is that “the unemployment problem”, and, in particular, “the youth unemployment problem” is often seen as an issue relating solely to the educated unemployed. The extent to which this is true – both in terms of the unemployment/poverty relationship and the predominance of educated people among the unemployed – is again open to question. In addition, many developing countries use the ILO’s broad definition of unemployment without the requirement that the unemployed be actively seeking work.<sup>8</sup>

While recognizing these difficulties, this study uses the conventional definition of unemployment referred to above, since, although by no means perfect, it is the single most widely used and available statistic. It broadly charts the changes in the extent of the problem over a extended period and, albeit to a lesser degree, across countries. However, it is not the only possible indicator, nor is it necessarily always the ideal one.

## 2.2 WHICH YOUNG PEOPLE?

### Teenagers versus young adults

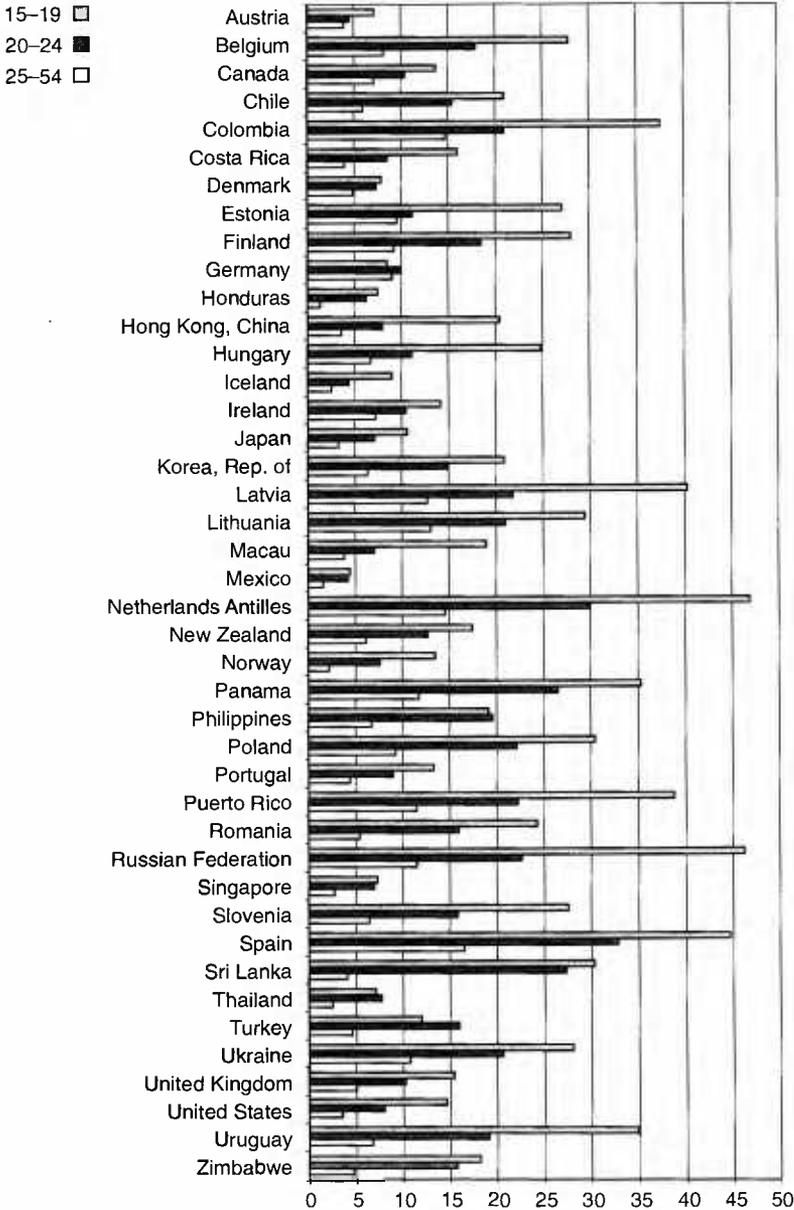
Figure 2.1 plots the unemployment rates of teenagers (15–19), young adults (20–24) and prime-age adults (25–54). The general picture that emerges is that unemployment rates tend to fall with age, which is true for the majority of countries, with just a few exceptions. In several countries, the highest unemployment rates are recorded by young adults; this is especially the case in Germany, but also in Turkey, the Philippines and Thailand. However, this “inverted-U” pattern is the exception to the rule.

### Women versus men

Figure 2.2 shows the ratio of female-to-male youth unemployment rates in 1998 for a number of countries. In contrast to the picture above, there appears to be

The characteristics of youth unemployment

Figure 2.1 Unemployment rates by age in selected countries, 1998 (percentages)

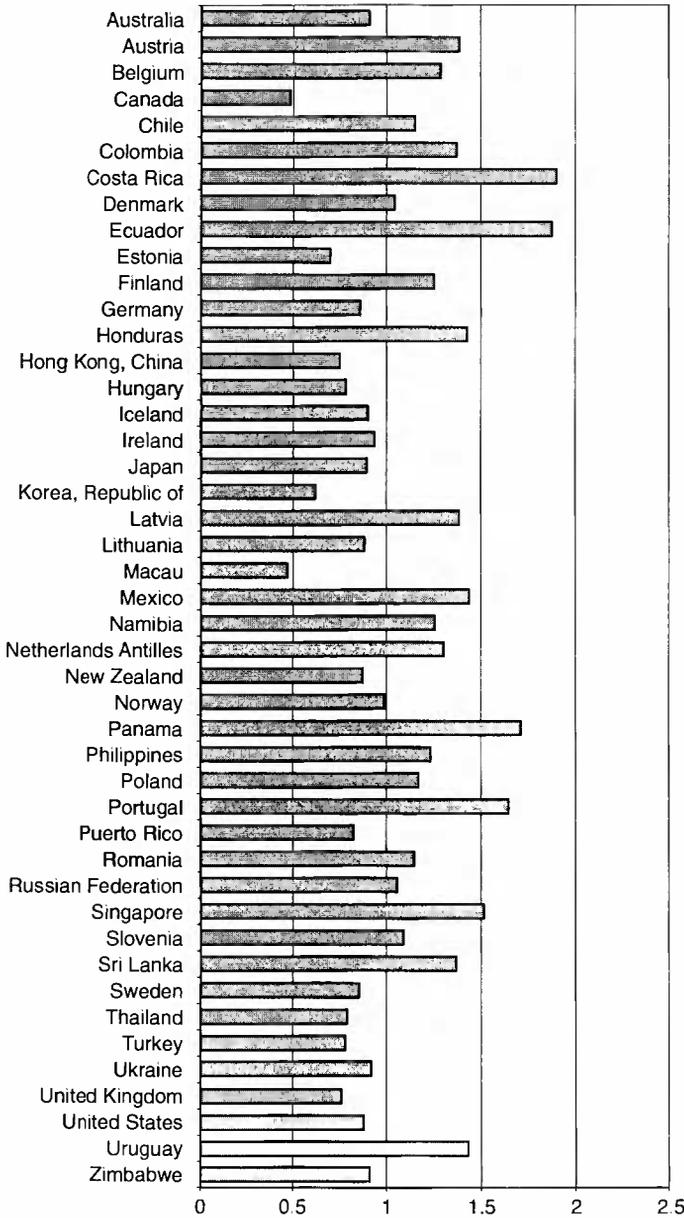


Note: Teenagers in Norway, Spain and the United States are classified as young people aged 16-19; adults in Colombia, Costa Rica and Honduras are classified as people aged 25-59.

Source: ILO (1999b).

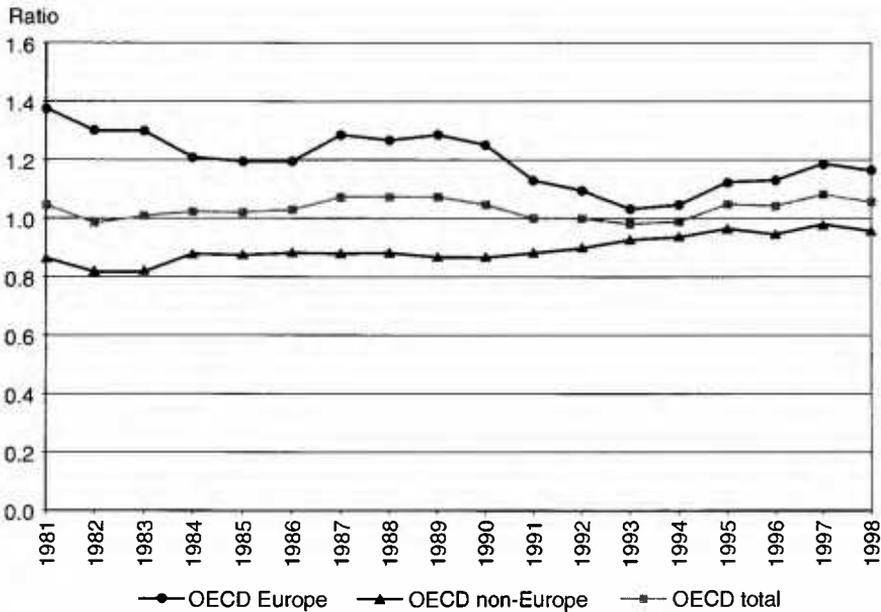
**Youth unemployment and employment policy**

**Figure 2.2** Ratio of female-to-male youth (15–24) unemployment rates in selected countries, 1998



Note: Data for Zimbabwe refer to 20- to 24-year-olds.  
Source: ILO (1999b).

**Figure 2.3** Ratio of female-to-male youth (15–24) unemployment rates in the OECD countries, 1981–98



Source: OECD Labour Force Statistics database.

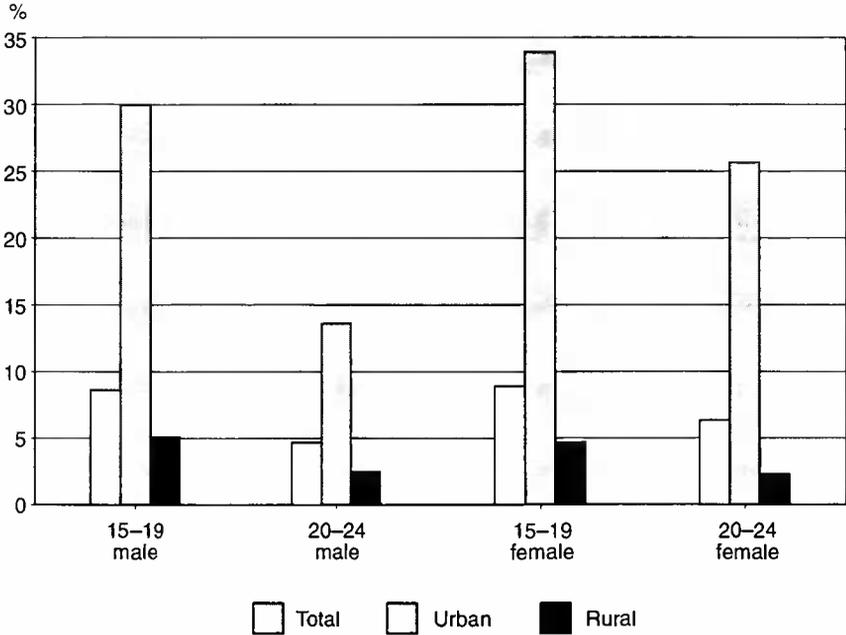
no distinct pattern between male and female unemployment rates. Among the selection of countries presented, around the same number have higher female youth unemployment rates as have higher male rates. However, if one looks at the employment opportunities available for young women and men, a much clearer pattern emerges; it would be fair to say that employment opportunities are generally more limited for women than men.

Figure 2.3 plots the ratio of female-to-male youth unemployment rates over the period 1981–98 for the OECD countries: the ratio is fairly stable over the entire period. In the OECD countries as a whole, unemployment rates tended to be slightly higher for young women than for young men, although the ratio remained close to 1 throughout the period covered. In Europe, young women had higher unemployment rates, while in the non-European OECD countries, it is young men who faced the higher rates. In both cases, at least until 1993, there was a gradual move towards equality. Since 1993, however, the unemployment rates of young women in Europe have increased slightly with respect to young men, although the difference is much less marked than in the 1980s.

Turning to developing countries, in the United Republic of Tanzania, for example, there seems to be little difference between the unemployment rates

**Youth unemployment and employment policy**

**Figure 2.4** United Republic of Tanzania: Unemployment rates by age and sex, 1990–91

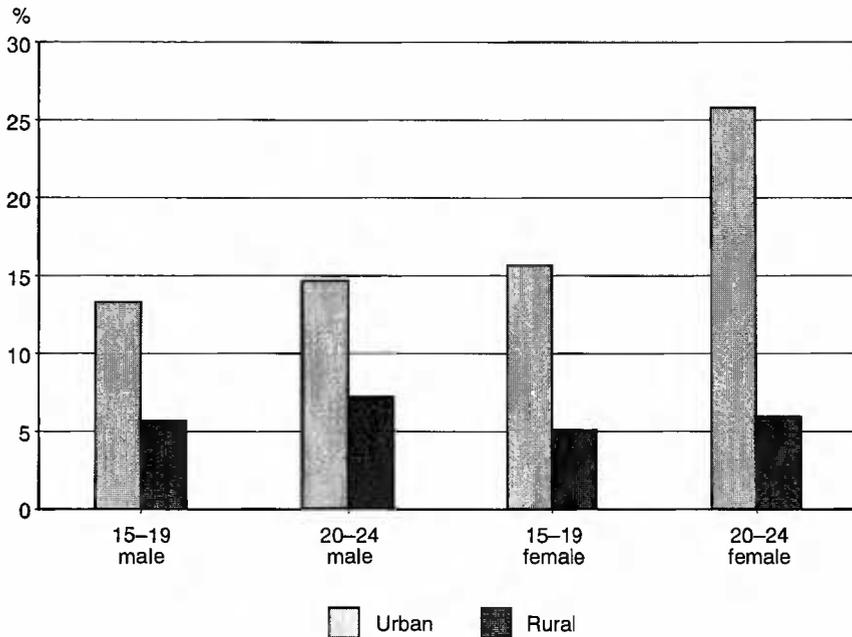


Source: G.D. Mjema: *Youth unemployment in Tanzania: Nature, extent and proposals to deal with the problem* (Dar es Salaam, 1997, unpublished report prepared for the ILO's Action Programme on Youth Unemployment).

of young men and young women. In 1990–91, the overall unemployment rate for teenage boys was 8.7 per cent and the corresponding rate for girls was 8.8 per cent. For young adults there was slightly more variation, the rate for men being 4.7 per cent, compared with 6.3 per cent for women. However, it should be recalled that unemployment in the United Republic of Tanzania, as in many developing countries, is predominantly an urban phenomenon. Figure 2.4 shows the rates separately for urban and rural areas, and it is here that the difference between men and women becomes apparent. In urban areas in 1990–91, teenage unemployment rates were slightly higher for young women (33.8 per cent) than young men (30 per cent). However, the real difference lies in the situation of young adults. Women in this age group faced an unemployment rate of 25.7 per cent, almost twice the rate of men (13.5 per cent). This suggests that while for young men unemployment was relatively transient, with most finding work by their early twenties, young women experienced longer-term difficulties in finding work.

If one looks at the quality of work in the United Republic of Tanzania, the distinction becomes even clearer. For example, in 1990–91 the visible under-employment rate for women in urban areas was 9.4 per cent, compared with

Figure 2.5 India: Youth urban and rural unemployment rates, 1993–94



Source: Visaria (1998).

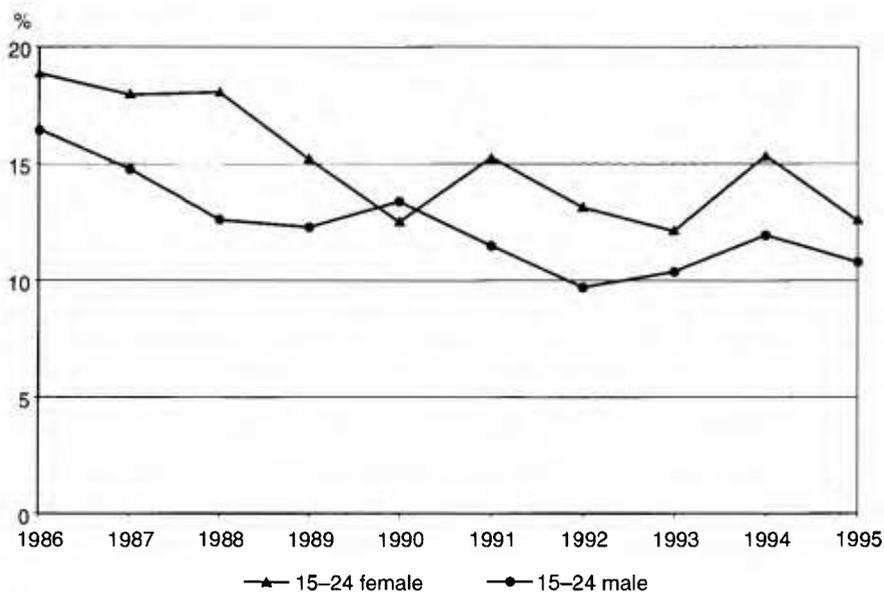
3.8 per cent for men, which suggests that the difficulties facing young women are far more serious than the unemployment statistics reveal.<sup>9</sup> Adopting the reasonable assumption that the quality of employment is closely related to basic literacy skills,<sup>10</sup> the female literacy rate in rural areas was 54 per cent against 74 per cent for rural males. Although not related to the unemployment situation per se,<sup>11</sup> this supports the idea that in rural areas the distinction between the opportunities open to men and women lies in the quality of the employment available.

In India, women are again disadvantaged when trying to gain access to employment (figure 2.5). Taken as a whole, young men and young women share the same unemployment rate – 8 per cent.<sup>12</sup> But when employment in urban areas alone is considered, then the unemployment rates are higher for young women than young men. In the case of young adults, the differences are particularly striking: young adult women face urban unemployment rates that are more than 11 percentage points higher than their male counterparts, with the difficulties facing young women increasing significantly as they move into their twenties.

Generally speaking, female labour force participation rates are far lower than those of young men, particularly in developing countries. The most

## Youth unemployment and employment policy

**Figure 2.6** Chile: Youth unemployment rates by sex, 1986–95



Source: ILO (1998b).

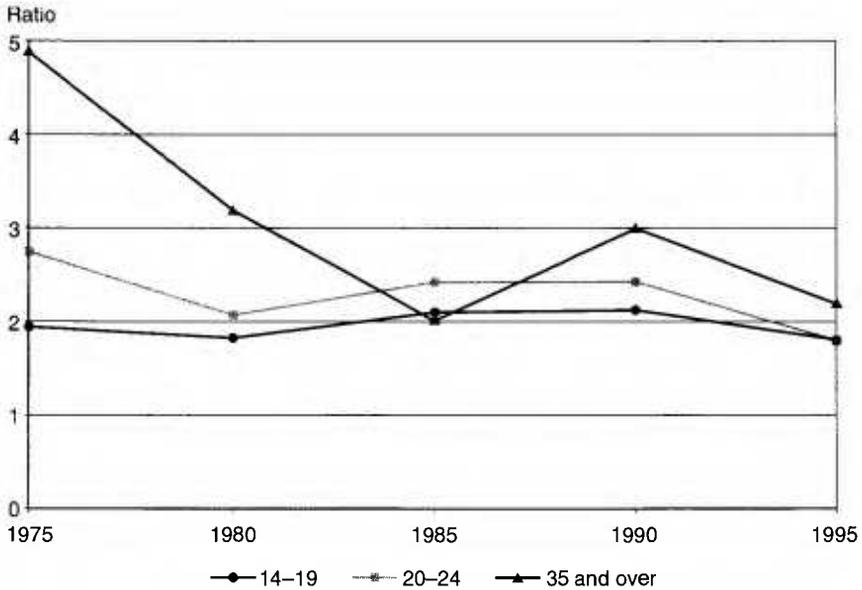
usual activity outside the labour force for young men is education, while the principal occupation of young women is housework, with female participation levels in education being much lower than young men's. This further reinforces the picture of disadvantage faced by young women in terms of both the quantity and the quality of job opportunities available to them.

In Indonesia, young women face higher unemployment rates than young men. In 1996, the unemployment rate for teenage males was 15.1 per cent against 18.4 per cent for females, with the corresponding rates for young adults 13.7 per cent and 17 per cent respectively. This is a recent phenomenon and may reflect a general rise in the labour force participation rate of young women.

The countries of Latin America and the Caribbean are higher-income economies with more of the characteristics of industrialized economies. Figure 2.6 shows that female unemployment rates in Chile have been consistently higher than male rates since the mid-1980s. Furthermore, the difference is most marked among the young.

In Jamaica, women have higher unemployment rates than men, as shown in figure 2.7, despite young women's greater educational attainment levels. Their labour force participation rate is also lower. So, although young women are more successful than men in the educational system, this success has not yet been reflected in the labour market.

Figure 2.7 Jamaica: Ratio of female-to-male unemployment rates by age, 1975–95



Source: Statistical Institute of Jamaica: *Labour Force Surveys*, 1975, 1980, 1985, 1990, 1995 (Kingston).

### Ethnic origin

In almost every country there are differences in the employment figures according to ethnic origin, with the dominant group or groups generally faring better than minority groups. Systematic data collection on this question, however, is not yet widespread. In the United States, one of the few countries to publish regular data on unemployment rates with a breakdown for age and ethnic background, the average teenage unemployment rate in April 2000 was 12.7 per cent. However, those defined as “black” had an unemployment rate of 22.2 per cent, while the corresponding rate for “whites” was 11.2 per cent (Bureau of Labor Statistics database; <http://www.bls.gov>). Thus, teenage blacks in the United States face unemployment rates almost twice as high as their white counterparts. D’Amico and Maxwell (1994) have suggested that the difference in employment prospects is largely responsible for the black/white wage differential for young males in that country.

A similar situation can be seen in some parts of Europe. In the United Kingdom, for example, the Department for Education and Employment (1996) has estimated the unemployment rates of all ethnic minorities to be 17.6 per cent, compared with 7.7 per cent for whites, despite the fact that ethnic minorities tend to have higher participation rates in education than whites. In Hungary, the gypsy (Roma) community suffers particular discrimination. At an aggregate level,

## Youth unemployment and employment policy

their unemployment rate stood at 38 per cent in 1993, compared with a figure of around 11 per cent for the country as a whole. The Roma are often the first to be laid off when enterprises start downsizing, have a much lower average educational level than the rest of the Hungarian population, and also suffer active discrimination. Although there are no available figures with a breakdown by age, there seems no reason to suppose that younger members of the Roma community are in a better position than their older counterparts.

## Young people with disabilities

Information on the unemployment rates of disabled young people is minimal, but the little evidence there is indicates that they encounter significant difficulties in entering the labour market. A number of studies have noted both their lower rates of labour force participation and higher unemployment rates (Reguera, 1995; Sly et al., 1995). Figure 2.8 displays the economic activity and unemployment rates for young people with and without disabilities in winter 1994/95 in the United Kingdom, an example that is by no means isolated (Reguera 1995, p. 249). The differential in labour market success between people with and without disabilities seems to increase with age, which may, in part, be attributed to the tendency of disabilities to become more severe as people grow older but may also reflect the long-term effects of unemployment at an early age.

## Regional disparities

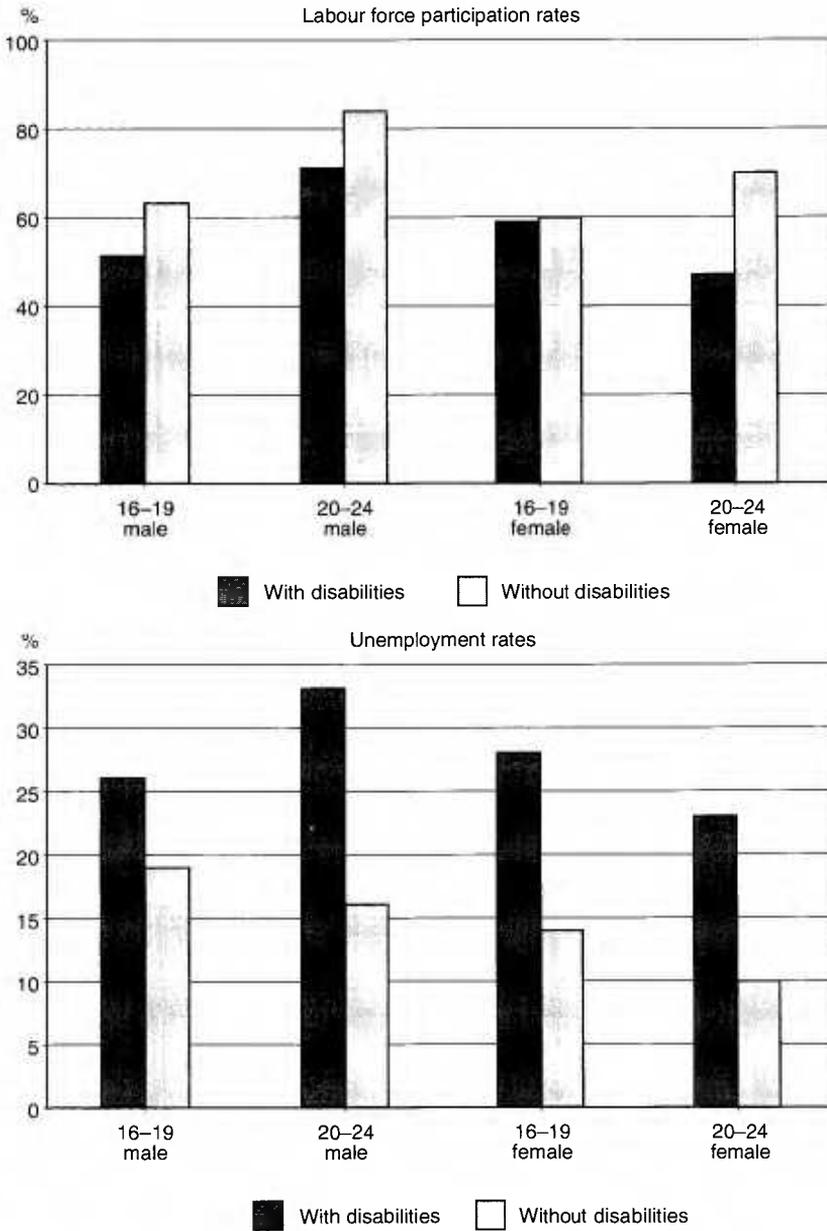
Regional variations in the youth unemployment rate correlate highly with regional variations in the adult rate. This means that countries with a high level of regional variation in adult unemployment tend to be characterized by even higher disparities in employment opportunities for young people. Nowhere is this more evident than in Italy, where the adult unemployment rate varies enormously, reflecting differences between the highly industrial north and the less developed south. For example, in 1995 in southern Italy the average unemployment rates for teenagers, young adults and those of prime working age (25–54) were 56.4 per cent, 55 per cent and 21.1 per cent respectively; the corresponding figures for the north were 24.2 per cent, 7.7 per cent and 6.8 per cent (Istituto Nazionale di Statistica, 1996).

## Education/skills levels

Unemployment tends to vary with the educational attainment levels of individuals (and related skills). Figure 2.9 shows unemployment rates by educational level for a number of countries.<sup>13</sup> For most of the OECD countries, unemployment rates fall, often dramatically (for example in the Czech Republic, Ireland and the Netherlands), the higher the level of education. The partial exceptions

The characteristics of youth unemployment

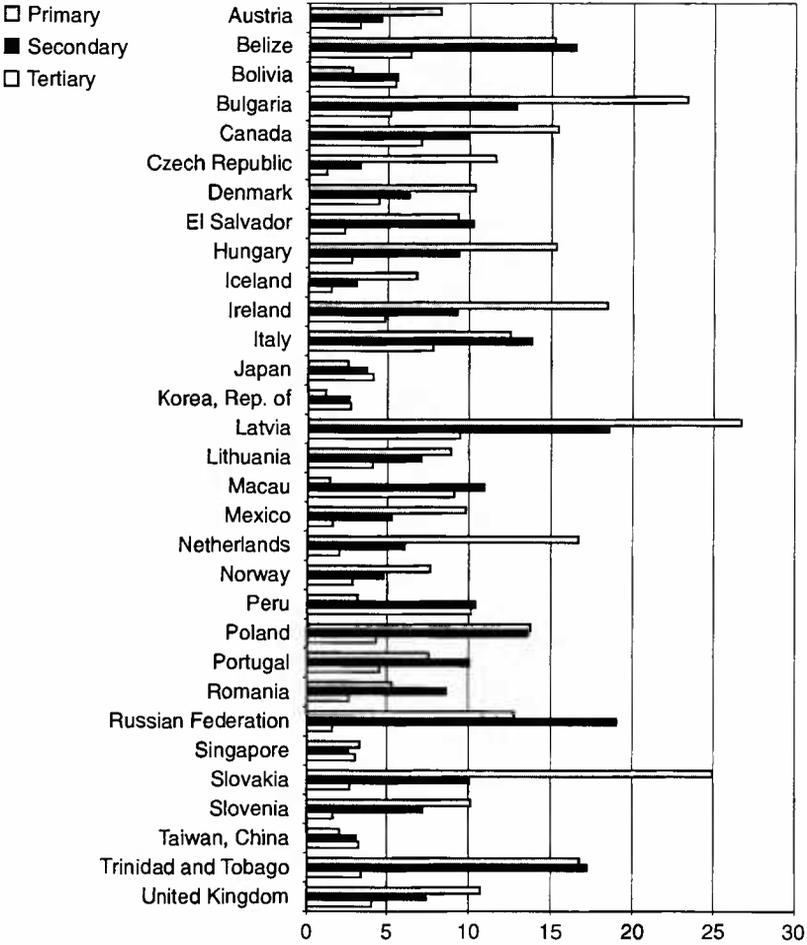
Figure 2.8 United Kingdom: Unemployment and labour force participation rates by age and disability, winter 1994–95



Source: Sly, Duxbury and Tillstey (1995), figs. 2 and 3.

**Youth unemployment and employment policy**

**Figure 2.9** Unemployment rates by level of education in selected countries, and territories, 1996 (percentages)



Source: ILO (1999a).

to this are the southern European countries, here represented by Italy and Portugal, and also Japan. Although Italy is a high youth unemployment country, both in absolute and relative terms, Portugal and, above all, Japan are not. However, one cannot attribute the high unemployment rates of those with secondary and tertiary levels of education solely to the high levels of youth unemployment, which give young people the incentive to stay on in education to avoid unemployment.<sup>14</sup> Nickell (1996b) has noted that, in the OECD countries, the difference between the unemployment rates of those

with low and those with higher levels of education has been widening over the past 20 years: the gap in the wage rates of unskilled workers compared with those of skilled workers has also been widening. Thus, both employment and wage prospects for unqualified and/or unskilled workers have been progressively deteriorating over the past 20 years, compared with the situation for skilled workers (Nickell, 1996a).

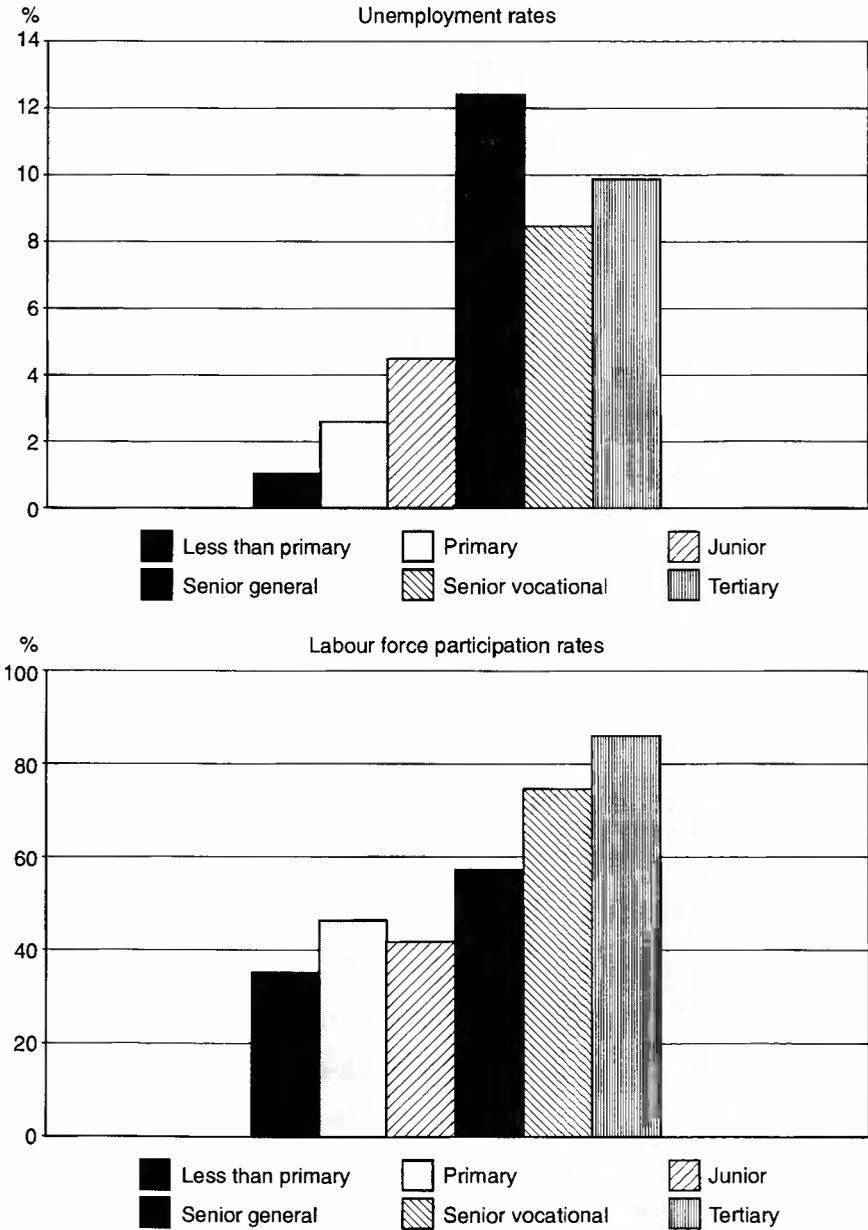
In the transition economies of Central and Eastern Europe, the pattern is, on the whole, similar. In the case of Poland, however, there is little difference in unemployment levels between those who have only completed primary and those who have completed secondary education. In part, this can be explained by the poor prospects of those young people in secondary vocational education, which reflects the fact that those entering vocational education have extremely low skills levels. Separate data on general secondary and vocational education convey a more conventional picture (Keune, 1998).

On the other hand, in developing countries, it is often claimed that youth unemployment is concentrated among the better educated, which figure 2.9 partially supports. However, while it is true that young people with higher levels of education often face higher unemployment rates, it has been argued that this "educated" unemployment hypothesis has been rather overstated. Gregory (1986), for example, has found no links between education and unemployment in Mexico. In countries in southern Africa, the unemployment rates of tertiary-level graduates are negligible compared with those with lower levels of education. In Namibia, for example, the unemployment rate of university graduates in 1997 was 3.4 per cent, compared with 39 per cent for those with only primary education (Ministry of Labour/Central Bureau of Statistics, 1998). Turnham (1993) has also found that the relationship is not as pronounced as has been suggested, although he agrees that it does exist, and that "where youth unemployment is high, the burden tends to be spread fairly evenly across educational groups" (*ibid.*, p. 64). He has noted that Hirschman's unemployment index (Hirschman, 1982), which includes discouraged workers among figures of the unemployed, produces the opposite conclusion when applied to Malaysian youth. Thus, in Malaysia the unemployment index for young males gives a rate of 29.8 per cent for the least educated against 21.7 per cent for the most educated, while the conventional unemployment rate for the two groups is 9.4 per cent and 14.8 per cent respectively (Turnham, 1993).

Even where it is true that high unemployment rates are concentrated among the highly educated, there are a number of reasons why the figures can be misleading. The Indonesian situation is a case in point. Figure 2.10 shows the unemployment and labour force participation rates by education level for the urban population as a whole in Indonesia. As can be seen, the unemployment rates are much higher for those with at least secondary education. However, three observations can be made. First, the labour force participation rate tends to increase the higher the level of education, implying that there is a

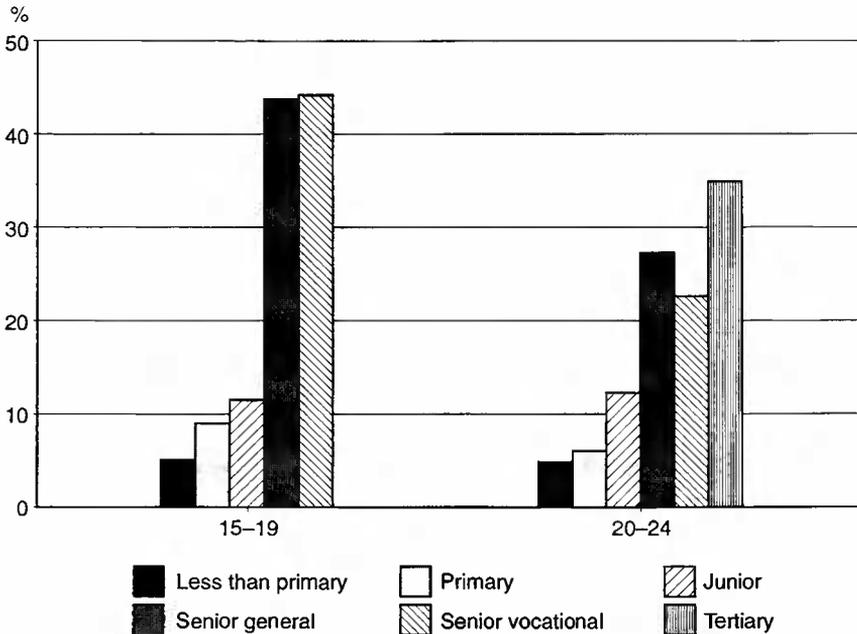
Youth unemployment and employment policy

Figure 2.10 Indonesia: Unemployment and labour force participation rates by level of education, 1993



Source: Central Bureau of Statistics: *Labour Force National Survey* (Jakarta, 1993).

Figure 2.11 Indonesia: Youth unemployment rates by level of education<sup>1</sup>, 1993



<sup>1</sup>No data for tertiary education are available for the younger age group as they will not have reached that educational level.

Source: Central Bureau of Statistics: Labour Force National Survey (Jakarta, 1993).

substantial problem of discouraged workers among the less well educated. This suggests that if a Hirschman-type index were applied, the picture would be significantly different.<sup>15</sup> Second, in common with many developing countries, educational levels in the population have been rapidly increasing in Indonesia over the past 20 years or so. Thus, young people are on average significantly better educated than their elders. This means that higher unemployment levels among the educated reflects higher unemployment among young people generally rather than among educated people as such. Finally, although unemployment rates are higher among the more educated, it should be borne in mind that this group is still numerically much smaller than those with little education. Those with secondary education still represent only one-quarter of Indonesia's population.

It is also worth looking at unemployment levels of educated young adults. Figure 2.11 plots unemployment rates by educational attainment levels for teenagers and young adults in Indonesia, showing that unemployment increases the higher the level of education. However, a comparison between teenagers and young adults shows that unemployment among those with higher levels of

education is reduced by almost half for the older age group. By contrast, unemployment rates among those with lower levels of education are only slightly less. This suggests that it is misleading to look at youth unemployment by education, since the figures reflect, in part, the amount of time spent in the labour market. In other words, since those with higher levels of education have completed their studies only recently, they have, therefore, had less time to find employment than those who left school at an earlier stage and have been on the labour market for a longer period. Even if it takes the same amount of time to find a job for both groups, those with higher levels of education are more likely to be unemployed simply because they have had less time to find work. Inferring from these figures that the real unemployment problem lies with being educated is quite wrong. It is surely more reasonable to suggest that the real problem lies with the hard-core unemployed who have been on the labour market for a substantial period of time without finding any work.

Manning and Junankar (1998) have examined data on youth unemployment in Indonesia and have found that, although the average length of job search is shorter for those with the lowest levels of education, the difference in duration is not particularly striking. In 1992, it took first-time jobseekers with less than primary education on average eight months to find work. Those with lower secondary education, as well as those with tertiary levels of education, spent nine months looking for work. Job search was longest for those with higher secondary education, at an average of ten months (Manning and Junankar, 1998, table 3, p. 70). They have also argued against the "luxury" hypothesis of unemployment, that is, that the educated come from more prosperous sectors of society and can, therefore, afford to be unemployed while waiting for a high-quality job. They have noted that, although it is true that the poorest groups in society have the lowest unemployment rates, those "from [relatively] less privileged socio-economic backgrounds are likely to find it as hard as, if not harder than, those from better-off families to break into the modern sector job market" (*ibid.*, p. 76).

All these factors suggest that associating the problem of unemployment with that of educated unemployment in developing countries is probably exaggerated. If we add to this the factors related to underemployment and poor-quality informal sector employment, then it is perhaps more reasonable to assume that the real problem lies in successfully integrating those with fewer skills and lower levels of education into employment.

## 2.3 CONCLUDING REMARKS

The arguments of this chapter can be summarized as follows. First, the degree to which younger workers can be substitutes for older workers (and vice versa) is extremely limited, which justifies examining the labour market for young people separately. Second, although youth unemployment rates are a somewhat limited indicator of the labour market entry problems of young people, they

do give some indication of the extent of the problem, either over a period of time or across countries, and can be considered the best indicator currently widely available. Third, and perhaps most important, unemployment is not evenly spread among young people. Just which groups are most at risk will vary according to differing circumstances, but there are certainly three groups of young people that seem repeatedly to be subject to a higher incidence of unemployment than others: those with low levels of educational attainment; the disabled; and ethnic minorities. The problems facing young women are less clear-cut, at least from an examination of unemployment rates, but strong arguments can be made for claiming that women also face additional difficulties in gaining access to high-quality employment. The underlying implication of section 2.2 was that efforts to combat youth unemployment should concentrate on those who face the greatest difficulty in accessing decent employment. In the following chapter, this idea is developed further in the discussion of the consequences of youth unemployment and the duration of time spent unemployed.

#### Notes

<sup>1</sup> The degree of younger/older worker substitution has been examined in some studies of the causes of youth unemployment, which are looked into in Chapter 3 (see, above all, Rice, 1986), as well as in some of the studies of the employment effects of minimum wages. As noted in the text, where substitution is found to exist, it is generally not very wide-ranging, while in the Rice study, young women were found to be complementary to, rather than substitutes for, their older adult counterparts.

<sup>2</sup> Particularly in the light of the information technology revolution and its implications for new work skills, such an analysis might include looking at whether or not employers actually do perceive young people as poor substitutes for older workers.

<sup>3</sup> Thus, for example, if the retiring employee had been employed under an open-ended contract, the new employee had also to be employed under the same kind of contract.

<sup>4</sup> This is the so-called strict definition of unemployment. The broad definition employed in many developing countries omits the condition that the unemployed be *actively seeking work*.

<sup>5</sup> The non-employment rate is defined here as:

$$\frac{U + N}{U + N + E}$$

where  $U$  = number of unemployed;  $N$  = number of those not in employment, unemployment (as strictly defined) or education; and  $E$  = number of employed.

[The term non-employment, as opposed to broad unemployment, is used because strictly speaking there is no "availability for work" criterion applied in this case. In practice, for young people at least, these two groups are likely to be very similar.]

<sup>6</sup> The trend among women is the opposite. Here, however, one should add to the lack of attractive labour market opportunities the autonomous rise of young women's labour market and educational participation levels. Again, further investigation into the causes of such phenomena are needed.

<sup>7</sup> This is, of course, not always the case. In South Africa, for example, the overall unemployment rate in 1997 in "non-urban" areas was 26.8 per cent, compared with 21.5 per cent in urban areas.

<sup>8</sup> Many developing countries are now changing over to the strict ILO definition. This is the case in South Africa, where the strict ILO definition is now the basis for the official statistics.

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However, the broadly defined unemployment rate is still reported, in order to allow some comparison over time.

<sup>9</sup> The ILO is preparing proposals for an internationally accepted definition of visible underemployment. The most recent proposal submitted to the Meeting of Experts on Labour Statistics, held in Geneva in October 1997, defines the visibly underemployed as persons who, during the short reference period: (a) worked less than the normal duration of work; (b) were willing to take additional employment; and, (c) were available to take additional employment (ILO, 1997). This is the basic criteria used in the Labour Force Survey of the United Republic of Tanzania, with the normal duration of work being 40 hours per week.

<sup>10</sup> As noted below, this is certainly true of underemployment. Rates of underemployment are highest among the illiterate, as might be expected. In the case of the United Republic of Tanzania, the underemployment rate in urban areas for those with no education was 9.7 per cent as opposed to a rate of 1.6 per cent for those who had completed at least secondary education.

<sup>11</sup> Indeed, in the United Republic of Tanzania, the unemployed have a higher literacy rate in both urban and rural areas than the employed.

<sup>12</sup> In India, labour market categories are classified according to "usual", "weekly" or "daily" status. As might be expected, unemployment tends to increase as people move from "usual" to "daily" status. Here, weekly status is used, as this conforms most closely to the standard ILO definition of unemployment.

<sup>13</sup> This figure is based on unemployment rates by educational level for people of all ages. The reasons for this are twofold. First, outside the OECD countries, comparative data broken down by age are not easily available. Second, and more important, looking at unemployment rates by education for young people would give a misleading impression, because those with higher levels of education would have entered the labour market more recently. How this may affect the data is shown below in the examination of Indonesia. Perhaps the ideal group would be 25–29 (as in the data reported in OECD, 1999, for example) or 25–34, although even here in some countries a substantial proportion of this age group is still in tertiary education.

<sup>14</sup> The basic argument underlying this suggestion is that high youth unemployment reduces the opportunity cost of staying on in education, which may encourage young people to remain longer in full-time education. To look at this question properly, though, one needs a rather more sophisticated analysis than the one offered here. Empirical findings (and indeed theoretical reasoning) on this question have not produced an unequivocal answer. See, for example, Micklewright et al. (1990) or O'Higgins (1992) for the United Kingdom. Certainly the question could be examined from a cross-country perspective.

<sup>15</sup> The lower participation rates are not accounted for solely by women opting to remain at home. Although, unsurprisingly, labour force participation rates are lower for women than for men, for both sexes the participation rate increases with level of education.

# THE CAUSES AND CONSEQUENCES OF YOUTH UNEMPLOYMENT

# 3

## 3.1 THE CAUSES

The causes of youth unemployment can be analysed at different levels and considered in terms of the following three questions:

1. What are the main determinants of fluctuations in youth unemployment?
2. Why do youth unemployment rates vary more – in absolute terms – than adult rates in response to changes in economic conditions?
3. For individuals, which characteristics increase or reduce the chances of finding employment?

The first two questions relate to the characteristics of youth labour markets and young people as a whole, while the third focuses on the behavioural and personal attributes of individuals that affect their chances of finding work. The latter was the subject of section 2.2 above, while the first two are considered together here.

*What are the main determinants of fluctuations in youth unemployment and why do they vary more than adult rates?*

Any examination of the causes of youth unemployment basically boils down to a discussion of the relative importance of three factors:

- Aggregate demand
- Youth wages
- Size of the youth labour force

The intuitive arguments underlying the role of these three factors are self-evident, but one needs to determine their relative importance. One of these arguments is that youth unemployment might be *caused* by an insufficient supply of skills on the part of the young. However, if this were the case, then the United Kingdom, where young people have lower skills levels than most other young European nationals, would have higher youth unemployment rates than, say,

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France, which is not the case. Keep and Mayhew (1995) have argued convincingly that skills levels determine the type of equilibrium (low-skill/low-wage or high-skill/high-wage) that is reached, rather than the aggregate level of youth unemployment (or indeed the economic performance of the country). A similar point has been made by Meade (1995, p. xvii):

The great majority of politicians and other interested persons tend to . . . concentrate on . . . measures such as education and training of labour and investment in modern efficient capital equipment. . . . These reforms are of extreme importance but *they are concerned basically with raising the output per head of those who are in employment rather than about the number of heads that will find suitable employment.*

However, the skills level of an individual does affect that person's *relative* employment prospects. Skills also contribute to determining the quality of work, above all through their impact on wages. In the long run, however, skills levels can play a role in the growth potential of output and, therefore, indirectly in the growth of employment, that is, they can influence youth employment through their effects on economic growth. The literature on the influence of education on economic growth has rapidly expanded in the past two decades, and "new" growth theory now constitutes a new branch of economic research. Behrman (1993) discusses some of the issues related to this debate.<sup>1</sup>

Furthermore, a highly developed education and training system can lead to a reduction in the relative level of youth unemployment simply by taking young people out of the labour force, so that they no longer compete with older workers for jobs. This is discussed in Chapter 7.

## Aggregate demand

Aggregate demand affects youth unemployment in the same way that it affects the overall level of unemployment. A fall in aggregate demand will lead to a fall in the demand for labour in general, and consequently for young labour as well as for adult workers. This is a fairly uncontroversial and self-evident (albeit important) statement. Perhaps of more relevance is the fact that youth unemployment rates are typically substantially higher and more cyclically variable than adult rates.

So rather than ask whether aggregate demand influences youth unemployment, to which the reply is an unequivocal "yes", a more interesting and relevant question is: Why do fluctuations in aggregate demand affect young people disproportionately?

There are a number of reasons why one might expect youth unemployment to be more sensitive than adult unemployment to changes in aggregate demand. On the supply side, it is often argued that young people are more likely than older workers to leave their jobs voluntarily. Their initial experiences in the labour market often involve a certain amount of "shopping around", in so

far as circumstances permit, to find an appropriate occupation. The opportunity cost of doing so is lower for young people; they tend to have fewer skills and lower wages, and are less likely to "need" a job to support a family. Blanchflower and Freeman (1996) have reported that, in the United States, young people between the ages of 16 and 25 typically go through seven or eight different jobs successively, although young people in other countries display rather less job mobility. If resignations are less cyclically sensitive than job availability, one consequence will be that when job opportunities become scarce, unemployment will rise more among those groups with a higher likelihood of resigning from their jobs. While resignations also tend to fall during a recession, Moser (1986) has shown that, in the United States at least, these fall off markedly with age and are less cyclically volatile than dismissals by firms. More recently, Mitani (1999) has noted that, even during the Asian crisis of 1998, voluntary quits still constituted 75 per cent of job terminations for young people in Japan. The implications are that young people: (a) are more likely to leave their jobs than adults; (b) will continue to do so, albeit to a lesser extent, during a recession; and (c) will, therefore, be disproportionately affected by recession-induced reductions in new openings.

Although this goes some way towards explaining the sensitivity of youth unemployment, there is little doubt that it is demand-side considerations that are of more consequence. Simply, it is cheaper for firms to fire young people than older workers. Having fewer skills, young people embody lower levels of investment by firms in training and consequently involve a smaller loss to firms making them redundant. Furthermore, they are less likely to be subject to employment protection legislation. Almost invariably, such legislation requires a qualifying period before it can be invoked, and compensation for redundancy typically increases with tenure. So, for this reason too, the more recently engaged employees will be cheaper to dismiss. And this will obviously affect young people disproportionately.

Research has shown that the first reaction of firms to a recession is to stop recruitment before starting on the more expensive procedure of redundancies. It is evident that young people will comprise a disproportionate segment of job-seekers and thus will be more heavily affected by a freeze in recruitment. Pissarides (1986), for example, has demonstrated that, at the aggregate level, the rise in unemployment in the United Kingdom in the late 1970s and 1980s was essentially attributable to a reduction in the outflow from unemployment, rather than because of any change in the inflow, which varied to a much smaller degree.<sup>2</sup> More recently, looking at the duration of unemployment, O'Higgins (1995c, pp. 27–28) has demonstrated that this continues to be true for both older and younger age groups. Variations in unemployment reflect increasing unemployment duration, and therefore a fall in the outflow rate, rather than a marked increase in new entrants to unemployment.<sup>3</sup> Indeed, for the under-18s, the progressive reduction in unemployment witnessed from 1983 onwards has been accompanied by a sustained rise in the number of

## Youth unemployment and employment policy

young people newly unemployed. In other words, falling unemployment has been accompanied by an *increase* in the number of people newly registered as unemployed.

In Central and Eastern Europe, the massive contraction of output that accompanied economic transformation has had similar, but more extreme, consequences. In Hungary, for example, persistently high levels of unemployment have been largely associated with a low outflow from unemployment. Between 1992 and 1994, average monthly outflows were less than 5 per cent of the unemployed. Although this increased to 8.6 per cent in 1995, the figure is still very low, the implications being that unemployment duration increased and that young people are disproportionately affected by the lack of new job openings.

In many developing countries the structural adjustment programmes of the 1980s and 1990s led to a substantial downsizing in employment in the public sector and brought about a squeeze on new employment opportunities in the formal sector, the effects of which added to the retrenchment of existing employees.

For all these reasons it is not particularly surprising to find that young people's unemployment rates are higher than those of adults and that they are more cyclically sensitive than their older counterparts.

## Wages

The arguments related to wages also have an obvious intuitive appeal. Wages are likely to have a negative impact on youth employment inasmuch as the higher the relative wages of young workers with respect to those of adults, the more incentives there are to employ adults as opposed to young people. However, this argument relies on the assumption that young workers are close substitutes for their adult counterparts. In many cases, this may not be true, particularly as regards skilled adult workers. If young people and adults are complementary in the workplace, reflecting different skills requirements, the wages of young people with respect to adults should have no influence. In such a scenario, both youth wages and adult wages with respect to other input costs will have a negative effect.

## Wages versus aggregate demand

Much of the debate in Europe over the appropriate policy responses to youth unemployment was, at least initially, conducted in terms of the relative importance of the youth/adult wage ratio and aggregate demand. The debate has now moved on to discussions of the consequences for youth unemployment of a minimum wage.

The first half of the 1980s saw a plethora of studies, which can be differentiated according to their underlying assumptions concerning market clearing,

analysing the issue in the United Kingdom. The simplest approach taken was based on the assumption, either implicitly or explicitly, that labour markets cleared. Examples of this approach have been provided by Makeham (1980) and Lynch and Richardson (1982). In their analyses, supply and demand considerations have been entered into an unemployment equation. Employing this methodology, Makeham found an important role for aggregate demand but none for relative wages. On the other hand, Lynch and Richardson found that the influence of relative wages in the case of young males depends on the variable employed to capture aggregate demand, that is to say, they found a statistically significant effect of the relative wages of young males when they included vacancies as their demand index. However, the significance of the wage variable collapsed when they used adult unemployment rates to capture demand. For young females, they found a statistically significant influence of relative wages in both cases.

While one might quibble with the definition of particular variables in these studies, the principal objection concerns the market-clearing assumption. Indeed, studies that explicitly consider the possibility of non-clearing markets have found the hypothesis to be supported, both at an aggregate level and when the labour market is subdivided by age (Andrews, 1983; Andrews and Nickell, 1986; and Rice, 1986).

Layard (1982), implicitly, and Hutchinson, Barr and Drobny (1984), explicitly, have incorporated the assumption of excess supply in the youth labour market. Consequently, both their studies estimated demand for labour equations. Apart from the omnipresent influence of aggregate demand factors, Layard found that a certain amount of substitution does occur. The results of Hutchinson et al. also suggest that an element of substitution as well as complementarity exists. Using an employment function approach, they estimated a partial adjustment labour demand equation and found that while young males can sometimes be substituted for adult females, young and adult males are complementary.

Although this analysis represents an improvement on the rather ad hoc approach adopted by, for example, Lynch and Richardson, the assumption of excess supply over the entire period of analysis (1949–69 for Layard, 1952–72 for Hutchinson et al.) is problematic. Indeed, many specialists would argue that this period was more often characterized by excess demand. If true, this implies that an error in specification was made and the authors observed points on a supply rather than on a demand curve.

In a much publicized piece of work on male and female youth unemployment, Wells (1983) allowed for periods of both excess supply and excess demand. On the basis of a priori assumptions on the date of the switch from excess demand to excess supply, Wells estimated labour supply equations during periods of excess demand (1953–69 for males, 1953–71 for females) and labour demand equations for the succeeding period (until 1981), and found an important role for both aggregate demand and relative labour costs

for both females and males in explaining the period of excess supply. However, there are a number of problems with his analysis as regards the definition and interpolation of crucial explanatory variables. Also, although he tested his model against a continuous market clearing model in which both labour supply and demand curves were identified, he did not consider the possibility of switching from excess demand to supply at any time. Later, Junankar and Neale (1985) carried out various tests of specification, stability and robustness using Wells' data, and believe that Wells' model was poorly specified and his results far from robust, breaking down completely when the more reliable New Earnings Survey (NES) data were employed in place of the October (Earnings) Enquiry data that Wells used.<sup>4</sup>

A more satisfactory approach to the estimation of non-market clearing regimes has been undertaken by Rice (1986), who estimated a model that: (a) did not impose a priori assumptions on the timing of the switch from one regime to another (to determine this, she used the maximum likelihood procedure suggested by Maddala and Nelson, 1974); and (b) was based on rigorous theoretical considerations. Rice estimated unemployment equations for young males and females separately, allowing for a distinction between apparent and effective supply of labour, that is to say, a distinction between voluntary and involuntary unemployment. The study once again found that aggregate demand plays an important role in determining the level of unemployment. Beyond this, her results indicate that young men can be substitutes for both adult males and adult females. On the other hand, young women can be substitutes for adult males but young and adult women are complementary. These results, although based on a more satisfactory model, are counter-intuitive inasmuch as one would expect to find much more substitution possibilities between young people (both male and female) and adult females, with (perhaps) young and adult males being seen as complementary, at least in occupations with higher than average skills levels, that is, one would expect complementarity between skilled and unskilled workers. Since adult males have, on average, higher skills levels than adult females, one would tend to expect complementarity between adult males and young people, with younger workers being substituted for adult females.

The analysis undertaken by Rice marks an improvement on earlier attempts to find a model to estimate youth unemployment, but a number of problems remain. She did not, for example, allow for the possibility of sectoral shifts which, independently of aggregate demand and relative wage factors, may alter the structure of labour demand, particularly with the decline of manufacturing and the expansion of service industries. She also ignored the possibility of capital-labour substitution.<sup>5</sup>

Thus, in all the studies considered here aggregate demand was found to play an important role in determining the level of youth unemployment, but the findings on the effects of relative wages were more mixed. The results partly reflect differences in the modelling procedure and problems with wage data.

However, the fact remains that the earlier studies, taken as a whole, established a clear and strong link between youth unemployment and aggregate demand, but failed to find an unequivocal link between the level of youth relative wages and youth unemployment.

More recently, Blanchflower and Freeman (1996) have noted that the almost universal fall in the relative wages of young workers observed in the OECD countries during the 1990s, despite being accompanied by a sharp reduction in the relative size of the youth cohort, did not lead to any increase in youth employment rates, which also fell over the period.

### Size of the youth labour force

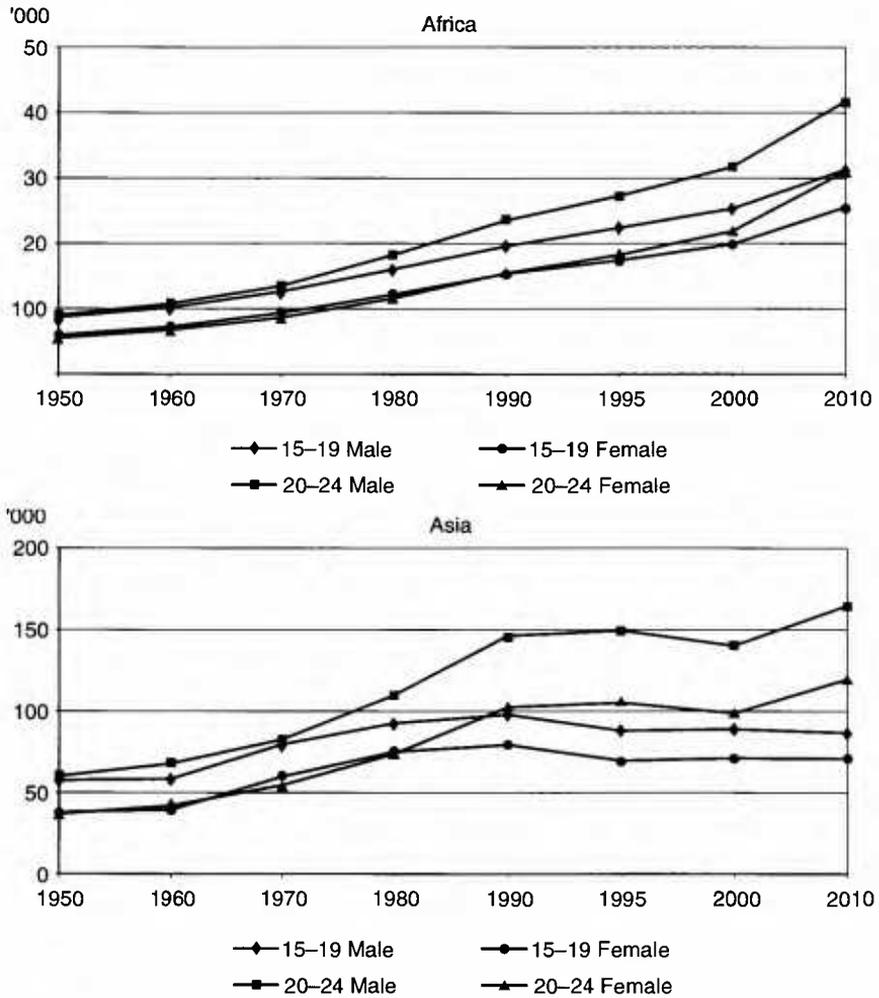
The third major contributory factor to youth unemployment is the size of the youth cohort. Recently, much concern has been expressed about the negative consequences of rapidly growing youth populations in developing countries.<sup>6</sup> Figure 3.1 plots the estimated and projected youth labour force until 2010, and shows that, while the number of young people in the labour force is likely to decline in industrialized countries, youth populations are likely to increase in less developed areas. The growth rate may even accelerate slightly in Africa.

Obviously, the more young people there are in the labour market, the more jobs will be needed to accommodate them. So does the actual size of the youth population have any bearing on youth unemployment? It is important to establish whether this is the case or not, because the future size of the youth population is much easier to predict than future economic conditions. Recently, Korenman and Neumark (1997) looked into this matter for 15 OECD countries, and estimated that the elasticity of youth unemployment with respect to the *relative* cohort size is of the order of 0.5, that is to say, an increase in the relative size of the youth population by 10 per cent would raise youth unemployment by around 5 per cent.<sup>7</sup> By contrast, the elasticity of the youth unemployment rate with respect to adult unemployment rate is of the order of 0.7. In other words, although the size of the youth cohort does have significant implications for the youth unemployment rate, aggregate labour market conditions have a greater influence.<sup>8</sup>

When they considered men and women separately, Korenman and Newman found substantial differences by sex. For young men, the relative cohort size has no significant effect, although the elasticity with respect to adult unemployment is of the order of 0.8. For young women, the cohort size is of substantial importance, with an elasticity of 0.9, which compares with an adult unemployment elasticity of 0.6. This might be explained by the fact that, while the labour force participation rates of young men are more sensitive to economic conditions in terms of wages and employment prospects (both of which are likely to be adversely affected by increases in the relative cohort size), there is a general trend towards increased labour force participation on the part of young women, which may reduce the negative influences on labour force

Youth unemployment and employment policy

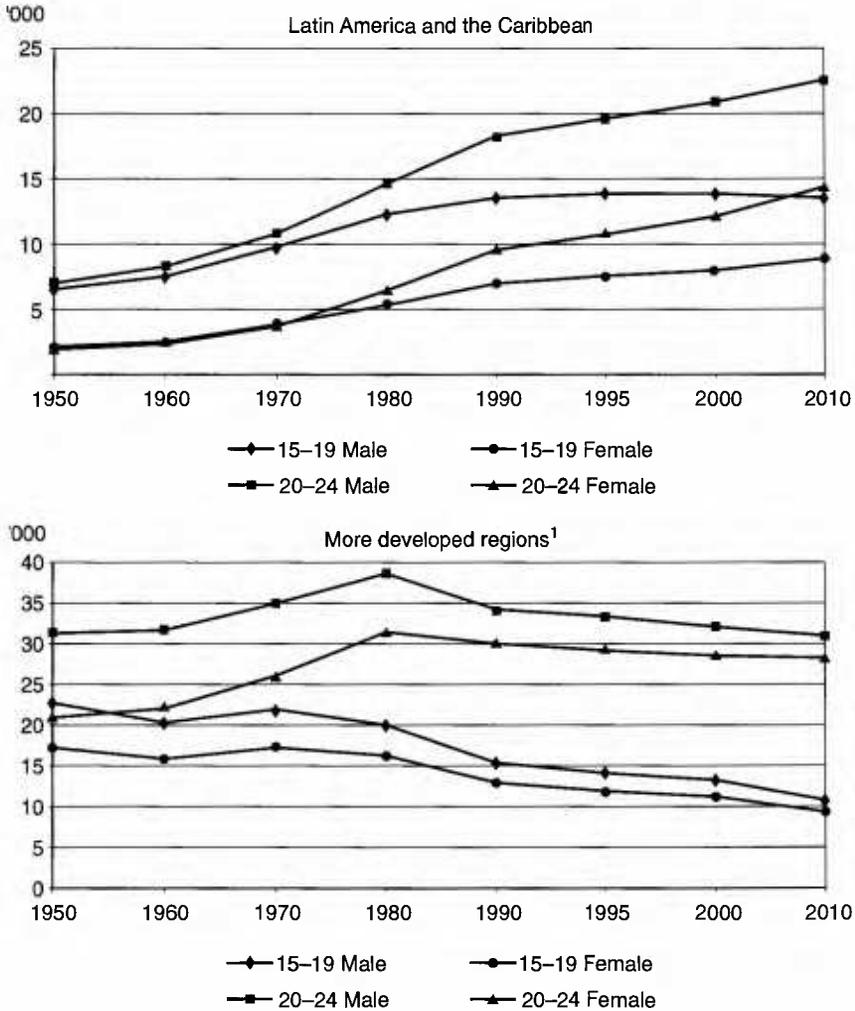
Figure 3.1 Youth labour force by region, 1950–2010 (in thousands)



participation of adverse conditions in the labour market. Another contributory factor may be that the increasingly effective implementation of equality of treatment laws has improved the working conditions and, in particular, the wages of women, and helped offset the negative impact of cohort size on wages.

Table 3.1 shows the results of estimating a model separately for teenagers and young adults, as well as for males and females. The results are broadly similar to those reported by Korenman and Neumark, except that the relative importance of adult unemployment rates appears to be greater in this table.<sup>9</sup>

Figure 3.1 (Continued)



<sup>1</sup>The more developed regions comprise Australia, Europe, Japan, New Zealand and northern America. Source: ILO: *Economically Active Population, 1950-2010* (Geneva, Bureau of Statistics, 1996).

In addition, an important distinction emerges between teenagers and young adults. The relative size of the youth cohort appears to be significant for teenagers, particularly teenage girls, but does not affect the unemployment rates of young adults. Adult unemployment rates are more important than cohort size in both cases, but there is a larger difference between the effects for young adults than teenagers.

## Youth unemployment and employment policy

**Table 3.1** Elasticity of youth unemployment rates with respect to the adult unemployment rate and the youth/adult population ratio, with country and time-fixed effects (t-ratios in parentheses)

	Males 15–19	Females 15–19	Males 20–24	Females 20–24
Adult unemployment	<b>0.73</b> (29.6)	<b>0.73</b> (21.1)	<b>0.91</b> (42.1)	<b>0.82</b> (34.2)
Youth/adult population ratio	<b>0.48</b> (5.0)	<b>0.57</b> (4.3)	0.07 (0.8)	-0.05 (-0.5)
<i>n</i>	344	344	344	344
<i>R</i> <sup>2</sup>	0.94	0.91	0.96	0.95

<sup>1</sup> Coefficients that were statistically significant at 5 per cent are reported in bold letters. <sup>2</sup> The countries included are: Australia (1970–95), Canada (1970–95), Finland (1970–95), France (1970–95), Germany (1970–95), Ireland (1971–95), Italy (1970–95), Japan (1970–95), Netherlands (1971–95), New Zealand (1986–95), Norway (1972–95), Portugal (1974–95), Spain (1972–95), Sweden (1970–95), the United Kingdom (1987–95) and the United States (1970–95). Estimates include country-fixed effects.

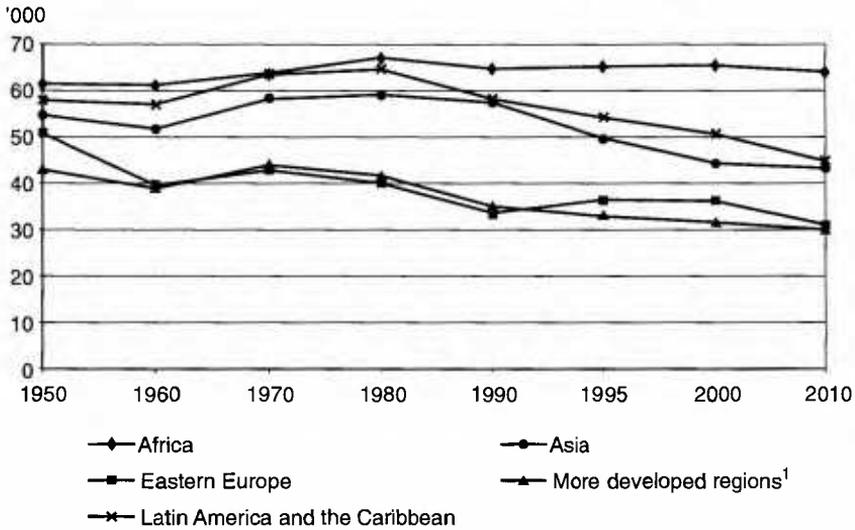
Sources: OECD: *Labour Force Statistics 1970–90 and 1975–95* (Paris, 1992; 1996).

To the extent that these results can be extended to developing countries, the figures are encouraging. First, although the actual size of the youth population in many developing countries, particularly in sub-Saharan Africa, was still expected to increase at the end of the twentieth century, its relative size is likely to fall during 2000–10 (figure 3.2), apart from in Africa. Even in this continent, the youth/adult population ratio is expected to remain more or less constant. If one accepts the estimate of Korenman and Neumark, then this reduction in relative size will *reduce* the level of youth unemployment, thereby enhancing any effects of increased growth.

Taking into account the strong link between youth and adult unemployment rates and placing youth unemployment in the context of the general problem of generating enough jobs to accommodate growing populations, the prospects do not look too bleak. Table 3.2 shows the average annual growth rates of the labour force from 1990 to 2010 for developing regions. In Asia and Latin America and the Caribbean the rate of growth of the labour force is slowing down. This implies that the problem is not insoluble if action is taken to increase the rate of growth and improve the employment content of growth, even in Africa, where the growth rate is both highest and expected to remain constant. Thus, if the employment elasticity of growth is, for example, 0.5, then these countries will require economic growth in the region of 6 per cent per annum to absorb the growing labour force. Given that the average rate of economic growth in sub-Saharan Africa in 1996–97 was 4.2 per cent per annum, this is not an impossible task. Alternatively, if this rate of growth were maintained, the employment elasticity required to absorb the growing labour force would be around 0.7, which again is not a completely unrealistic target. Efforts need

The causes and consequences of youth unemployment

Figure 3.2 Youth/adult population ratio by region, 1950–2010 (in thousands)



<sup>1</sup> See note 1 to figure 3.1.

Source: ILO *Economically Active Population, 1950–2010* (Geneva, Bureau of Statistics, 1996).

Table 3.2 Annual average growth rates of the labour force in developing regions, 1990–2010

	Annual average percentage growth rate		
	1990–95	1995–2000	2000–10
Africa	2.9	2.9	2.9
Asia	1.9	1.7	1.6
Latin America and the Caribbean	2.5	2.3	2

Source: ILO: *Economically Active Population, 1950–2010* (Geneva, Bureau of Statistics, 1996).

to be concentrated on improving growth performance where it lags behind and on raising the employment elasticity of growth, thus increasing the employment content of gains in economic welfare.

From the preceding discussion, it is clear is that:

- there is no strong evidence that youth unemployment rates are closely linked to youth/adult relative wage rates. This suggests that reducing the relative wages of young people is unlikely to have any substantial effect on youth unemployment; and

- while the relative size of the labour force does play a role in the level of youth unemployment, this role is outweighed by the effects of aggregate demand.

### 3.2 DOES IT MATTER? THE CONSEQUENCES

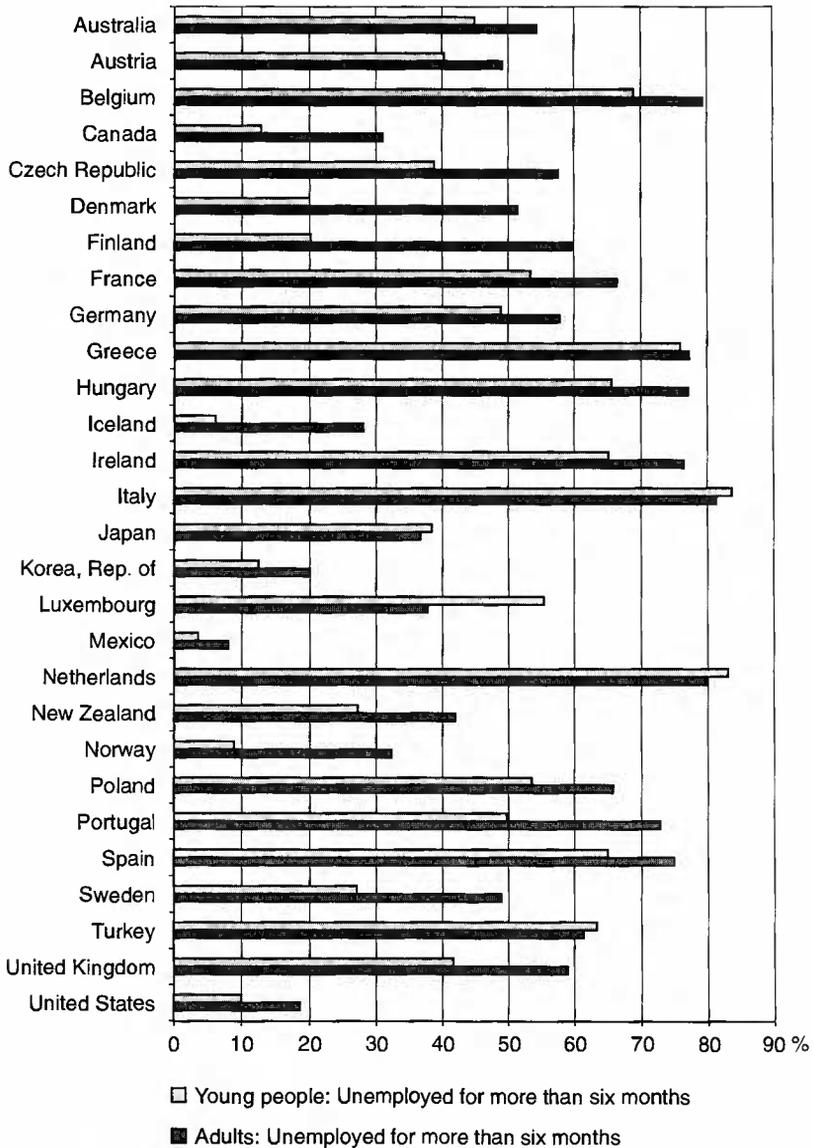
It has been argued that, although young people generally face higher unemployment rates than their older counterparts, the consequences of such joblessness are likely to be less serious for this group than for adults, particularly older adults. The central point underlying such arguments is unemployment duration. While young people are more likely than adults to become unemployed, some authors maintain that this is a natural part of the initial job search process, and that the length of time they remain unemployed is generally much shorter than for adults in the same position. The second component of the argument is that the negative consequences of unemployment increase as the duration of unemployment grows. Material hardship and physiological and psychological damage resulting from unemployment are all likely to increase rapidly the longer a person remains unemployed (Fagin and Little, 1984; Smith, 1987). This second component is plausible and supported by research; the first element – the assertion that young people face much shorter periods of unemployment – is more open to debate.

Figure 3.3 illustrates the proportion of the unemployed in long-term unemployment (more than six months) for young people and adults in selected OECD countries. Long-term unemployment rates are usually lower for young people than for adults, but in many countries the difference between young people and adults is not particularly large. In Italy, Japan, Luxembourg, the Netherlands and Turkey, the proportion of those who have been unemployed for more than six months is higher for young people than for adults. On average<sup>10</sup> in the OECD countries, 42 per cent of young people and 54 per cent of adults who are unemployed have been without work for more than six months. In other words, a little more than four in ten young unemployed people and five in ten unemployed adults are in long-term unemployment – not such a marked difference. Certainly, the difference in long-term unemployment rates between countries is far more striking than the difference between age groups, which seems to vary roughly in line with youth unemployment rates.<sup>11</sup> Thus, the argument that the duration that young people are unemployed is *much* shorter than that of adults does not appear to be strongly founded on fact.

Even if the duration of unemployment were on average a little shorter for young people than for adults, there is still a strong case to be made for paying particular attention to young people. First, the figure refers to young people as a whole; the picture changes for subgroups of young people with particular difficulties. It is reasonable to suggest that the average duration of unemployment for disadvantaged groups is likely to be significantly longer than for young people as a whole. Some empirical support for this is provided by OECD (1999, table 20.) In Germany and the United States, in the five years

The causes and consequences of youth unemployment

Figure 3.3 Proportion of the unemployed (young people and adults) in long-term unemployment in the OECD countries, 1997



Note: For Germany data are for 1996.

Source: OECD Labour Force Statistics database.

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after leaving full-time education, long-term unemployment is much more widespread among those with lower levels of educational attainment and particularly among those with less than upper-secondary qualifications.

Second, it is possible that periods of unemployment early in a person's "working" life could permanently impair an individual's productive potential and, therefore, long-term employment prospects. People are generally more flexible and thus easier to train when they are young, and patterns of behaviour established early in life tend to persist. Thus, while high aggregate levels of youth unemployment may be a (relatively) temporary phenomenon, falling naturally with an increase in national economic activity, the consequences for specific individuals facing sustained periods of unemployment are decidedly not. They may suffer permanent damage to their employment and income prospects. Narendranathan and Elias (1993) have, for example, found that the odds of young people who were unemployed in the previous year becoming unemployed in the current year were more than twice those of young people who had not previously been unemployed. The OECD (1999, table 17) has also found that unemployment in the first year after leaving full-time education is strongly associated with a lower employment rate over the following three to six years for several OECD countries. Furthermore, the link is stronger at lower levels of education. Youth unemployment is also associated with drug abuse and crime – patterns of behaviour that tend to be persistent and that have high social as well as individual costs.

### 3.3 THE IMPLICATIONS

The principal implications of the preceding discussion are:

- Since youth unemployment is above all a consequence of inadequate aggregate demand, attention needs to be paid to both the demand and the supply side of the youth labour market. Emphasis must be placed on creating sufficient growth and improving the employment content of growth.
- While rapid growth in young populations is a serious challenge, particularly in the developing world, the need for more jobs could realistically be met by strong and sustained economic growth accompanied by action at the micro level to integrate young people into employment. In industrialized countries, where youth populations are expected to fall, the effect of demographic change is likely to reinforce policies to reduce youth unemployment.
- The consequences of youth unemployment are a cause for concern, as they are serious and persistent. Furthermore, a case could be made for assisting groups of young people who face particular difficulties in obtaining employment. Both the incidence and the duration of unemployment tends to be concentrated among certain groups of young people. The implication, developed in the following chapter, is that, in many countries, more attention should be paid to redressing the imbalance in job opportunities available to disadvantaged young people in the labour market.

Notes

<sup>1</sup> Krueger and Lindahl (2000) have tried to reconcile the prevalent findings of the micro and macro literature. On the one hand, micro studies have shown a strong link between schooling and income; on the other, macro studies have failed to find a similar relationship between educational attainment and economic growth across countries. They attribute this largely to measurement error in cross-country education data, and, on removing this source of error, did find a link between educational attainment and income growth across countries. Their paper is also a good source of references to the main contributions on this issue.

<sup>2</sup> Variations in the level of unemployment can be broken down into variations in the inflow to, and outflow from, unemployment. Thus:

$$U_t = I_t - O_t + U_{t-1}$$

where  $U_t$  and  $U_{t-1}$  represent the levels of unemployment at time  $t$  and time  $t - 1$  respectively;  $I_t$  is the inflow into unemployment between time  $t - 1$  and time  $t$ ; and  $O_t$  is the corresponding outflow from employment. Variations in unemployment can be attributed to variations in either or both of the inflow and outflow rates. The principal source of inflows (at least for adults) is workers being made redundant, while the principal destination of those leaving unemployment is a job (see, for example, Clark and Summers, 1982).

<sup>3</sup> If variations in unemployment are due mainly to a fall in the outflow from unemployment, this will be reflected in an increase in the average duration of unemployment spells. That is, if the inflow rate remains (more or less) constant, the number of people in unemployment for a short period will also remain more or less constant, whereas, with the fall in the outflow from unemployment, the average time it takes to find a job, and, therefore, the average duration of unemployment spells, will rise.

<sup>4</sup> All the studies considered here, apart from that undertaken by Junankar and Neale, used the October Inquiry data.

<sup>5</sup> Finally, as with the Wells (1983) study, wage data are taken from the October Inquiry. Although similar tests of the robustness of Rice's findings using NES data have not been undertaken, the use of the less reliable source does cast some doubt on the results.

<sup>6</sup> See, for example, Jones (1997) on the growth of the youth population in Asia.

<sup>7</sup> This 5 per cent increase is relative to the existing youth unemployment rate and does not refer to the percentage point increase. For example, if the youth unemployment rate is 20 per cent, a 10 per cent increase in the youth population will raise the rate by 1 percentage point to 21 per cent or, in other words, by one-twentieth of the existing rate.

<sup>8</sup> Both in the Korenman and Neumark (1997) specification and in the results reported below, the variable employed is the youth/adult population ratio rather than the relative size of the youth labour force. This is because labour force participation is likely to depend on conditions in the labour market, that is, the relative size of the youth labour force will be endogenous.

<sup>9</sup> Although not as regards the results for males and females. This may depend in part on the different countries analysed but also on the correlation between the youth cohort size and the relative wage rates.

<sup>10</sup> That is, the unweighted arithmetic mean.

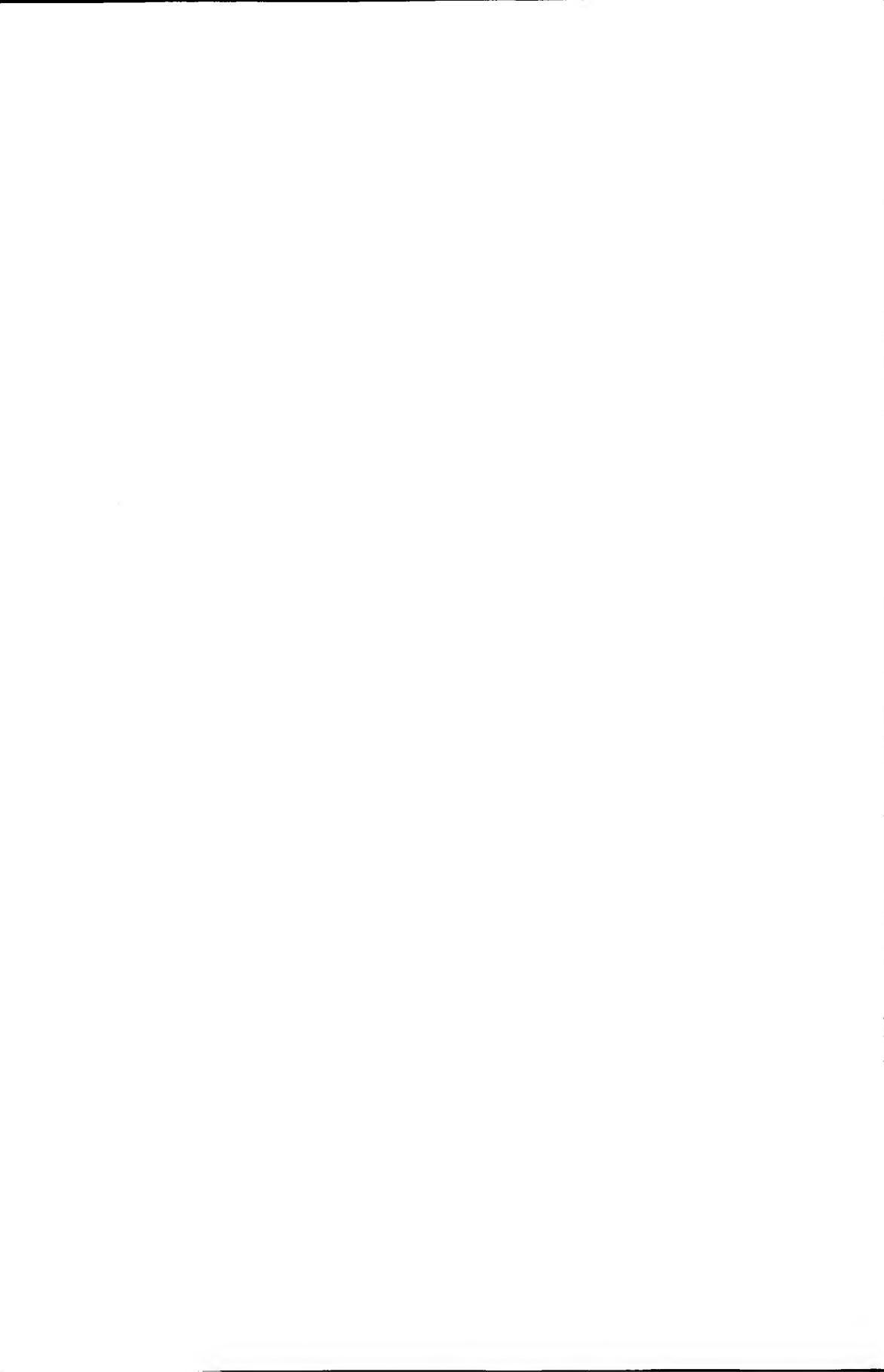
<sup>11</sup> One exception to this is Germany. This suggests that while Germany, with its relatively low youth unemployment rates, has been comparatively successful in integrating young people into work, those who are initially not successful may face severe difficulties in finding employment.



PART II

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POLICY



Part II looks at the different ways that countries respond to the youth unemployment problem, and, more generally, at the factors that influence, intentionally or not, the integration of young people into productive employment.

### 4.1 COORDINATION AND LINKAGES

A running theme throughout the discussion in this study is the interdependence of the various measures for tackling youth unemployment. A package of policies and programmes needs to be designed in such a way that they complement rather than compete with each other. This interdependence is perhaps most obvious in the fields of education and training on the one hand and ALMP on the other. For young people, ALMP usually means some form of education or training programme, so the two cannot be divorced from each other. The type of ALMP that is appropriate will largely depend on the type of education and training system in place. Thus, for example, in Germany almost all young people up to the age of 18 are involved in some form of education or training.<sup>1</sup> In this context, ALMP is limited to aiding the relatively small number of young people who drop out of the country's apprenticeship system.

It is also important that this interdependence is recognized. In many countries, the roles of different ministries responsible for various aspects of youth affairs are often quite distinct, with little or no communication or interaction taking place between them. The development of the YTS and the Technical and Vocational Education Initiative (TVEI) in the United Kingdom in the 1980s is a case in point. The YTS was a labour-market-based programme providing subsidized employment and training for young people who had left school, and was overseen by the then Department of Employment. The TVEI, on the other hand, was a school-based vocational education scheme supervised by the former Department of Education and Science. Commentators have remarked that the two programmes were developed entirely independently

of each other and were, in many ways, competing with each other (Finegold and Soskice, 1998). The likelihood of this being repeated was fortunately reduced by the subsequent merging of the two departments into the one Department of Education and Employment. Thus, in the United Kingdom's more recent Welfare-to-Work scheme (which is open to criticism on a number of other grounds), the educational and labour market opportunities for unemployed young people are at least dealt with within a single programme.<sup>2</sup>

So what are the merits of having an overall youth policy? First, it can be a useful way of laying out a set of coherent policy objectives. However, for a youth policy to be effective, as many of the interested parties as possible need to be involved in its formulation. For a youth ministry to set out a plan for young people without first consulting and then working with the other ministries involved in implementing elements of the policy is simply inexcusable. Ideally, the social partners also need to be involved. And, perhaps most important of all, an overall youth policy should have a clear and fairly detailed statement of objectives: the various aims of a youth policy need to be brought together and their compatibility examined. The means by which the objectives are to be met must also be specified at the outset in as much detail as possible.<sup>3</sup>

Establishing clear and coherent policy objectives is crucial, whether or not an overall youth policy is put together. Are policies and programmes to be aimed exclusively at reducing youth unemployment? Indeed, should they be? This is not necessarily the same as, for example, promoting youth employment. Youth unemployment can be reduced by discouraging the labour force participation of young people through, say, increasing educational participation levels either by extending compulsory education or by providing incentives for young people to remain at school. Ryan and Büchtemann (1996) have suggested a number of other possible goals, such as promoting the widespread completion of upper secondary education, as well as high-quality vocational preparation for all.

Even if the principal concern is with promoting youth employment, is this the sole aim? Should attention not be given to sustaining the new jobs that have been created? Throughout this study emphasis is placed on the importance of the *quality* of employment opportunities for young people; increasing the number of jobs available in the short run is not enough. This is particularly valid when discussing policies that promote (whether by design or accident) employment in the informal sector. Above all, whatever the policy objectives, it is vital that they are understood. One step in this direction would be to unify or at least coordinate the different bodies responsible for designing and implementing youth employment policy. From this, it would be possible to design an effective package of measures.

There is an important link between the design of labour market interventions and the availability of information on which people can base their choices. In many countries, particularly developing economies, LMI and policy monitoring and evaluation are woefully inadequate. Better LMI would

help governments, employers and young people make informed choices about their options, rather than basing them on assumptions derived from casual observation. In general, more information on the status of young people would help those concerned decide where intervention in the youth labour market needs to be targeted.

Policy monitoring and evaluation also have a key role to play. Monitoring ensures that what was intended to happen did actually take place. For example, monitoring of work experience and training programmes can help ensure that firms honour their commitment to train young people rather than simply use them as a source of cheap labour.<sup>4</sup> The purpose of evaluation is to suggest ways in which policies can be improved, by identifying which types of programme are more successful and why. Monitoring and, above all, evaluation are now quite common in industrialized countries but are less so in developing economies, which means that such countries are forced to look to their more industrialized neighbours for lessons in how to improve labour market policy. However, the extent to which lessons can be learned is limited by the different natures of the economies and the problems faced by young people. The next chapter looks at the arguments for integrating policy monitoring and evaluation at the design stage.

One further important issue concerns the relevance of the economic context. It has been noted that youth unemployment is closely linked to the state of the economy, which implies that youth employment policies should take the state of the economy into account. The relative usefulness of different types of policy measures, such as employment subsidies and training programmes, will very much depend on general economic performance. Vocational training programmes, for example, will not necessarily create post-programme employment opportunities; employment subsidies and public-works schemes can be equally successful in maintaining the labour market attachment of participants. And in times of recession these measures are less likely to instil in participants unrealistic expectations of long-term job opportunities. On the other hand, it might be to a firm's advantage to use periods of reduced demand to increase and upgrade the skills of its existing workforce (whether younger or older) so as to be prepared for increased production when the economy picks up. Government support for such skills development would help avoid lay-offs during recessions. A second point is that it would make sense to promote youth employment as part of an overall strategy of employment creation through the promotion of employment-intensive economic growth.

## 4.2 YOUTH AND THE ILO

Since its inception in 1919 the ILO has been involved in establishing regulations to improve the working conditions of young people, the Minimum Age (Industry) Convention, 1919 (No. 5), and the Night Work of Young Persons (Industry) Convention, 1919 (No. 6), being two early examples. The ILO has

## Youth unemployment and employment policy

also long been engaged in the design of instruments to promote youth employment and training, beginning with the adoption of the Unemployment (Young Persons) Recommendation, 1935 (No. 45). This Recommendation advocated specific measures to facilitate the placement of young people in the labour market and to avoid youth unemployment. The proposals included: raising the minimum school-leaving age to at least 15, with the provision of a maintenance allowance to parents where necessary; establishing special employment centres with strictly voluntary attendance on the part of young people; and organizing public works to assist unemployed young people.

The Special Youth Schemes Recommendation, 1970 (No. 136), provides guidelines on youth employment and training schemes organized for development purposes and specifies the conditions that should prevail in such schemes. It stresses that participation in the schemes should be voluntary and should not violate the terms of international labour standards on forced labour (ILO, 1986).

The Human Resources Development Convention, 1975 (No. 142), provides that ILO member States should adopt and develop comprehensive and coordinated policies and programmes of vocational guidance and training closely linked to employment.

The ILO's 1986 report, *Youth*, stated that any significant improvement in the conditions of young people would necessarily be closely associated with improvements in social and economic development. The report included recommendations regarding the role of the social partners; the adoption of international labour standards on youth; formal education in preparation for the world of work; labour utilization and access to education, training and employment; conditions of work in the informal sector; self-employment and small business creation schemes; and measures concerning special groups of young people such as young women. In 1996, the 83rd session of the International Labour Conference adopted "Conclusions concerning the achievement of full employment in a global context: The responsibility of governments, employers and trade unions".<sup>5</sup> Among these conclusions was the affirmation that countries should design and implement special measures to enhance the employability of vulnerable groups, such as young workers.

More recently, the *World Employment Report 1998-99* (ILO, 1998a) has focused on the issue of training and employability. The report emphasized, among other things: the role of education and training in promoting competitiveness; the implications of changes in the demand for different skills; the role that training can play in overcoming disadvantages faced by women in the labour market; the need, particularly in developing countries, to recognize the informal sector and consequently the role it has to play in training for employment; and the need for training policies to place emphasis on vulnerable groups.

At the 86th session of the International Labour Conference in 1998, the ILO adopted a resolution concerning youth employment, the full text of which is

reproduced in Appendix 2. It contains a series of recommendations for improving youth employment policy. In general it recognizes the need to implement a balanced economic growth strategy and stresses the positive role that can be played by the involvement of workers' and employers' organizations in the design and implementation of youth employment policy. The resolution also recognizes the need to balance the needs of the economy with the needs of individuals. Measures to enhance the training and employment of young people should be introduced both to improve the efficiency of the economy and to allow individuals to reach their full potential. The ILO has suggested promoting employment-intensive strategies to boost economic and employment growth to combat both youth and adult unemployment, as well as promoting the development of self-employment and the introduction of dual apprenticeship systems (ILO, 2000a). Early in 2000, a report, *Training for employment*, was presented to the International Labour Conference (ILO, 2000b), recognizing the important role to be played by both governments and private enterprises in promoting and undertaking training. It also stressed the growing role of different types of LMI and, in particular, suggested that employment services provide more vocational guidance.

#### 4.3 YOUTH AND THE INTERNATIONAL POLICY CONTEXT

Several recent international initiatives are of relevance to policies aiming to combat youth unemployment. The first is the World Programme of Action for Youth to the Year 2000 and Beyond, which was adopted by the United Nations General Assembly in 1995. Implementation of this programme involves many departments of the United Nations and various specialized agencies, including the ILO. As part of the programme, a World Youth Forum was held in Vienna in November 1996, which gave an opportunity for youth non-governmental organizations (NGOs) from all over the world to meet United Nations representatives and discuss action to improve the conditions of young people, including measures to combat unemployment. Another World Youth Forum along the same lines was held in Braga, Portugal, in August 1998, immediately followed that same month by the first World Conference of Ministers Responsible for Youth, held under the auspices of the Portuguese Government in Lisbon. The Lisbon Declaration on Youth Policies and Programmes, adopted at the Conference, recognizes, among other things, "the urgency of creating more and better jobs for young women and young men and the central role of youth employment in facilitating the transition from school to work, thereby reducing crime and drug abuse and ensuring participation and social cohesion". August 12 was also declared International Youth Day by the Conference.

The Declaration of the World Summit for Social Development adopted in Copenhagen in March 1995 also makes explicit reference to the problems of young people, stating that "special attention" should be given to their

## Youth unemployment and employment policy

“problems of structural, long-term unemployment and underemployment” (Commitment 3 of the Declaration).

In November 1997, at the Kobe Jobs Conference in Japan, the chairperson concluded that “the promotion of youth employment through appropriate policies is crucial”, and that “achieving a smooth transition from school to work is the key to addressing the youth employment problem”. Measures should also include “the provision of work experience both at school and off the school curriculum, access to career information, counselling ... effective job placement and vocational training”.

That same month the European Commission adopted the 1998 Guidelines for Employment Policy, which state that “Member States will ensure that every unemployed young person is offered a new start before reaching six months of unemployment, in the form of training, retraining, work practice, a job or other employability measure”. On 14 October 1998, new guidelines for 1999 were adopted in Brussels, reiterating the commitment to offer placements to unemployed youth but also considering the problem of young people with low levels of education. Thus the guidelines call on Member States to:

- improve the quality of their school systems, inter alia, by giving particular attention to young people with learning difficulties, in order to reduce substantially the number of young people who drop out of the school system early;
- equip young people with a greater ability to adapt to technological and economic change and with skills relevant to the labour market, where appropriate, by implementing or developing apprenticeship training.

As to the involvement of the social partners in youth policies, the 1999 guidelines also urge the former to “conclude as soon as possible agreements with a view to increasing the possibilities for training, work experience, traineeships or other measures likely to promote employability”. Many European Union (EU) countries have introduced measures of the type indicated by the guidelines, some of which are briefly discussed in Chapter 8.

The OECD has also undertaken several initiatives related to youth and employment, in particular examining various aspects of policy related to integrating young people into the world of work (OECD, 1999). The report recognizes the importance of preventing failure at school and of ensuring that young people are employable on leaving school, as well as the need to strengthen the links between education and work. The report also stresses the plight of disadvantaged young people, and emphasizes the central role of evaluation in improving programme quality.

### Notes

<sup>1</sup> By law, young Germans who leave school early are required to attend a vocational college part time up to the age of 18, although most German states allow young people not in apprenticeships to

satisfy the vocational college requirement by attending a vocational college full time but for one year only, usually between the ages of 15 and 16 (Steedman, 1993).

<sup>2</sup> Of course, this factor alone will not necessarily ensure that educational and employment policies are in harmony with one another, although it should facilitate coordination.

<sup>3</sup> Programme coordination is a major problem in many developing countries. Often, there are cases where a number of small-scale intervention programmes with financial support from external agencies are administered through different government ministries, making effective coordination difficult. Kanyenze (1997) has documented the case of Zimbabwe, where at least three ministries are involved in the implementation of youth programmes.

<sup>4</sup> This was one of the principal criticisms levelled at youth employment policy in the United Kingdom during the late 1970s and early 1980s. When first introduced, the Youth Opportunities Programme (YOP) contained no commitment on the part of employers to provide training. When this was replaced by the YTS in 1983, an explicit training requirement was imposed on participating firms. However, the lack of scheme monitoring, particularly in smaller firms, has been seen by many (for example, Finn, 1986) as a major reason for the initial failure of the programme to promote the longer-term employment prospects of participants.

<sup>5</sup> *Provisional Record 13*, pp. 13/20–13/29.



## LABOUR MARKET INFORMATION, MONITORING AND EVALUATION

# 5

Labour market information (LMI), monitoring and evaluation are crucial elements in the formulation, implementation and subsequent revision and improvement of any new policy and programme. Some degree of overlap understandably exists between them. Certain types of LMI are, for example, a prerequisite for effective monitoring and evaluation, while monitoring is in one sense a form of process evaluation. To monitor the implementation of labour market policies and programmes is basically to evaluate the extent to which the target population has been reached, the target numbers enrolled, and so on. Evaluation assesses the impact of the policy or programme, for example, the extent to which a programme helped participants obtain gainful employment or an increase in wages, or start and maintain their own business.

LMI and the analysis of this data have a broader role to play in the design of youth employment policy by informing the policy debate on a variety of issues – in essence, the very purpose of this book.

After a general discussion of LMI, this chapter concentrates on the two areas that are still not adequately incorporated into the design of youth employment policies, that is, monitoring and, above all, evaluation.

### 5.1 LABOUR MARKET INFORMATION

LMI comes in many forms and can have many uses.<sup>1</sup> Governments need it to formulate labour market policy. For example, the rate of youth unemployment and the extent to which it exceeds adult unemployment are important elements in discussions on the degree to which labour market programmes should be aimed at young people. If the programmes are to assist those who need the most help in finding work, then the young people most severely affected by unemployment and underemployment have to be identified. Unemployment is by no means equally spread across the young and some groups are likely to be more severely affected than others. However, the situation varies from country to country, and in order to make sound judgements on the problems

facing specific countries, timely and accurate LMI is needed. If policies are to be based on more than just sweeping generalizations, data is required at the policy-forming stage.

LMI has a role to play in the effective implementation of policies. If skills training is to be provided, information is needed on the type of skills required (by, for example, carrying out enterprise surveys). In addition, proper evaluation cannot be carried out without LMI: programmes need to be monitored, and some forms of LMI can be used to assess the impact of the programme on the target population. Impact evaluation is usually based on follow-up or tracer studies of young people, which allow comparisons to be made between the experiences of programme graduates and young people who did not participate in the programme.

LMI is also of use to employers' and workers' organizations. For example, information on young peoples' wages relative to those of adults and data on the supply of available skills among the young all have their place in collective bargaining on recruitment and the design of youth policies and programmes.

Young people have much to gain from LMI. Through vocational guidance provided in schools or employment agencies, information on the opportunities available is of crucial importance in helping young jobseekers make the right kind of choices. In recent initiatives in many EU countries, vocational guidance and counselling have taken a more prominent role. Thus, in the United Kingdom's New Deal programme, participants start with the Gateway component, which involves a period – lasting up to four months – of intensive counselling, guidance and advice. The aim is to help as many participants as possible find unsubsidized employment before they enter the main subsidized part of the programme of work experience, training and/or education. Early results show that 38 per cent of New Deal participants found unsubsidized employment through following the Gateway component, but it is not yet clear how many would have found work had the programme not existed. Nevertheless, this first quick indicator suggests that it is important to provide information and guidance to young people on how to look for employment and on the realistic options available to them. It is also a relatively inexpensive way of helping smooth the transition from school to work for some young people. On the other hand, it is not likely to be so successful with young people who have particular problems finding work: the "hard to employ".

The lack of LMI seems to have affected the expectations of young educated jobseekers in some developing countries. It seems that they often have unrealistically high job expectations based on former rather than current labour market conditions. In many countries, for example, structural adjustment programmes have led to a sharp reduction in job opportunities in the public and formal sectors, making employment in these traditional sectors no longer a matter of course for the majority of educated young people. The provision of accurate and up-to-date information on the availability of different labour market opportunities would perhaps help make these young jobseekers more aware of current

labour market conditions. LMI would also be relatively inexpensive to implement, particularly if the help of private and public sector employers were enlisted.

## 5.2 MONITORING

### What is monitoring?

To arrive at an acceptable definition of monitoring, it is probably easier to examine first how monitoring differs from evaluation. There exists very little literature on monitoring as opposed to evaluation, but one recent exception is a paper by Auer and Kruppe, who define monitoring as the “regularly conducted observation of statistical indicators of labour market policy input/output and performance (outcome) for the purpose of improving programme implementation and even programme design” (Auer and Kruppe, 1996, p. 901). In their view, monitoring involves determining whether the target group has been reached and whether predetermined goals have been achieved. By contrast, evaluation ascertains the impact of a programme.<sup>2</sup> Clearly there is an overlap between the two, but for all practical purposes it should suffice to regard monitoring as a short-term form of process evaluation, whereas evaluation refers to the longer-term impact of a programme. Monitoring is thus concerned with the achievement of quantifiable programme aims and/or targets.<sup>3</sup> Is the programme reaching the required number of people? Are these people from the identified target group?

An example of effective monitoring is the *Chile Joven* programme. An ILO evaluation report has observed that the programme successfully reached its target of providing training and work experience for 100,000 young people and also that it was fairly successful in reaching the correct target group, namely, young unemployed people from low-income families (ILO, 1998b). To monitor the success or otherwise of programmes aimed at helping young people start their own businesses, it is necessary to know the number of programme participants and how many new businesses actually got off the ground.<sup>4</sup> In both cases, it is also important to know the cost of each programme, the cost per participant, and so forth. In order to identify more efficient forms of implementation, it is useful to break this information down by geographical area and type of programme, so as to clarify which programme elements or conditions affected implementation.

### The requirements of monitoring

What are the requirements for effective monitoring? First, it is necessary to ensure that the aims of the programme are precisely specified, which, all too often, is not the case. From the outset, goals should be set concerning:

- **The target number** – LMI will help ascertain the size of the target population, and the target number may also depend on the amount of resources available,

and so on. If there are different components, it is useful to present the information by subprogramme. For example, Chile's *Joven* programme comprised four subprogrammes, providing training and work experience with a private-sector company, training for self-employment, alternative apprenticeships and purely theoretical training. Data on each component allow administrators to see which subprogrammes attract the most applicants, and also what kind of applicants they attract.

- **The target group** – Is the programme aimed at all young people or at a specific subgroup, such as those with disabilities or with low levels of education? A recurring theme in this book is that youth unemployment programmes should concentrate on the most disadvantaged groups in the labour market, which would mean that curricula could be more closely tailored to participants' specific needs. In any event, to carry this out, specific disadvantaged groups need to be identified. Again, up-to-date and accurate LMI on the characteristics of the young unemployed is of vital importance.
- **The expected costs of the programme** – An estimate should be made of the expected total cost and the cost per participant of the programme, which will, of course, depend on the number of participants.
- **The target completion rates** – It is a good idea to make an estimate of the proportion of participants who are likely not to complete the course, and also to monitor why they leave the course early.<sup>5</sup> Clearly, the implications are quite different if large numbers of participants leave because they have found productive employment or if they abandon a course because they are dissatisfied with the quality of the programme.

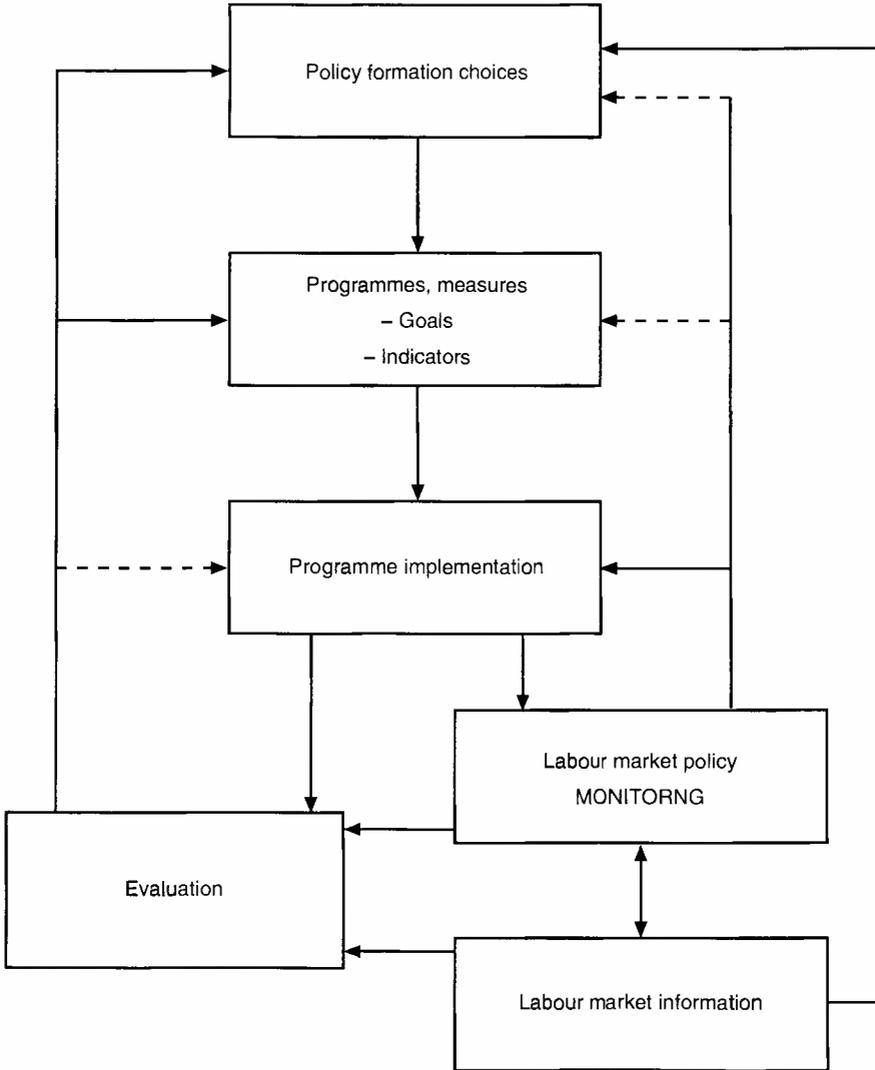
Data relating to each of these indicators need to be collected by subprogramme and geographical area and would help identify why programmes might be failing to reach their targets. Other data relating to programme-specific indicators, such as target start-up rates for self-employment programmes, should also be collected.

Once clearly stated, these programme goals need to be monitored, which requires the collection of statistical data on the part of local administrators and the communication of this information to the coordinating body. Therefore, mechanisms to ensure feedback need to be in place, and should be arranged so that corrective action can be taken and improvements made while the programme is still in operation.

## The role of monitoring

Feedback from monitoring during the policy implementation phase allows corrective measures to be taken if specific targets or goals are not being met. Monitoring is short term and immediate in nature, and is a way of ensuring that policy is being implemented as planned. Figure 5.1 presents a schematic overview of the policy implementation process, and shows monitoring in its

Figure 5.1 The role of monitoring in policy design and implementation



Source: Adapted from Auer and Kruppe (1996).

wider context. The dotted lines indicate a weaker connection between the elements in the figure. Thus, it can be observed that monitoring is principally concerned with assessing and improving implementation. In the United States, monitoring information is also used to assess performance management across different sites and providers, although the results are subject to selection

bias (see section 5.3). In some cases, feedback from monitoring can be used to restructure a programme and even its goals, although this is more the role of impact evaluation.

### 5.3 EVALUATION

Impact evaluation is the assessment of the *performance in terms of outcomes* of specific labour market policies. Typically, evaluation takes a few post-programme indicators of success at an individual level, such as post-programme employment and the wages of participants, and assesses the contribution of the programme in terms of these indicators. Such evaluations can contribute to ascertaining whether the programme is meeting pre-specified goals and can also be used to compare the success of different programmes. Impact evaluation can then be used to modify existing labour market policies and to design more effective programmes and policies.

Impact evaluation can be conducted in a variety of ways. Following Ryan and Büchtemann (1996) and Grubb and Ryan (1999), these are considered here under four headings: non-experimental evaluation; weakly experimental evaluation; quasi-experimental evaluation; and highly experimental evaluation.<sup>6</sup>

#### Non-experimental methods: Gross outcomes

The reporting of the gross outcomes of programme participants is the most common and the simplest form of evaluation.<sup>7</sup> It simply means following up trainees after they have completed a course. Thus, for example, participants might be contacted three months after completing a programme to see how many of them have found employment and possibly to record the income of those in employment. Similarly, one might follow up young people who have participated in a self-employment programme, providing training and access to finance. In this case one would want to know how many new businesses and new jobs had been created and how many new businesses had survived the first year or two after start-up. Unfortunately, evaluating a programme in terms of gross outcomes gives very little information on the impact of the programme itself.

In order to assess the effects of a programme, it is necessary to estimate what would have happened if the programme had not taken place, that is, to formulate a counterfactual prediction on which to base an assessment of the impact. For example, how many of the trainees on a vocational training programme would have found employment had the programme not existed? In the absence of a comparison group, the assumption is that all the participants would have remained unemployed, but this is not usually the case. This method could, therefore, lead to misleading conclusions about programme efficacy.

A hypothetical example helps clarify this point. Suppose the government of a country is considering whether to introduce a programme for the educated or

**Table 5.1** Hypothetical example of post-programme outcomes

	(1) Percentage of programme participants in employment following the programme	(2) Percentage of the comparison group who are employed	(3) "Effect" of the programme on employment rates (in percentage points)
Programme 1: More educated participants	80	70	+10
Programme 2: Less educated participants	50	20	+30

a programme for those with no qualifications, and that there are two pilot training programmes in operation: one aimed at people with minimum qualifications; the other at those with no qualifications. Column (1) of table 5.1 gives the post-programme employment rates of participants in the two programmes. Judged on this basis, Programme 1 is by far the more effective, with post-programme employment rates of 80 per cent in comparison with 50 per cent for those in Programme 2. However, the picture changes if we compare the labour market performance of participants in the two programmes with those of similar individuals who did not participate in either of the programmes. Column (2) gives the employment rates of two comparable groups of young people who did not participate in either programme. Those with some qualifications compare with Programme 1 participants and those without qualifications compare with participants in Programme 2. Column (3) shows the effect of the programme measured as column (1) minus column (2), that is, the improvement in the employment prospects of participants brought about as a result of the programme. Using this criterion, it can be seen that Programme 2 is the more successful of the two. Participants' chances of finding work rose by 30 percentage points against 10 percentage points for Programme 1 participants.

The problems of selecting a comparison group are dealt with below, but the important point here is that using gross outcomes can lead to a highly misleading estimate of programme performance. Among other things, employment rates will tend to rise during an economic boom and fall during a recession, inducing variations in performance that have nothing to do with the quality of the programme per se. Furthermore, using gross outcomes as a measure of performance will tempt programme administrators to select participants according to their employment prospects: they will tend to choose the most able rather than those most in need of help. All too often, programmes assist those already in a position to help themselves at the expense of more disadvantaged groups. It is perhaps preferable to concentrate on groups that have the most trouble finding work. The use of gross outcomes as a measure of performance clearly militates against this.

## Weakly experimental evaluation: The use of comparison groups

For effective impact evaluation, a control group is needed. In this way the performance of trainees in labour market programmes can be compared with the performance of young people who did not take part, the idea being that the comparison group can be taken as proxy for the experience that trainees would have had without the programme. The basic assumption is that non-participants differ significantly from participants only in that they did not follow the programme.

There are a number of ways of choosing an appropriate comparison group. Two such possibilities are to:

- (a) compare the experiences of the participants themselves, before and after training;
- (b) use other individuals of the same age group.<sup>8</sup>

The major limitation of this type of evaluation is the assumption that the control group does not differ systematically from programme participants in ways that will affect their performance in the job market. With the "before and after" approach, one very obvious way in which things may have changed significantly is the situation of the job market. General economic conditions, which largely dictate the experiences of young people in the labour market, may have altered in the intervening period. Thus, the chances of finding work and the conditions offered (such as wages) if employment is found, will be affected by changes in the economic environment. If these are not taken into account, the effect of changing labour market conditions may be interpreted as an effect of the programme. Also, in the case of young people, the "before and after" approach might often not be appropriate, since young people joining the programme straight from school will have no previous work experience.

Similarly, using other young people of the same age as a control by no means guarantees that the two groups do not differ significantly from each other. However, the calculations required for this type of evaluation are fairly simple; all you need to do is compare a tabulation of the experiences of the two groups, which can easily be derived from labour force surveys. This perhaps explains the popularity of this approach. However, although this method is an improvement on non-experimental methods, systematic differences between the control group and programme participants are likely to distort the results; and the effects of these differences may be erroneously interpreted as the effects of the programme.

## Quasi-experimental evaluation

This method of evaluations uses statistical techniques to control for systematic differences between programme participants and non-participants. The simplest

form is regression analysis, where the outcome variable is seen as jointly determined by several factors, including participation in the programme.<sup>9</sup> Thus, a number of factors affecting the likelihood of finding a job can be included in an individual-level estimation. This allows the analyst to control for *observed* systematic differences between people who take part in the programme and those who do not. In this way, the analyst can control for differences in individuals belonging to each group and can estimate the impact of the programme – net of these differences. Factors that are typically included are individual characteristics, such as sex, age, educational level, social and/or family background, and past experiences, as well as controls for economic conditions, such as the local unemployment rate.

This type of evaluation requires data on a group of young people who have participated in a programme and on a group who have not. In principle, this information could be extracted from a labour force survey, as long as it is possible to distinguish former trainees from non-participants. A better source, though, would be a longitudinal sample survey, which would track the experiences of young people over time and which could identify programme participants and non-participants.<sup>10</sup>

#### *Sample selection bias*

This has been the subject of a great deal of literature over the past two decades. It has already been noted that regression analysis or similar techniques allow the analyst to control for observed differences in the characteristics of individuals that affect their success or failure rate in the labour market. However, not all the factors that affect the chances of finding work are, in practice, observable by the evaluator. It is extremely difficult, for example, to measure motivation. If any of the unobserved characteristics of individuals that influence their chances of finding work also affect their decision to participate in a programme, then the measured effects of a programme will erroneously attribute this difference to the programme itself. Suppose, for example, that participants in a programme are more highly motivated than non-participants. They are consequently more likely to try harder when looking for a job, and this may be noticed by a prospective employer during the interview. They are thus more likely to find a job than non-participants, had the programme taken place or not. So the measured programme effect will overestimate the true impact of the programme.

One such source of bias arises when programme administrators cream off possible course participants in the search for higher success rates. Young people with more desirable characteristics may be selected because they are more likely to have better post-programme employment prospects. Inasmuch as these characteristics are observable to the programme administrator but not to the analyst undertaking the evaluation, the problem of sample selection bias will arise.

Heckman has come up with a straightforward remedy for this problem (1979). Essentially, this involves estimating the participation decision itself and deriving an additional "term", which is then introduced into the estimation of the outcome equation. The idea is that, in this way, a control is introduced, so that unobserved factors that influence *both* the participation decision *and* the outcome (such as the probability of finding work or wages in employment) are not erroneously interpreted as an effect of the programme itself.<sup>11</sup>

Another corrective procedure is to use longitudinal information to estimate programme effects net of any sample selection. This involves observing earnings (or some other outcome indicator) before and after participation in a programme. Pre-programme earnings are then subtracted from post-programme earnings. Any effects that are invariant over time will disappear from the equation and, so long as the factors causing sample selection bias are invariant over time, the analyst will be left with an estimate of the effects of the programme, excluding sample selection bias. An early example of this type of model was employed by Aschenfelter (1978), who used a fixed-effects version of the estimator to assess the effects of training programmes on earnings.

Unfortunately, there are reasons to believe that the factors causing the bias will not remain constant. Motivation, for example, may vary with changing family circumstances, or indeed with the specific experiences of young people in the labour market. Later versions of the longitudinal estimator have refined it to take account of this particular difficulty (Bassi, 1984; Bloom, 1984), but the model still requires additional information in comparison with the Heckman procedure. It also requires strong and generally untestable statistical assumptions concerning the unobservable factors in order for it to be valid (Heckman and Robb, 1985). Furthermore, in the case of young people, it may not be possible to use pre-programme earnings as an indicator because of the lack of pre-programme work experience on the part of the young participants. Finally, this methodology cannot be easily applied to the non-linear models commonly used to estimate programme effects on the likelihood of finding employment.

One problem with these two procedures is that the estimate of bias is extremely sensitive to sample selection, as well as to the basic assumptions underlying the estimation procedure. In a seminal article, Lalonde (1986) compared quasi-experimental approaches to sample selection bias with a highly experimental approach and found the former to be extremely unreliable. However, the extent to which the highly experimental approach is preferable is being increasingly questioned.<sup>12</sup>

A third approach to the problem of sample selection bias is to use matching techniques to define the control group.<sup>13</sup> The statistical procedures employed are a little complicated, but the principle is quite straightforward and is comparable to the weakly experimental approach outlined earlier. Essentially, this method involves selecting a control group according to a number of different criteria – generally past labour market experience, age, sex and geographical

area. The basic logic underlying the methodology is that if the comparison or control group is similar to the participants on a programme according to observed characteristics, this will tend to mean that they also have similar unobserved characteristics.<sup>14</sup> This type of method has been used by Payne et al. (1996) to evaluate the Employment Training and Employment Action Programmes in the United Kingdom. Recently extensions and developments to the method have been suggested by Heckman et al. (1998). Certainly, it would appear to offer some hope for reducing the bias arising from the non-randomness of the control group.

Much progress has been made in moving towards an adequate quasi-experimental methodology, although opinions remain divided on its usefulness. Given that in many cases it may be neither feasible nor desirable to use a highly experimental technique, there remains a place for the quasi-experimental estimation of programme effects.

### Highly experimental evaluation

Highly experimental evaluation techniques are carried out by selecting the control group from applicants who are willing and able to participate in a programme. A group of people who satisfy the entry requirements and who wish to participate in the programme are identified and then randomly assigned to either the treatment group, which will participate in the programme, or to the control group, which will not. The intention is to approximate the conditions of a laboratory experiment in which all extraneous factors are controlled and the only systematic difference between the control group and the trainees is that the latter participate in the scheme. In this way the problem of sample selection bias is eliminated. There can be no *systematic* difference between the participants and the non-participating control group because the individuals are allocated at random. The effects of the programme are then estimated as the difference in the average (mean) outcome for participants and non-participants, which implies that the effects of a programme can be ascertained by a simple tabulation (see table 5.1).<sup>15</sup>

In principle, this is statistically the most satisfactory way of ascertaining a programme's effect, at least at the level of the individual. However, there remain a number of problems, which limit the value of the methodology. First, the experimental methodology requires that the evaluation is built in at the design phase of the programme, so that the group that will yield both participants and controls is known a priori. Second, certain ethical questions might be raised concerning the issue of denying training to eligible applicants. Third, this type of evaluation is limited to state-sponsored programmes, since private employers and individuals are unlikely to accept randomization of participants in schemes they are sponsoring (Grubb and Ryan, 1999). Fourth, as Heckman and Smith (1996) have noted, there is the possibility that substitution and randomization bias will occur. Substitution bias arises when members of the

control group find a close substitute for the programme. Randomization bias arises when the behaviour of individuals is altered by the knowledge that they are in an experiment. For example, the knowledge that a programme involves random allocation may stop qualified applicants from applying. Problems arose in the United States because training centre staff of the Job Training Partnership Act (JTPA) feared that participating in the evaluation would double the number of applicants, thus lowering the average quality of the intake. Finally, experimental evaluation is expensive to implement because it requires personnel skilled in random selection techniques, and staff training requires time and money as well as forethought; it is estimated that highly experimental evaluation increases the cost of evaluating programmes by a third or more.

In any event, it can be observed that highly experimental evaluation is not without its limitations and practical difficulties, which could be a significant barrier to implementation and accuracy.

### Which type of evaluation?

Which type of evaluation is best? There is clearly a trade-off between accuracy, on the one hand, and simplicity of design and cost, on the other. The most accurate estimates are, unsurprisingly, the most expensive. Certainly, the least costly step to take would be to move from non-experimental evaluation using gross outcomes to an evaluation method using some form of control group; this step would also give the greatest marginal improvement. At present, evaluation by gross outcomes is the only form of evaluation being carried out in many countries. As it provides no clear information on the effect of a programme, it is an *extremely misleading* methodology. Even the weakly experimental methods are preferable to making judgements with no attempt to study a comparison group. They, at least, do try to compare what happened with what would have happened had the programme not taken place.

Highly experimental evaluation is fairly easy to implement and the information analysis is relatively simple in that it requires only a comparison of mean outcomes. As noted earlier, though, this methodology involves a number of ethical and practical difficulties that need to be overcome.

Quasi-experimental methods are the most commonly used form of evaluation in the industrialized world, with the possible exception of the United States. They are practical, and huge improvements have been made in them over the past two decades. They require only a minimum level of statistical knowledge, and such expertise should be fairly widespread in most countries.

Grubb and Ryan (1999) have suggested using different evaluation methods to compensate for the deficiencies inherent in each of the approaches. While this would undoubtedly be useful in countries where the rigorous evaluation of programmes is rare or non-existent, it would appear to be something of a luxury. A second important point made by these authors is that more attention

needs to be paid to the evaluation processes. Much has been learned as to what works; much more effort is now needed to examine why they work.

#### 5.4 THE ROLE OF INFORMATION IN THE DESIGN AND IMPLEMENTATION OF LABOUR MARKET POLICIES FOR YOUNG PEOPLE

In order to design and implement an effective ALMP, accurate and up-to-date LMI is needed to carry out monitoring and evaluation, a rather obvious point maybe, but one that has not been appreciated by many countries. LMI can identify the young people who are most in need of help, and it also provides information for monitoring and evaluation functions. Monitoring helps provide quick feedback on any implementation problems and consequently on the design of labour market policies and programmes. Evaluation identifies and quantifies the effects of programmes, the data from which can then be used to look at ways of improving the quality of programmes.

All these elements should be built in at the design stage of the ALMP; it is of little value to add them in an ad hoc manner once programmes have got under way. They should certainly not be ignored. International donors usually make it a precondition of aid that labour market programmes be monitored. Why not extend this requirement to include some form of quasi-experimental or even experimental impact evaluation? In the long run, these methods of evaluation are the only way of responding adequately to the problem of youth unemployment. In their absence, developing economies will have to learn from the experiences of industrialized countries. And although these evaluation methods may be adequate for advanced economies, they may be less effective when applied in other economies with different levels of income and development.

#### Notes

<sup>1</sup> Bellmann and Walwei define LMI as "a series of data and reports relevant for decision-making in the area of labour market policy" (1994, p. 1). This implies that LMI is only relevant to policy-makers; in practice its use may be much wider, as is suggested here.

<sup>2</sup> In general, evaluation tends to be concerned with identifying in a precise manner the effect of programmes on specific outcomes, such as the employment prospects or wages of participants. Some people believe that programme evaluation should also examine the causes of success or failure. All too often this element is left implicit in programme evaluations (see, for example, Meager and Evans, 1998). Grubb and Ryan (1999) argue in favour of looking into processes as well as outcomes in order to identify more clearly the reasons for success.

<sup>3</sup> The form of monitoring dealt with here refers to specific programme goals. Recently, a more general approach to monitoring – the use of "benchmarking" – has been suggested. In essence, this involves specifying indicators of the more general goals of employment policy, such as, for example, lowering the youth unemployment rate and using statistical techniques to measure a country's overall performance (see Tronti, 1997).

## Youth unemployment and employment policy

<sup>4</sup> This is where monitoring starts to run into impact evaluation, although a more interesting indicator of the success of a programme is the survival rate of a business over a period of time.

<sup>5</sup> As is the case with other such indicators, initially this might be based on information drawn from other programmes. Once a programme is established, however, it will have its own past performance records to use as a guide.

<sup>6</sup> Grubb and Ryan (1999) deal with many issues related to the purposes, uses and methodology of evaluation and make a number of commendable recommendations for improving the usefulness of evaluations in the context of vocational education and training. Throughout their book, they argue convincingly in favour of using a broader approach than is usual. Thus, for example, they propose that: evaluations should incorporate a broader range of outcomes; a variety of approaches to evaluation should be ideally incorporated; evaluations should consider equity as well as efficiency issues; and, as noted above, evaluations should look at processes leading to outcomes, in addition to the outcomes themselves, so as to increase their informative value.

<sup>7</sup> This is an obvious example of the overlap between monitoring and evaluation. Gross outcomes should more properly be thought of as a form of monitoring. They are considered here as a form of evaluation mainly because the reporting of gross outcomes is the only form of evaluation undertaken in many countries.

<sup>8</sup> Evaluations can also combine the two. For example, one evaluation of Chile's *Joven* programme compared the "before" and "after" earnings changes of participants with those of non-participants over the same period of time.

<sup>9</sup> In the case of the probability of finding work, this is typically estimated using non-linear models, such as Probit or Logit or models of duration. Although not all strictly speaking regression models, they do attempt to identify the effects of a programme while controlling for other systematic differences, and so can be regarded as being in the same spirit.

<sup>10</sup> An example of this type of data is the Youth Cohort Study (YCS) in England and Wales, which was used to evaluate the YTS (see Chapter 6). The YCS, currently undertaken with a new cohort every two years, tracks the experiences of young people from the time they reach minimum school-leaving age, 16 to 19 years of age. In one case, the sample was contacted again after a period of seven years, so that the longer-term effects of the programme could be analysed (see, for example, O'Higgins, 1996).

<sup>11</sup> The formal procedure for resolving sample selection bias in this way is well known and is not detailed here. In addition to the seminal Heckman (1979) article, straightforward treatment of the procedure can be found in Maddala (1992) or Greene (2000). Nowadays, software packages designed for cross-sectional econometric estimation generally include commands for the introduction of sample selection terms in estimation. In the case of the slightly more complicated case of estimating the likelihood of finding work, O'Higgins (1994) suggests a method for controlling for sample selection bias in the context of the Probit model.

<sup>12</sup> See, in particular, the work of Heckman et al. (such as Heckman and Smith, 1996), as well as the discussion below.

<sup>13</sup> This procedure complements rather than replaces one of the aforementioned controls for sample selection bias; modern evaluations often use both.

<sup>14</sup> Strictly speaking, matching effectively controls for differences across observables, not unobservables, which is at the heart of the sample selection problem. However, Heckman et al. (1997) have shown that employing such a methodology substantially reduces the extent of sample selection bias as conventionally measured.

<sup>15</sup> More commonly the effects are estimated in the context of a regression model, which may slightly improve the accuracy of the evaluation.

## THE MINIMUM WAGE AND YOUTH EMPLOYMENT

# 6

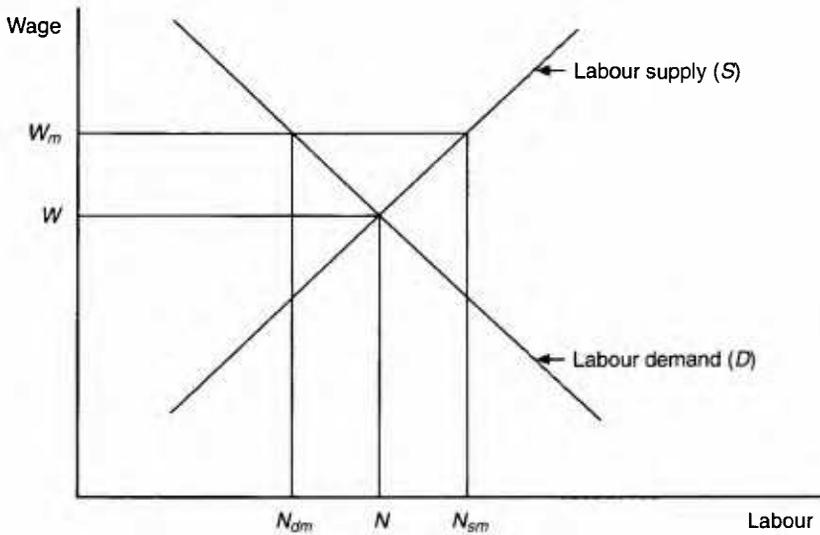
The relationship between the minimum wage and youth employment is a controversial issue. Does the minimum wage affect the level of youth employment, or is it more appropriate to introduce a lower minimum wage for young people to ensure that they are not priced out of jobs for lack of skills? Evidence presented in Chapter 3 supports the fact that, in general, the level of youth unemployment is not principally determined by the level of wages paid to young people, at least not in industrialized countries. The economic, political and institutional settings may differ significantly in developing and transition economies, but there seems to be no grounds for believing that fundamentally different relationships between youth wages and youth unemployment exist in these countries either.<sup>1</sup>

This chapter looks at the specific question of the relationship between the minimum wage and youth employment. Evidence on this relationship is mixed, both in terms of its quality and its findings; neither theoretical reasoning nor empirical evidence has provided an unequivocal answer to the question of whether the minimum wage has a negative or positive effect on youth employment. In general, however, negative employment effects of the minimum wage, where they are found, tend to be small and are consequently likely to be outweighed by aggregate economic conditions. Furthermore, to look at the minimum wage only in terms of its effect on the quantitative employment of young people is to take a rather narrow view: minimum wages fulfil a number of other useful functions, such as redistributing income without creating disincentives to work.

### 6.1 MINIMUM WAGES, EMPLOYMENT AND PRODUCTIVITY

In a perfectly competitive product market with a homogeneous labour force (and a well-behaved labour supply curve), the effect of the minimum wage on employment (and unemployment) is unambiguous. Figure 6.1 plots the basic relationship between supply and demand for labour in such a context. If the

Figure 6.1 The effect of the minimum wage in a competitive model

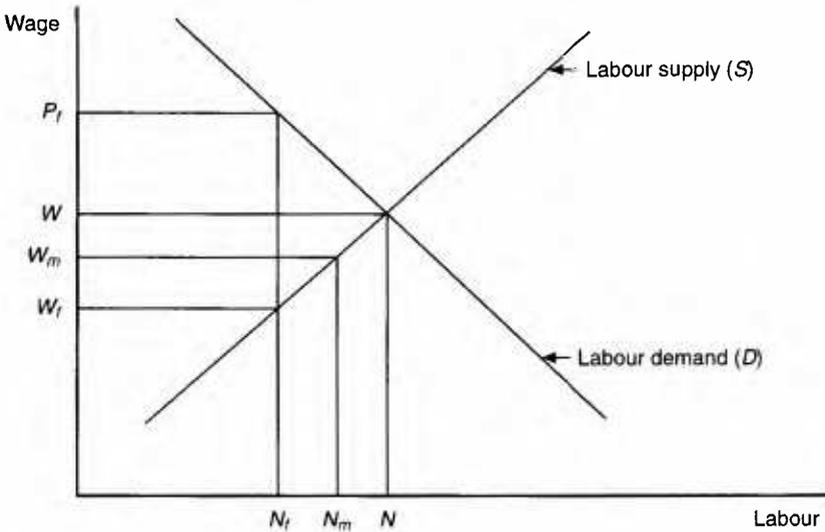


minimum wage ( $W_m$ ) is set above the market clearing level ( $W$ ), as in the figure, employment will unequivocally be reduced from  $N$  to  $N_{dm}$ . At the same time, labour supply will increase to  $N_{sm}$  and consequently unemployment will increase by an even greater amount, represented by the distance between  $N_{dm}$  and  $N_{sm}$ .

However, this model is based on a series of unrealistic assumptions: that labour is homogeneous, so that one worker is identical to another; that labour and capital are interchangeable; and, above all, that product and labour markets are perfectly competitive. The extent to which any of these conditions is true in practice is open to question. Indeed, earlier in this study it was argued that younger workers are likely to be (and to be perceived as) poor substitutes for their older colleagues, and vice versa.

Of overriding importance, however, is the assumption concerning competitive markets. If firms are able to operate as monopsonists in the labour market<sup>2</sup>, then the implications of a minimum wage are somewhat different. That is, firms may have some power to set wages at a level below the marginal product of labour, rather than being forced – by the potential mobility of labour – to pay a wage equal to the value of the marginal product of labour.<sup>3</sup> If workers are restricted in their mobility, then firms might be able to get away with paying a lower wage. However, if markets are not perfectly competitive, workers will not be able to take their labour elsewhere very easily: there will be costs for both workers and alternative employers if they do so. For non-economists, this idea may appear perfectly obvious. However, many economists

Figure 6.2 The effect of the minimum wage in a non-competitive model



have been slow to introduce the possibility of imperfect markets into their models. In any event, if one does allow for a degree of “buyer power” on the part of firms, then the effect of a minimum wage is no longer unambiguous.

Figure 6.2 illustrates such a situation. If firms have some degree of market power and can pay workers a wage lower than their marginal product (say,  $W_f$ ), then employment will be at level  $N_f$ . If a minimum wage is imposed at, say,  $W_m$ , then employment will increase from  $N_f$  to  $N_m$ . As long as the minimum wage ( $W_m$ ) is fixed below the competitive level ( $W$ ), then employment will unequivocally increase and unemployment decrease. If the wage is set above the competitive level ( $W$ ) but below  $P_f$ , then both employment and recorded unemployment will rise as more workers enter the labour market because they are attracted by the high level of wages. If, on the other hand, the minimum wage is set at  $P_f$  then employment will fall and unemployment rise.

Two points emerge from this model. First, for a range of values the minimum wage can lead to a rise in employment; second, the effects of the minimum wage on employment depend on its level in relation to the competitive wage and the marginal product of labour. In practice, the competitive wage is not known, and the marginal product of labour is probably also unknown. However, the implication is that, if it is set at a reasonably low level the minimum wage may have a positive effect on employment. The higher the minimum wage with respect to some benchmark (such as the average wage), the higher the probability of an increase in unemployment. If the minimum wage is high, there might be a fall in employment levels.

This is, of course, a simple and static model, which assumes that workers' productivity is independent of the wage paid. The argument in favour of a minimum wage is stronger if one admits that a positive relationship exists between wages and productivity, that is, the efficiency wage theory model. This is based on the supposition that higher wages result in increased productivity, which means that the labour costs of producing a given output may actually *fall*. Thus, employment may increase as a result of rising *demand for* (as opposed to *supply of*) labour. There are a number of cases in which this might occur. One of the earliest contributions came from Leibenstein (1957), who argued that, at low levels of income, an increase in wages would lead to an increase in labour productivity because workers would be better fed and healthier. They would then be willing and able to work harder. Other "efficiency wage" models indicate a variety of reasons why labour productivity can be positively associated with wage levels. For example, the "shirking" model is based on the idea that higher wages provide workers with an incentive to work rather than shirk. Increasing the wage increases the cost of being dismissed for shirking in terms of lost income. Another explanation is the sociological "gift exchange" model of Akerlof (1982): firms can raise group work norms by paying more than strictly necessary in return for a "gift" of effort above the minimum required.

The question as to whether a minimum wage increases or reduces unemployment cannot be solved theoretically. Therefore, the section below examines a number of empirical studies on the effects of a minimum wage.

## 6.2 THE EFFECTS OF A MINIMUM WAGE ON YOUTH EMPLOYMENT<sup>4</sup>

The majority of studies on the minimum wage have looked at its effects on the employment (or unemployment) of young people in industrialized countries. Fewer studies have been carried out in developing and transition economies, partly because many of these countries have no reliable data on which to estimate the effects of the minimum wage. Moreover, the minimum wage may not be expected to have a significant impact in these economies owing to its low relative value, its limited coverage and/or the low level of compliance.

The results from the studies are very mixed. Some authors have found there to be a significant, albeit small, negative effect on youth employment, while others have found no such effect, and others still a positive influence. Tables 6.1 to 6.3 (on pages 83, 84 and 86–87) summarize the results of a number of studies carried out in a selection of countries.

Five observations can be made from these tables:

1. No consensus exists among economists in the Netherlands and the United States as regards the effects of minimum wages on youth employment.

**Table 6.1** Summary of the principal empirical results of studies carried out in the United States

Category of studies	Estimated impact of a 10% increase in the minimum wage on employment of teenagers (16- to 19-year-olds)
	Percentage change in employment
<b>Category I (early studies)</b>	
1. Kaitz (1970)	-0.98
2. Kusters and Welch (1972)	-2.96
3. Kelly (1975)	-1.20
4. Kelly (1976)	-0.66
5. Gramlich (1976)	-0.94
6. Mincer (1976)	-2.31
7. Welch (1976)	-1.78
8. Ragan (1977)	-0.65
9. Mattila (1978)	-0.84
10. Freeman (1982)	-2.46
11. Wachter and Kim (1980)	-2.52
12. Iden (1980)	2.26
<b>Category II (intermediate studies)</b>	
1. Hamermesh (1981)	-1.2
2. Brown, Gilroy and Kohen (1983)	-1.0
3. Meyer and Wise (1983) <sup>1</sup>	
- young black people	-7
- young white people	-6
4. Solon (1985)	-0.99
5. Wellington (1989)	-1.0 (teenage employment: 16-19) 0.0 (young adult: 20-24)
<b>Category III (1990s)</b>	
1. Card and Krueger (1995)	
a. New Jersey and Pennsylvania, fast-food restaurants	0.4
b. Re-analysis of Neumark and Wascher (1992), cross-state data	0.3
2. Card (1992), Californian teenagers	1.2, following California minimum wage rises to \$4.25 in July 1988
3. Katz and Krueger (1992), fast-food restaurants in Texas	18.5 to 26.4
4. Neumark and Wascher (1992)	-2.0 to -2.4
<sup>1</sup> The Meyer and Wise results estimate the effect of a minimum wage in comparison to the situation with no minimum wage and are, therefore, not directly comparable with the other results in this table.	

Studies in both countries reporting that minimum wages have caused job losses have been challenged by others showing that: (a) the minimum wage has no negative impact on youth employment (Netherlands); and (b) the federal minimum wage increase did not lead to employment contraction (United States). On the basis of studies conducted during the 1970s and the first half

## Youth unemployment and employment policy

**Table 6.2** Summary of the principal empirical results of studies carried out in France

Estimated impact of a 10% increase in the minimum wage on youth employment	Male	Female	Total
<b>Category I (earlier studies)</b>			
1.1. Rosa (1980), period of observation (1963–79)	-6.1	NS	-4.1
1.2. Martin (1983), period (1963–79), 15–24	-1.37/-2.36	-0.34/-1.51	-3.81
1.3. Rosa (1985), period (1963–84), 15–24	-4.55	NS	-3.5
<b>Category II (recent studies)</b>			
2.1. Benhayoun (1990), period (1968–1988), 15–24	-2.35/-6.24	-1.88/-1.99	-3.5
2.2. Bazen and Martin (1991), period (1963–86), 15–24	-	-	-1.0/2.0
2.3. Ducos and Plassard (1991), period (1970–88), 15–24, relative employment	-	-	-2.39/-2.65
2.4. Skourias (1992), period (1968–90), 15–24	-1.9/-2.6	-2.6/-3.6	-0.89/-1.48
2.5. Skourias (1995), period (1968–90), 15–24	-	-	-2.0/-2.2
2.6. Benhayoun (1993), period (1968–91)	-1.3/-3.5	NS	NS

NS = not statistically significant; - = not reported.

of the 1980s in the United States, economists there had generally agreed that there was a negative link between minimum wage increases and variations in youth employment. However, the consensus began to collapse in the 1990s, following the publication of studies by Katz and Krueger (1992) and Card and Krueger (1995), reporting a positive coefficient on the minimum wage.

2. In France and Canada, a negative relationship has generally been established between the minimum wage and youth employment. However, most of the authors have admitted that in France *the link is weak and the results fragile*.

3. In other industrialized countries, such as Greece, New Zealand and Portugal, studies have shown that increases in the minimum wage can sometimes harm youth or overall employment levels. However, the effects are generally weak, at least in Greece and Portugal (except for young women aged between 20 and 24), and very few studies have, in fact, been carried out. Further evidence is, therefore, required to confirm or refute these findings.

4. Fewer studies have been carried out in developing countries, and those that have, with the exception of Indonesia, have tended to focus on the relationship between the minimum wage and overall (as opposed to youth) employment. A limited negative effect of the minimum wage has been detected only in Botswana and Kenya. In Botswana, an increase in the minimum wage seems to have had some adverse effects on employment in low-paying sectors,

while in Kenya, the minimum wage adjustment of 1980 seems to have negatively affected employment in the formal private sector but has had no significant impact on employment in the public sector.

5. In the Czech Republic, a study based on simulated results showed that an increase in the minimum wage could have adverse effects on low-skilled jobs because of the upward pressure exerted on the wage bill in the enterprises covered by the study.

In addition, mention should be made of the results reported in OECD (1998), which estimated the employment effects of minimum wages for nine OECD countries using a cross-country panel. The paper reports a variety of specifications giving a wide range of estimated effects. Overall, however, the results provide some support for the existence of a negative employment effect of minimum wages for teenagers (the elasticity of employment with respect to the minimum wage is estimated to be between 0 and  $-0.6$  according to the specification and countries included), but not for young adults. Furthermore, minimum wages are not a significant determinant of the declining employment/population ratio among young people observable in most OECD countries.

Generally, the quality of the analyses, and consequently the reliability of the results carried out over the years, varies greatly from study to study. In particular, the earlier American studies of the 1970s and 1980s were largely based on the now discredited aggregate time-series approach. The results arrived at have been shown to be extremely sensitive to the specification chosen and, furthermore, could suffer from the endogeneity of the variable employed to capture the effect of the minimum wage.<sup>5</sup> Meyer and Wise (1983) suggested an ingenious alternative cross-sectional approach based on the prevailing observed distribution of wages, which, however, proved to be sensitive to the assumptions made concerning the counterfactual wage distribution (Dickens et al., 1998). Although not without their critics, the more recent estimates of Card and Krueger (1995) have the advantage of being based on a natural experiment and are, therefore, perhaps more reliable.

For several reasons, no conclusions can be drawn from the results of the developing and transition economies. Too few studies have been carried out and in some cases the effects have been assessed on the basis of interviews with enterprise managers or trade unions rather than by direct estimation. In other cases the data were either outdated (Botswana and Brazil) or inadequate (Kenya and the Czech Republic). Finally, in some countries there is also a problem of compliance with minimum wage legislation (Indonesia and Botswana), which may play an important role in determining its effects. More work is certainly required in this area. However, the studies that do exist show that the issue of the minimum wage and employment in developing and transition economies is just as relevant as it is in industrialized countries.

## Youth unemployment and employment policy

**Table 6.3** Summary of the principal empirical results in a selection of other countries

Country	Estimated impact of a 10% increase in the minimum wage on youth employment		
	Male	Female	Total
<i>Netherlands</i>			
1. Salverda (1989) low-wage workers (youths and adults)	No effect	No effect	No effect
2. van Soest (1994) 16–23	5.1	-5.9	-
<i>Portugal</i>			
1. Ribeiro (1993)			
15–19	-0.78	-1.11	-
20–24	-0.82	-1.95	-
<i>Greece</i>			
1. Koutsogeorgopoulou (1995) Total employment	-0.59/-1.09	-0.60/-1.1	-
<i>New Zealand</i>			
1. Maloney (1995)			
20–24			-
Skilled			-3.51
Unskilled			-5.71
<i>Canada</i>			
1. Cousineau et al. (1992) Youth unemployment			1.4
2. Cousineau (1993) Young workers under 25		-5.0	
<i>Indonesia</i>			
1. Rama (1998) Urban youth employment rate Workers aged 15–24			0.2/-0.4
<i>Brazil</i>			
1. Camargo (1988) Overall employment		-0.4	
<i>Botswana</i>			
1. ILO/South African Team for Employment Promotion (1988) Overall employment			Overall employment was not greatly affected by the minimum wage, but lowest-paying and most vulnerable sectors did experience adverse effects
2. Scoville and Nyamadzabo (1988) Overall employment			Survey: three employers in 25 reported reduction in permanent staff, following minimum wage increase

Table 6.3 (Continued)

Country	Estimated impact of a 10% increase in the minimum wage on youth employment		
	Male	Female	Total
<i>Kenya</i>			
1. Vandemoortele and Ngola (1982) Overall employment			No effect on employment in the public sector; negative effect on employment in the private sector
<i>Czech Republic</i>			
1. Buchtikova (1995) Overall employment			Minimum wage increase may have adverse effect on low-skilled workers

### 6.3 YOUTH MINIMUM WAGES AND INTERNATIONAL LABOUR STANDARDS

International labour Conventions on minimum wages do not provide for different rates on the basis of age. The ILO Committee of Experts on the Application of Conventions and Recommendations has not expressed a view on whether different minimum wage rates on the basis of age are prohibited by the Conventions. However, although the ILO instruments do not explicitly forbid the fixing of different rates on the basis of age, the Committee of Experts has stated that "... the general principles laid down in other instruments have to be observed, and particularly those contained in the Preamble of the Constitution of the ILO which specifically refers to the application of the principle of 'equal remuneration for work of equal value'" (ILO, 1992, para. 169). Also, it might be argued that the work performed, irrespective of the age of the worker, should be the main criterion for determining the wage paid. Moreover, the Minimum Age Recommendation, 1973 (No. 146), stipulates that "special attention should be given to the provision of fair remuneration to young people, bearing in mind the principle of equal pay for equal work" (Part IV, para. 13(1)(a)). Therefore, the fixing of a lower minimum wage for young workers would contravene the general principles contained in the different ILO instruments. The key question is the value of the work performed. A 1945 International Labour Conference resolution provides that measures taken with regard to young workers' pay should aim at guaranteeing them payment consistent with the work they perform, while respecting, to the extent possible, the principle of equal remuneration for comparable work. Furthermore, as the Committee of Experts has pointed out, "the quantity

and quality of work carried out should be the decisive factor in determining the wage paid" (ILO, 1992, para. 171).

While there are no provisions regarding the age criterion, the Minimum Wage Fixing Machinery (Agriculture) Convention, 1951 (No. 99), and the Minimum Wage Fixing Convention, 1970 (No. 131), provide, respectively, that:

- each member which ratifies this Convention shall be free to determine, after consultation with the most representative organizations of employers and workers concerned, where such exist, to which . . . categories of persons the minimum wage fixing machinery . . . shall be applied (Art.1, para. 2);
- the competent authority in each country shall, in agreement or after full consultation with the representative organizations of employers and workers concerned, where such exist, determine the groups of wage earners to be covered (Art. 1, para. 2).

This means that ratifying member States may decide to exclude some categories of workers from the scope of minimum wage fixing. If so, the Minimum Wage Fixing Convention, 1970 (No. 131), provides in paragraph 3 of Article 1 that the member State concerned "shall list, in the first report on the application of the Convention submitted under article 22 of the Constitution of the ILO, any groups of wage earners which may not have been covered in pursuance of this article, giving the reasons for not covering them . . .". It appears from the above that the possibility of choosing, and hence of excluding, certain categories of workers is subject to the agreement of the social partners, or at least to full consultation with them.

None of the member States has explicitly reported the use of such a possibility in the case of young workers. The Committee of Experts on the Application of Conventions and Recommendations noted, however, in its report on minimum wage fixing machinery (ILO, 1992), the existence of legislation and regulations allowing for the fixing of special minimum wage rates for young workers in member States, including those that had ratified the Conventions on minimum wages (ILO, 1992, paras. 177–181). The Committee of Experts has indicated, however, "that the reasons which were at the origin of the adoption of lower minimum wage rates for some groups of workers on the basis of age . . . shall be re-examined periodically in the light of the principle of equal remuneration".

A distinction should be made between young people who perform the same work as their adult counterparts, and those whose work includes training, such as apprentices. Apprenticeship is, in effect, a mutual exchange between two parties. Apprentices receive training at a cost to the firm, and it is reasonable to assume that they should expect to receive a wage or allowance that takes the value of this training into consideration. In return, once training is completed, they should expect to receive a higher wage than unskilled workers. A lower wage accompanied by training should be regarded as an investment that will yield higher wages in the future.

The situation is quite different for young workers not being trained. Like other workers not benefiting from training, they receive only their wage. A smaller wage for young people performing the same work as adults is unjustifiable, even if lower minimum wage rates for young workers are not prohibited by ILO Conventions. Measures to protect young workers should be implemented in good faith, taking into account the following elements:

- the principle of equal remuneration for work of equal value should apply when no formal training or apprenticeship schemes are being provided by the enterprise;
- the period during which a lower minimum wage rate is applicable to young workers should be limited in order to ensure that the age criterion does not lend itself to abuse.

#### 6.4 THE PRACTICE IN SELECTED COUNTRIES

Minimum wage-fixing mechanisms vary among countries in relation to:

- *Machinery*: The minimum wage can be fixed by statute, where the law plays a vital role; government decision; an ad hoc body made up of representatives from the government, and employers' and workers' organizations; collective agreements; or court rulings.
- *Coverage*: The minimum wage might apply to all or part of the economy, that is, certain sectors, regions or professions.
- *Criteria*: The criteria for fixing or changing the level of the minimum wage can vary between countries.
- *Treatment*: Different rates may apply to some categories of workers, and particularly young workers.

As regards the status of young workers, countries have reacted differently to the conventional wisdom according to which establishing or increasing the minimum wage harms employment. Countries for which data exist fall into three categories:

- Category I: Countries where young workers enjoy the same minimum wage as adults.
- Category II: Countries in which young workers are subject to special minimum wage rate(s). In some countries there is a single youth minimum wage rate (category II.1); in others the minimum wage rate is graded by age (category II.2).
- Category III: Countries in which young workers have no minimum wage protection, because they are excluded or because there is no minimum wage legislation in force.

The following observations can be made from table 6.4:

## Youth unemployment and employment policy

**Table 6.4a** Categorization of selected countries according to the status of young workers in relation to the minimum wage

Category I Youth enjoy the same rate as adults	Category II Countries where youth are subject to special rate		Category III Young workers excluded from minimum wage coverage
	Subcategory II.1 Unique rate for youth	Subcategory II.2 Minimum wage rate graded by age	
Brazil	Kenya	Belgium	New Zealand (until 1984)
Czech Republic	New Zealand (since 1984)	Côte d'Ivoire	United Kingdom
Germany	Portugal (since 1988)	France	(between 1986-93, date of abolition of Wage Councils)
Greece	Spain (since 1990)	Luxembourg	
Indonesia	United Kingdom (since 1998, excludes 16- to 17-year-olds)	Netherlands	
Japan	United States (between 1990-93)	Spain (until 1990)	

**Table 6.4b** Countries of sub-category II.1: Youth minimum wage as a percentage of adult rate

Kenya	New Zealand	Portugal	Spain (since 1990)	United States (1990-93)
71	60	75	66	85

**Table 6.4c** Countries of sub-category II.2: Youth minimum wage as a percentage of adult rate graded by age

Age	Belgium	Côte d'Ivoire	France	Luxembourg	Netherlands	Spain (until 1990)
15	na	60	na	60	30	na
16	70	70	80	70	34.5	39
17	76	80	90	80	39.5	61
18	82	90	100	100	45.5	100
19	88	100	100		52.5	
20	94				61.5	
21	100				72.5	
22					85	
23					100	

na = not applicable.

Source: Ghellab (1998).

- The vast majority of countries for which data are available acknowledge that young workers have a right to minimum wage protection.
- Countries such as Brazil, the Czech Republic, Germany, Greece, Indonesia and Japan apply the same minimum wage rates to young workers as to adults. However, in many countries young workers are subject to minimum wage rates that are lower than those of adults. This suggests that policy-makers, particularly in countries where minimum wage rates are graded by age, believe that a reduction in relative wages according to age facilitates the access of young people to the labour market.

A number of countries apply a lower or “sub-minimum” wage to young people, either a single rate or one graded by age. The reason for doing this is presumably based on the assumption that young workers are less productive than adults and therefore should not be paid as much if employers are to be persuaded to employ them. Why this should be so is not clear. Of course, if jobs are skilled and require training,<sup>6</sup> then young people may well be less productive than their older colleagues. But if this is the case, there is an argument to be made in favour of providing training in order to increase their productivity. As noted above, the lower wage while training allows firms and workers to share training costs. In the United States, the trade unions strongly opposed the then President Bush’s proposal to introduce a sub-minimum wage for teenage workers without compensation in the form of training. The unions viewed training as a “cost” to employers in exchange for the “benefit” of paying young workers less than the minimum wage. In the absence of evidence to the effect that young people are systematically less productive than their adult counterparts even in unskilled occupations, there seems little foundation on which to base a youth sub-minimum wage policy. Finally, it should be added that, in those developing countries that lack a universal system of birth registration and consequently do not have the means to verify people’s age – in the form of birth certificates, for example – any wage policy based on age is likely to face additional compliance problems.

## 6.5 CONCLUDING REMARKS

The analysis above has shown that the link between a change in the minimum wage and youth employment is not automatically negative. Higher youth wages do not necessarily lead to lower youth employment. Contrary to the view that dominated the economic debate for so long, neither theory nor empirical evidence uniformly supports such a relationship. Indeed, several theoretical models predict that the minimum wage can increase employment as a result of “buyer power” on the part of employers or through the increased productivity of workers. Furthermore, empirical research conducted in a number of countries shows that there is still much uncertainty about the direction and extent of the impact of the minimum wage on youth employment. However,

the overall impression is that a minimum wage will have a small or zero effect on the employment of young people. Certainly, any negative impact is outweighed by other factors, such as general economic and demographic conditions. This basic argument remains the same, whether the context concerns the introduction of a uniform minimum wage or subjecting young people to a lower rate (or excluding them from coverage) of an existing minimum wage.

Although many countries currently provide minimum wage protection to young workers, very few apply the same rates to both young and adult workers. This implies that policy-makers expect to increase the demand for young workers by reducing their wages relative to adults. This chapter has suggested that there is little justification for paying workers differently on the basis of age alone.<sup>7</sup> Many OECD countries saw relative wages for young people decline during the 1980s and 1990s, although this did not lead to any obvious improvement in the relative position of young people in the labour market. Indeed, wages have often moved in the opposite direction to youth unemployment rates.

Training is another factor in the debate. When young people receive training, it would not seem unreasonable for them to contribute to its cost by accepting lower wages. The implication is that measures to lower the labour costs of young people should go hand in hand with policies to improve their efficiency through better training and education.

While a large number of studies have been carried out to assess the impact of minimum wages on employment, less attention seems to have been paid to other potential effects, such as the protection of vulnerable workers and the guarantee of a fairer income/wage distribution. Wage levels are an important component in determining the quality of employment. The higher the wages paid to employees, the higher the level of welfare, both individually and socially. With respect to vulnerable workers, it is widely recognized that the minimum wage can be a key element in wage policy since it can protect them against unduly low wages, particularly in sectors where labour is unorganized. In this context, the minimum wage acts as an instrument of welfare.

Furthermore, the minimum wage can play a significant role in income distribution. Freeman (1994, p. 9) attributes four characteristics to the minimum wage, namely that it:

- redistributes income with no immediate consequences on public finances, since it does not lead to rises in taxes;
- increases the incentive to work, unlike many other instruments that transfer income to the poor;<sup>8</sup>
- is administratively simple, particularly in countries with a single national minimum; and
- guarantees a base compensation that takes end benefits "out of competition" at the bottom of the wage distribution.

**Notes**

<sup>1</sup> However, in countries where there is substantial informal sector employment, and more generally where a large proportion of people are self-employed, the question of the minimum wage may be less immediately relevant. Data on both the informal sector and self-employment by age would be useful to help determine the relevance of this issue to young people in specific countries. However, reliable data on this question are not yet widely available.

<sup>2</sup> Simply put, only a few firms buy a specific type of labour, which gives them a degree of “buyer power” when contracting the working conditions of employees.

<sup>3</sup> In such a model, if firms try to reduce the wage below the marginal product of labour, all the workers will leave and join one of the firm’s competitors, who will pay the workers according to their (marginal) productivity.

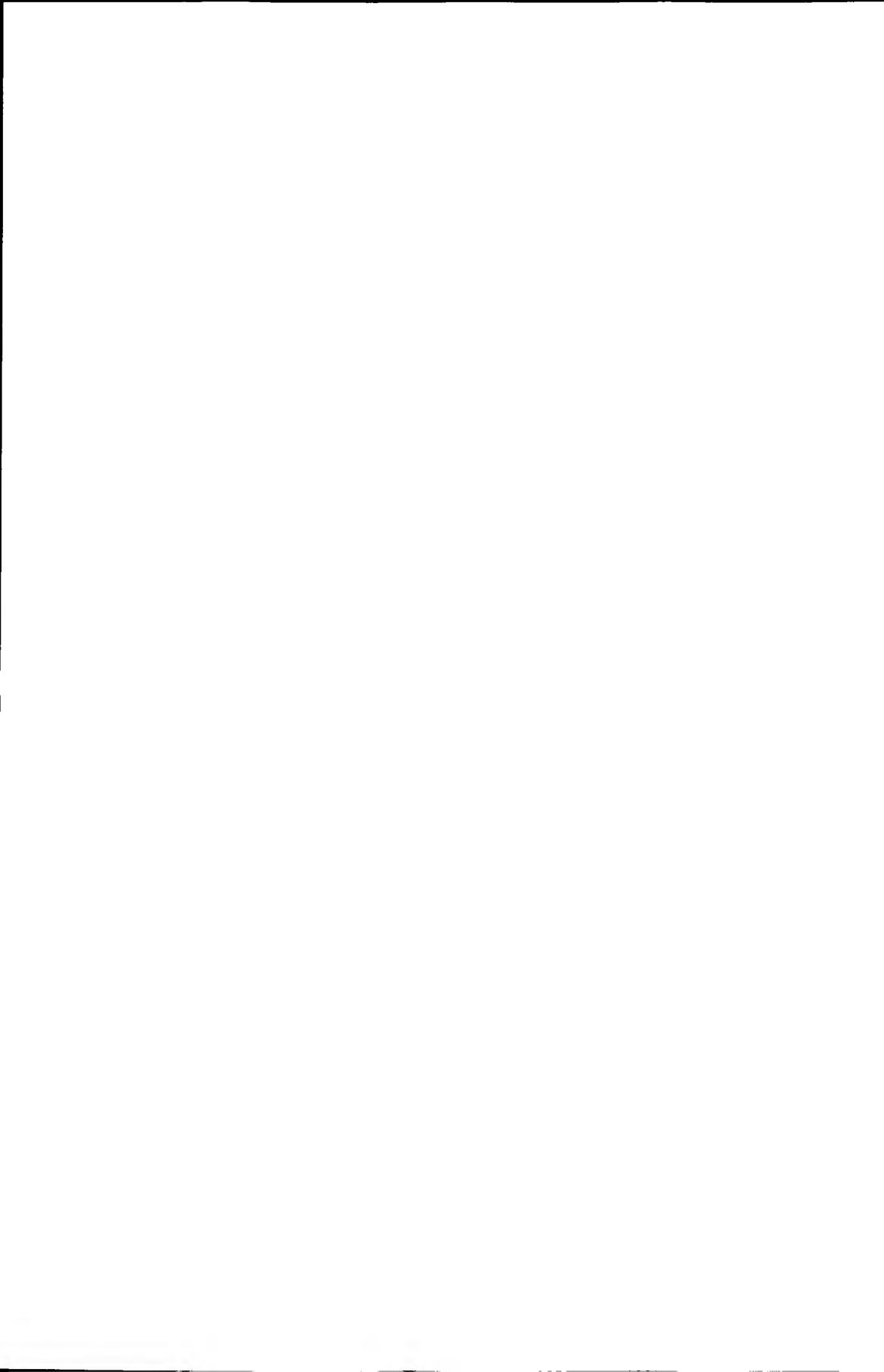
<sup>4</sup> This and the following sections draw on Ghellab (1998).

<sup>5</sup> Usually, the ratio of the minimum to the average wage.

<sup>6</sup> Of course, even the most unskilled job requires some on-the-job training (and learning), even if it is only a question of minutes, hours or days. However, this does not of itself justify paying a lower wage over a period of years.

<sup>7</sup> This does not exclude paying workers according to experience, which tends to rise with age.

<sup>8</sup> However, it should be noted that recent work by the OECD (1998) has found that the majority of low-paid workers reside in moderate- to high-income households, which obviously limits to some extent the role of the minimum wage in alleviating poverty.



This chapter looks at the role of education and training systems in reducing youth unemployment. First, the general situation is examined: sequential versus dual systems, school-based as opposed to work-based training and the role of certification. The dual apprenticeship systems operating in Germany and, to a lesser extent, in Austria, Switzerland and Denmark are looked at, mainly because they have been the most successful in integrating young people into employment. The chapter examines the strengths and weaknesses of the German system and considers which of its elements could be adopted in other countries.

Attention is restricted here to education and training systems as a preparation for the world of work. Even so, any general classification is bound to oversimplify the situation. Nevertheless, an attempt has been made to identify the main characteristics of the various systems, principally those in operation in industrialized countries. It should be noted that there is no clear distinction between education and training systems and ALMP for young people. Most forms of ALMP involve a certain amount of training and, therefore, effectively form part of a country's education and training system. The distinction made in this chapter concerns the system as a whole as opposed to initiatives for young people who are unable to find employment and are therefore subject to ALMP. These initiatives are discussed in Chapter 8.

### 7.1 EDUCATION AND TRAINING SYSTEM MODELS

#### The sequential versus the dual system

Education and training systems can be categorized in a number of different ways. First, one can look at the two basic pathways that exist between school and full-time employment, namely, the systems known as "sequential" and "dual" (Sako, 1994). The sequential pathway is the most common and is found in industrialized, transition and developing countries.<sup>1</sup> In this model,

individuals are educated at school and then go on to full-time work with an employer who gives them job-specific training as required. By contrast, a dual system is one in which the majority of school-leavers undertake an apprenticeship or traineeship before becoming full-time employees.<sup>2</sup>

### School versus the workplace

Further distinctions can be made between systems, for example, the extent to which vocational training is provided by schools and the extent to which it is undertaken in the workplace. At one extreme there are systems in which vocational training is largely theoretical and takes place in schools. This is the case in France<sup>3</sup>, for example, and also to some extent in Italy, as well as in many Central and Eastern European countries. These forms of training teach a fairly broad-based theoretical curriculum of occupational activities and are really closer to general education than work-based training. Young people are not confronted with real-life situations, although in some cases training does involve periods of work experience.

At the other end of the spectrum there are systems in which training takes place almost exclusively in the workplace, such as in the United Kingdom and the United States.<sup>4</sup> These systems have the advantage of providing concrete work experience but at the cost of low individual flexibility. The skills acquired are also mainly firm specific (Blossfeld, 1994).

Given the advantages and disadvantages of the two extremes, it is perhaps not surprising that most countries opt for a combination of the two. Germany's dual system, for example, combines on-the-job apprenticeship by enterprises with school-based education. This is also true of the Latin American systems, which are based on vocational training centres that are essentially enterprise based and have close links with employers. Some of these centres were once operated by railway companies which, in the past, were among the biggest employers of skilled labour. This was the case with Brazil's National Industrial Apprenticeship Service (SENAI), which pioneered these centres in Latin America. The centres maintain good contacts with industry and are financed by a payroll levy, which gives them financial stability and a long-range planning horizon (de Moura Castro and Altham, 1992). The Caribbean system is also influenced by this model: in Jamaica vocational training is supervised by the Human Employment and Resource Training (HEART) Trust, financed by mandatory employer contributions, as well as by contributions from international donors.<sup>5</sup>

Even Japan, which is generally believed to rely mostly on post-school enterprise-based training, in fact uses a mixture of the two. Although training is largely sponsored by firms who take on large numbers of new school-leavers on the basis of full-time regular contracts, much of this training takes place outside the firm; off-the-job training is higher in Japan than in either France or the United States. Interestingly, the incidence of off-the-job training does

not vary greatly across different levels of educational attainment, except for those with tertiary qualifications who tend to receive more than their less-educated counterparts (Mitani, 1999). Large firms offer lifetime employment (although there are some signs of erosion of the lifetime employment system) and attractive wages linked to heavy investment in the continuing training and retraining of their workforce. This component of the system relates to the enterprise-based internal labour market; young people with no specific vocational training are recruited on the basis of their general competence. They are then assigned to a succession of different posts and given on- and off-the-job training, thus acquiring a wide range of general and practical skills. They also become familiar with the enterprise as a whole (Caillods, 1994).

However, most employees in Japan work in small and medium-sized enterprises, which often do not have the resources or expertise to train their workforce adequately. The training needs of these companies are met by secondary vocational schools, which account for around one-quarter of secondary school students, and specialized training schools at post-secondary level. The latter train according to the requirements of large enterprises, providing general training with a low level of specialization (*ibid.*).

## Certification

Training mechanisms can also be classified according to how widely the skills recognition system is standardized. An outstanding example is provided by the German model: both the theoretical and the practical aspects of the country's dual system are highly standardized and there is relatively tight quality control. The widespread recognition of the German diplomas, along with the observance of specific quality norms in awarding them, means that their information content is relatively high, which obviously increases their value in employers' eyes.

The reverse is true of the skills recognition system in the United Kingdom, which recently extended the number and type of vocational qualifications with, in 1998, the introduction of National Vocational Qualifications (NVQs) and General National Vocational Qualifications (GNVQs), with the aim of increasing the quantity and quality of vocational training by enhancing certification. However, heavy reliance on employers to carry out the certification of employee skills gives an incentive to certify low-quality training as high quality, since government support for training in firms depends on a certain proportion of participants obtaining diplomas (Ryan, 1994b). Certainly, these new qualifications have not yet been universally accepted. Robinson (1996) shows that the NVQs have not replaced traditional forms of certification and have not led to an increase in the overall level of training available to individuals.

At the other end of the scale are systems that consist of providing on-the-job, firm-specific skills, as, for example, in the United States and to some extent in the United Kingdom. Training is not generally standardized in these systems,

and they have the advantage that workers are not restricted to narrowly defined occupational fields as in the dual systems. At least in principle, occupational requirements can easily be adjusted to reflect, for example, changing technology. Indeed, a number of studies have noted that the degree of occupational and sectoral mobility is higher in these countries than in Germany (Blossfeld, 1994). France, with its highly standardized school-based training, combined with non-standardized on-the-job training, comes somewhere between the two extremes.

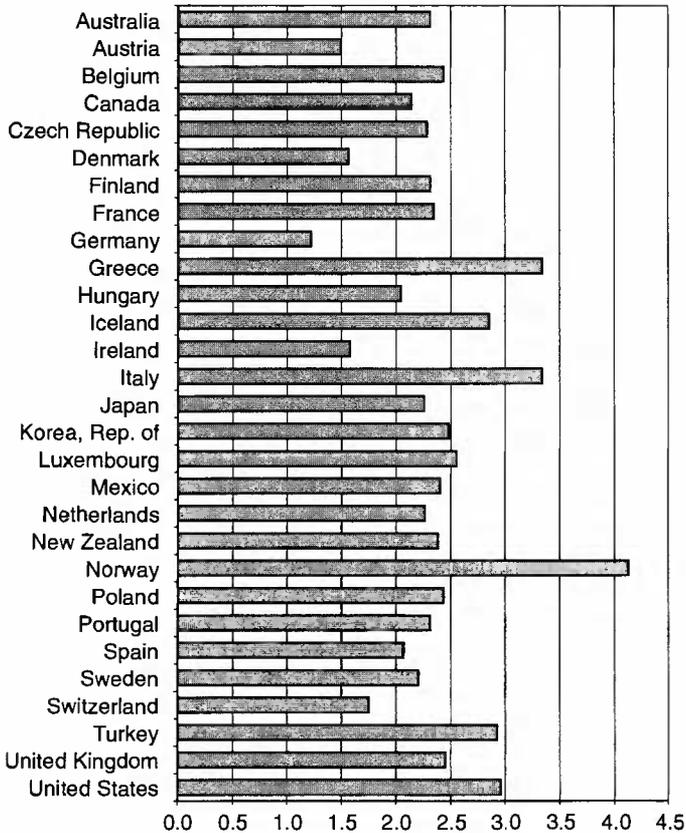
### What works?

So which type of education and/or training system tackles youth unemployment best? Basically, youth unemployment is related to a country's level of economic activity. Naturally enough, however, different countries display very different *relative* levels of youth unemployment. Figure 7.1 shows the ratio of youth unemployment rates (15–24) to adult rates (25–54) for a range of countries and reveals that the dual system comes out best in the cross-country comparison. The two countries with the lowest ratio of youth to adult unemployment rates – Germany and Austria – both operate the dual apprenticeship system. Denmark, which has around 40 per cent of its young people participating in apprenticeships (Westergård-Nielsen and Rasmussen, 1997), is ranked fourth. Switzerland's dual system has encountered a certain amount of problems in recent years, with the country seeing a relatively large rise in unemployment; in terms of the ratio of youth to adult unemployment Switzerland has fallen from second to fifth place since 1996.

Perhaps most surprising of all is the relatively poor performance of France and Italy, two countries with highly standardized school-based vocational training systems. This would seem to suggest that vocationally oriented educational systems are not in themselves sufficient to provide a good entry point into employment. Rather, it seems it is the strong links between work and education that exist in countries operating the dual system that are of prime importance.

This is supported by the experience of the United Kingdom and the United States, neither of which come out of the comparison particularly well: both have a ratio of youth-to-adult unemployment rates of over 2, despite, for example, a massive increase in government intervention in the youth labour market in the United Kingdom during the late 1980s and the 1990s. The implication of the experiences of these two countries is that work-based training without links to the education system is also not in itself sufficient. Also surprising are the ratios for Japan and the Republic of Korea. Although influenced by the recent Asian crisis, these ratios have remained more or less stable for several years. Consequently, youth unemployment rates are low compared with other countries, despite the Asian crisis, although not in relation to adults within these countries. This suggests that the transition from school to work in these countries is not as smooth as commentators often imply, although, given the

**Figure 7.1** Ratio of youth (15–24) to adult (25–54) unemployment rates in the OECD countries, 1998



Source: OECD: *Employment Outlook* (Paris, 1999).

overall low rate of youth unemployment, only a relatively small number of young people are affected.<sup>6</sup>

Finally, it is worth taking a brief look at the relatively poor performance of Norway and the relatively good performance of Ireland. These results are probably heavily influenced by the recession of the 1990s in the former country and by Ireland's extraordinarily strong recent growth rate. Young people are likely to be the first to suffer when countries move into recession and they may also benefit more than adults when new jobs become available, as in the case of Ireland with its high rate of economic growth during the 1990s.

But the most striking aspect to emerge from this figure is the relative success of the dual system in keeping down youth unemployment rates, in relation to

those of adults. It is, therefore, particularly appropriate to examine the dual system in more detail to see what can be learned and then applied in other countries.

## 7.2 GERMANY'S DUAL SYSTEM<sup>7</sup>

Although the situation of young, particularly male, adults seems to have been deteriorating since reunification in October 1990, Germany still has relatively low levels of youth and, in particular, teenage unemployment. Numerous studies have been made of the system (Steedman, 1993; Soskice, 1994), so just a brief outline of its principal characteristics, advantages and disadvantages is given below.

The German educational system is highly structured, with a substantial degree of integration between schools and the labour market. Post-school routes are heavily influenced by the type of secondary school that a young person attends, which means that occupational choice, or at least the range of choices available to individuals, is decided very early on in life. Figure 7.2 displays the options available at different ages. The first important decision to be made comes at the age of 11 when pupils face three options: higher secondary school (*Gymnasium*), intermediate secondary school (*Realschule*) and lower secondary school (*Hauptschule*). The choice, partly determined by an individual's performance in primary school, determines the alternatives available to the young person later in life. At age 15, lower-secondary school students can enter either the labour force or the dual system of vocational training. Attendance at intermediate school gives young people the additional option of full-time vocational or technical school. Finally, young people in higher-secondary schools can enter university after eight or nine years of secondary education.

Most young Germans undertake some form of education or vocational training at least up to the age of 18;<sup>8</sup> most (65–70 per cent of young people) do an apprenticeship (Finegold and Crouch, 1994). Those who decide to enter the labour force at this stage must attend a vocational school on a part-time basis or else fulfil the vocational education requirement in one block before looking for work. In 1990, the vast majority (87 per cent) of lower-secondary school-leavers took part in some form of further training (Franz and Pohlmeier, 1996).

Apprenticeships are based on formal in-company training, complemented by day or block release for theoretical training at school. This is the principal option chosen by those with lower- or intermediate-secondary schooling. More surprisingly, 15 per cent of higher-secondary school-leavers also choose to do an apprenticeship.<sup>9</sup> Trainees spend from between one and two days a week in school and the rest of the time in a firm or training workshop. More than 300 occupations are covered by the system, and training can take from between two to three-and-a-half years. The curriculum is defined in the Vocational Training Act, with a common examination at the end of training and

Figure 7.2 The German education system<sup>1</sup>

Age	University (1,214,715)	Specialized higher education (612,514) leading to <i>Certificate of aptitude for specialized short programme of higher education</i>	Specialized vocational qualifications (master craftsperson) (154,362) leading to a <i>Certificate of vocational qualification</i>	Labour force
20+				
19				
18 <sup>4</sup>				
17	Higher secondary school <i>Gymnasium</i> (1,864,360)	Full-time vocational/technical schools (469,514)	Dual system of vocational training: Pre-vocational training year (1,816,469)	
16				
15 <sup>3</sup>				
14				
13	Intermediate secondary school <i>Realschule</i> (1,039,081)	Lower secondary school <i>Hauptschule</i> (1,446,205) <sup>2</sup>		
12				
11	Primary school			
10				
9				
8				
7				
6				

<sup>1</sup>Enrolment numbers are for the 1991/92 school year. <sup>2</sup>Secondary school numbers do not include: special schools for disabled students, *Sonderschulen* (344,006); special programmes still in place in the eastern part of Germany, *Polytechnische Oberschulen 5–10 Klassenstufe* (356,573); or transition programmes, *Integrierte Klassen für Haupt- und Realschüler* (137,209). <sup>3</sup>End of State I of secondary education. <sup>4</sup>End of Stage II of secondary education.

Source: Gross (1998).

the award of a nationally recognized diploma. Apprentices are covered by social programmes and receive a small allowance. After a three-month probationary period, trainees cannot be laid off, although employers are under no obligation to retain apprentices after they qualify.

Firms are under no legal obligation to provide training places. The main incentive to do so is that training costs can be deducted from a firm's taxable income. Companies can also benefit from the relatively low cost of the trainee allowance. On average, this is around one-third of a skilled worker's wage, compared with, for example, around two-thirds in the United Kingdom (Wagner, 1995). The relatively low remuneration of apprentices in Germany means that they are effectively contributing to the cost of their own training.<sup>10</sup> Firms adjust the number of apprenticeships according to the business cycle,

while the demand for positions on the part of young people largely reflects the demographics of the teenage population. During the first part of the 1980s, the combination of a long recession and the arrival in the labour market of large numbers of teenagers led to a significant shortage of training places: in September 1984 there were around 58,000 unemployed candidates and only about 21,000 vacant apprenticeship places. Government pressure, particularly the threat of imposing a levy on firms not taking on apprentices, quickly led to an increase in supply (Schmidt and Zimmerman, 1996).

In fact, the early 1990s saw the emergence of an excess supply of apprenticeship places in certain occupations, largely due to a fall in demand by young people for apprenticeships in these sectors. In 1997, places and applicants were more or less equal; overall, there were 96.6 apprenticeships available for every 100 seekers (BMB + F, 1998). This disguises the fact that some applicants would clearly be unsuitable and also does not take into account substantial sectoral and regional variations in the ratio of applicants to places. Büchtemann and Vogler-Ludwig (1996) have argued that the excess supply in some sectors has led to a decline in the quality of candidates for blue-collar apprenticeships, and that industrial firms have been forced to recruit apprentices from the lower end of the ability spectrum. One consequence seems to be that a growing number of firms are reporting that they are having trouble training their apprentices. There has also been a decline in success rates, leading to an increase in the cost to firms of producing qualified skilled workers. Many large industrial firms have begun to reduce their training activities, and the sectoral distribution of new apprenticeship contracts has undergone a marked shift from industry and commerce towards the crafts sector, where training costs are lower.

Schmidt and Zimmermann (1996), on the other hand, have found no evidence that the relative rates of return to training changed during the late 1980s and early 1990s. They argue that the excess supply of apprenticeship places was the result of the country adapting too slowly to the worldwide restructuring of skills distribution, rather than because of a declining interest in the system of apprenticeship. Certainly, in the eastern part of the country there is a growing shortage of positions, indicating a clear interest in apprenticeship in that area.

For those who do not enter higher education or undertake an apprenticeship, remedial measures are available in the form of one-year prevocational courses, which give general training and instruction in subjects common to a range of occupations, replacing between six months to a year of normal apprenticeship training. However, it is clear that the dual system is least successful for those at the lower end of the educational spectrum. Butler and Tessaring (1993, cited in Büchtemann and Vogler-Ludwig, 1996) report that, in 1993, the unemployment rates of those who did not complete vocational school or an apprenticeship stood at 18.6 per cent, nearly three times the unemployment rate of those who had completed training (6.3 per cent). Those with advanced vocational training, a technical college degree or a university degree were even

better placed, with unemployment rates of 3.4 per cent, 4.2 per cent and 4.7 per cent respectively. Recently, shorter apprenticeships have been proposed for young people who have trouble completing the standard scheme.

One final element of the German dual system that is worth emphasizing is the involvement of the social partners. Germany has a long tradition of social consensus in its provision of high-quality vocational training. The social partners are actively involved in determining both the content and certification of vocational training, which, in turn, means that they are fully supportive of the system. "Both unions and employers are participating in various national committees which do not only regulate the output of apprenticeship training programs, but often regulate the content as well. For instance, they may list the skills which the training program must cover as well as, in some cases, the amount of time they [the skills] are to receive in the curriculum" (Harhoff and Kane, 1997, p. 178). The social partners also contribute in other ways. Soskice (1994), for example, has argued that union influence over plant-level works councils plays a crucial role in ensuring that firms finance apprenticeship training. According to this argument, the poaching of skilled workers by competitors is limited owing to the involvement of works councils in setting differential wage agreements for workers trained internally or externally to the firm. Certainly, this goes some way towards explaining why firms are willing to help finance a system with such a substantial general component.

To summarize, the German system is characterized by:

- high participation rates in education and skills training. This is reflected in the relatively high average level of education and skills training;
- relatively low levels of apprentice remuneration, standing at around one-third of the skilled workers' wage as opposed to two-thirds in the United Kingdom. This implies that apprentices are effectively making a substantial contribution to the cost of their own training;
- both general and specific elements in apprentice training;
- vocational training that is highly regulated, with a tightly controlled system of certification that produces uniform standards in occupational qualifications;
- strong representation of all the social partners at all levels of implementation and administration.

## Strengths

As the German system has been largely successful in combating youth unemployment, other countries would do well to learn from it, particularly with respect to the school-to-work transition. Rates of *teenage* unemployment are low, often significantly lower than rates of adult unemployment. Its strengths can be summarized as follows:

## Youth unemployment and employment policy

- It is based on nationally regulated and universally accepted skills certification, with a high degree of standardization. Young people acquire institutionally defined and nationally recognized skills that are highly portable within (and to some extent across) occupations. This facilitates labour market matching and, in principle at least, labour market mobility.
- Employers' and workers' organizations are involved in determining the content of training and in supervising certification. This improves the relevance of qualifications, as well as increasing the commitment of these organizations to the success of the system.
- The system has solved the financing problem. Training costs are borne to varying degrees by firms, trainees and the State. Trainees are prepared to accept part of the training costs because they know they will end up with a high level of marketable skills. Larger firms, where the net cost of apprenticeships tends to be positive, know that they will usually be able to retain apprentices when they qualify as the wage determination system makes it difficult for other firms to use wage incentives to poach skilled workers.<sup>11</sup> In smaller firms, the net costs of training are more likely to be negative, which in itself is an incentive to provide training.
- The dual system effectively provides a sheltered entry point into employment. Low apprentice remuneration encourages employers to participate in the scheme and the provision of high-quality training means that skilled young workers are likely to find employment when they complete their apprenticeship.

## Weaknesses

Its weaknesses can be summarized as follows:

- It is highly structured and inflexible. Young people's career patterns are decided very early on in life, although this is perhaps due more to the structure of the three-tier schooling system than to that of post-school dual apprenticeships.
- It is questionable whether such a rigid system can adequately cope with rapid changes in the economic environment (Büchtemann and Vogler-Ludwig, 1996). In particular, the apprenticeship system has not adjusted sufficiently to the growth of service sector occupations.
- While the system has gone a long way towards solving the teenage unemployment problem, deteriorating labour market conditions following reunification have led to the emerging problem of young adult unemployment. This is, in part, due to a reduction in the retention rates by firms of their graduating apprentices (Wolfinger, 1996).
- The German system has not entirely solved the problem of disadvantaged or "hard to employ" youths. Failing early on in the transition from school to

work has long-lasting effects on later careers and incomes. Those who initially fail to undertake some form of vocational training are unlikely to be able to re-enter training to upgrade their qualifications later in life. Also, those young people who do not find work shortly after completing vocational training are more likely to face longer periods of unemployment than those who immediately find work (Franz and Pohlmeier, 1996). In the current poor labour market situation, these problems are likely to worsen.

- Fewer enterprises are offering apprenticeship places. Between 1985 and 1995, the proportion of establishments with apprenticeship training shrank from one-third to one-quarter (BMB + F, 1998).

### 7.3 CONCLUDING REMARKS: LESSONS TO BE LEARNED

The key to a successful youth employment policy is a healthy overall economic situation. Even the German system has been showing that it cannot prevent substantial levels of unemployment in the face of falling aggregate demand. Having said this, much can be done within the realm of an effective employment policy. Second, all the countries with German-type dual apprenticeship systems have been able to maintain levels of youth unemployment comparable to adult rates. This is in stark contrast with almost every other country operating the sequential system, where youth unemployment rates are typically twice or three times as high as those of adults.

What then are the lessons to be learned from the German model? It is unlikely that countries will be either willing or able to adopt the German system in its entirety, but there are a number of possible avenues that other countries might be able to explore. First, vocational education policy needs to be closely linked to the world of work. Countries with a system based on purely theoretical vocational education such as, until recently, France, or those, such as the United States, that are almost exclusively work based, are not nearly as effective in easing the school-to-work transition as dual systems.

Second, it is vital that an adequate skills recognition system be in place. British experience has shown that poor standards of certification defeat the object of having them in the first place. Ownership of a diploma should infer a certain level of skills and knowledge, so that they are valued by employers. One way of facilitating this is through a nationally regulated, universally accepted and highly standardized system of certification. The involvement of employers' and workers' organizations can play a major role here. Employers are presumably more aware than governments of their skills requirements, and unions can represent the interests of individuals more adequately within the system. The involvement of these organizations also broadens support for the system chosen.

Third, the German solution to financing training is something that could be adopted across the spectrum. Sharing the costs between employers, the State and trainees is a viable means of financing training that could work in many

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countries. Furthermore, a financial commitment by participants is likely to increase their desire to make the system work. It should be remembered, however, that reducing the wages paid to young people is unlikely to be an effective way of resolving the youth problem.

Finally, it is worth re-emphasizing the importance of involving workers' and employers' organizations to improve the effectiveness and enhance the commitment of the social partners to their national vocational training system.

### Notes

<sup>1</sup> Of course such a strict dichotomy does not characterize the majority of countries, most of which operate some form of dual system. In the transition economies of Central and Eastern Europe, there is some disagreement concerning their classification as sequential or dual. Viertel (1994) argues that they are best seen as a dual system, while Weirböck-Buck et al. (1997) suggest they should be seen more as sequential systems, since vocational training is largely school based. In this sense, the systems resemble the French model of vocational schools more closely.

<sup>2</sup> For a detailed discussion on different types of training systems, see ILO (1998, Chapter 3).

<sup>3</sup> However, during the 1990s the French apprenticeship scheme was substantially reformed and expanded.

<sup>4</sup> This is an oversimplification. Particularly in recent years the United Kingdom has moved towards providing some vocational training in schools, initially through the introduction of the TVEI and more recently with the system of General National Vocational Qualifications (GNVQs). The British system also incorporates some elements of the dual system with the apprenticeship system, as well as through the YTS and Youth Training (YT), now replaced by the National Traineeship. The United Kingdom is considering whether to send low-achieving young people from the age of 14 to special colleges, which would incorporate work placements.

<sup>5</sup> HEART programmes are considered part of ALMP in Jamaica and are, therefore, discussed more fully in Chapter 8.

<sup>6</sup> In 1998, resignations in Japan still accounted for 75 per cent of all terminations of contract among the young. However, in all countries a large proportion of youth unemployment can be attributed to the failure of young people to find a first job. There are indications that difficulties are emerging for new entrants as a result of the Asian crisis: the number of young people who remained unemployed following graduation rose from 50,000 in February 1991 to 70,000 in February 1998 (Mitani, 1999).

<sup>7</sup> This section draws on Gross (1998).

<sup>8</sup> By law, young people who leave school early in Germany are required to attend a vocational college part time up to the age of 18, although most states allow young people not in apprenticeship to satisfy the vocational college requirement by undertaking full-time vocational training for one year only, usually between the ages of 15 and 16 (Steedman, 1993).

<sup>9</sup> Recently young Germans have been staying on at school for longer before starting their apprenticeship programmes. In 1970, 79.7 per cent of young people entering the dual system had fulfilled only the minimum requirements. By 1990, the figure had dropped to 43.7 per cent (Gross, 1998).

<sup>10</sup> Soskice (1994) has noted that many companies make a net profit out of apprentices, although this is not true for apprenticeships in higher skills. According to estimates produced by the Federal Institute of Vocational Training Research, on average apprentices add value of DM13,530 (US\$6,300) per annum through productive inputs, while the cost of the training allowance is only DM12,700 (BMB + F, 1998).

<sup>11</sup> A second, theoretical reason for the lack of poaching in the German system has been put forward by Acemoglu and Pischke (1998), who have suggested that, because firms know more

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about the productivity of their employees than other potential employers and are able to pay workers less than their marginal product because of labour market imperfections, there is less incentive for other firms to try and poach workers. Harhoff and Kane (1997) have argued that the general reluctance of German workers to move geographically gives employers a certain amount of power. They have also argued that it may be easier to adjust the number of apprentices than the regular workforce. Therefore, apprentices "become a buffer for adjusting employment levels in response to short-term demand fluctuations" (Harhoff and Kane, 1997, p. 185).



This chapter examines the role of **ALMP** in alleviating youth unemployment. **ALMP** can be defined as public transfers that are linked to some form of activity (usually subsidized work experience or training) with the aim of helping job-seekers obtain gainful employment.<sup>1</sup> The two types of policies most commonly used are:

- those that promote wage employment,<sup>2</sup> generally through a combination of subsidized work placement and vocational training;
- those that encourage young people to become self-employed, usually involving a combination of training in business methods, facilitated access to credit or grants and access to work space.

Although these measures understandably overlap in some areas, it is worth considering them separately (sections 8.1 and 8.2). A major problem with **ALMP** in many countries is that policies tend to help most those already in a position to help themselves rather than concentrating on the most disadvantaged young people. Section 8.3 looks at the arguments for giving more weight to measures to help those least able to integrate themselves into the labour market, from the points of view of programme efficiency and social justice.

It is difficult to assess accurately the usefulness of different types of programme since most are not subject to rigorous evaluation. Outside the United States and increasingly Europe, the adequate evaluation of programmes along the lines indicated in Chapter 5 is still relatively rare.

### 8.1 POLICIES THAT PROMOTE WAGE EMPLOYMENT

Policies that promote wage employment are most common in industrialized countries and, more recently, in the transition economies of Central and Eastern Europe. The main form of policy is a subsidized period of work experience or training, or a combination of the two. The second type of policy is job search assistance, which can take on a number of forms, such as interviews with

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employment officers for newly employed people or compulsory interviews after a given period of unemployment.

Many EU countries have adopted new policies towards young people in conformity with the Union's 1998 and 1999 Employment Policy Guidelines. One key feature of the EU initiative is the obligatory nature of many of the new programmes: in most cases, young people who refuse to accept placements under the programmes can lose their right to state unemployment or social security benefits.

Since 1994, all young people in Denmark under the age of 25 who have not completed formal education or training and who have been unemployed for at least six months are required to follow some kind of course for a period of at least 18 months. In Finland, since 1996 young people under 20 no longer have the right to unemployment benefits if they do not apply for training or ALMPs. Opportunities for education and apprenticeship have all been considerably increased in Finland.

In the United Kingdom, the New Deal package was introduced on a pilot basis in January 1998 and launched nationwide in April of that year. It covers all young people aged 18-24 who have been on the unemployment register for at least six months. All participants enter an initial Gateway programme, which can last up to four months and during which they receive vocational guidance and counselling. After this, those people who do not find unsubsidized employment must take up one of five options, involving either work experience, education or self-employment. They are: accept a job with an employer; accept a job with a voluntary sector organization; go into full-time basic skills education or training; work with an Environmental Task Force; or enter subsidized self-employment. Young people who fail to take up one of these options are likely to lose their right to unemployment and/or social security benefits.

A similar form of policy was introduced in France in 1997. In addition, France recently introduced the TRACE (*Trajet d'accès à l'emploi*) programme. Aimed at hard-to-employ young people, this programme provides a "route to integration" lasting up to 18 months for young people facing severe family, social and/or cultural problems, and includes skills diagnosis, the teaching of basic skills and training towards occupational qualifications. In 1998 around 10,000 disadvantaged young people participated in the scheme, and the figures are expected to rise to 60,000 by 2001.

The rest of this section looks at general policy issues before presenting some case studies of youth employment policy in the United Kingdom and Jamaica.

## Policy issues

### *Work experience versus training versus job search assistance*

It is now generally recognized that what works best is a combination of subsidized work experience and vocational training. For one thing, work experience

schemes alone tend to have large deadweight, displacement and substitution effects. The "deadweight" effect refers to the fact that some of those young people employed as a result of a programme replace other young people who would have been taken on had the scheme not existed. "Substitution" refers to the fact that some programme participants replace other categories of workers (in this case older ones) who would have been employed had the scheme not taken place. "Displacement" refers to the loss of employment in other enterprises owing to the competitive advantage gained by firms employing programme participants. In one extreme case, an evaluation of employment subsidies in Ireland found that the total of these three effects came to 95 per cent, that is, only 5 per cent of the jobs funded represented net job creation (Breen and Halpin, 1989). In an analysis of the YTS in the United Kingdom, Begg et al. (1991) found that the deadweight and substitution effects varied between 40 per cent and 80 per cent, according to the period studied. And although combined work experience and training can also involve displacement, displacement is likely to be lower for training schemes because of the required period of off-the-job general training.

A stronger argument in favour of combining some general training with work experience concerns their positive effect on employment prospects generally. Comparative studies of work experience versus training schemes are quite rare. Bonnal et al. (1995), though, have found that while the occupational training programme in France (*stages d'insertion à la vie professionnelle*) had a positive impact on participants' chances of finding work, the solely work experience scheme (*travaux d'utilité collective*) did not. Calmfors (1994) has noted that evaluations in Sweden have shown that training programmes have consistently better results (in terms of raising participants' chances of finding work) than subsidized employment, although he argues that this may be because participants on training programmes usually earn less than people on job creation schemes. Improvements can also be seen in job quality. Since job training enhances an individual's skills, it is also likely to improve not only the chances of that person finding a job but also the quality of that job. Taking a broader perspective, the OECD (1990) has argued strongly in favour of training to improve the quality of labour supply and to avoid skills shortages at a time of rapid technological change.

Interestingly, many evaluations find that participants' wages *fall* rather than rise after they have taken part in a training programme (see Ryan and Büchtemann, 1996). Several explanations have been advanced to explain this finding. First, evaluations are often undertaken too soon after a programme has been completed – typically one year later – which means that not much time has been allowed for productivity gains to be adequately realized. Second, the content of training programmes is usually rather low (Grubb, 1995). This is not a criticism of training programmes per se, but rather suggests that more attention needs to be paid to monitoring programme quality. Third, and one that is particularly applicable in the case of the United Kingdom and

is considered below, one of the mechanisms through which some training programmes operate (and, it is suggested, are intended to work) is by lowering the reservation wage of participants, that is, the lowest wage at which a person would accept employment.

Similarly, it is often suggested that vocational training alone is less effective than combined work experience and training. Grubb (1995) favours a combination of work-based placements and school-based activities, and his arguments are essentially similar to those advanced against purely theoretical vocational training regimes prevailing in countries such as France. In addition to providing training, work placements provide access to employers, who can vet potential employees on the job. They also receive some job-specific training, which will increase their value to the employer. However, it seems to be that it is the removal of the initial access barrier and the provision of a sheltered entry into the workplace that is perhaps the strongest argument in favour of including work placement in vocational training programmes. And taking into account the potential sustainability of the positions, it is not surprising that the most successful programmes are those that place trainees with private-sector employers rather than those that offer temporary placements in public-sector job creation projects.

In general, then, work experience combined with training seems to be the most effective form of policy. However, it should be recognized that the effectiveness of both these methods is likely to depend on the particular country's economic cycle. Job training does not in itself create post-programme employment, and participants who have completed a scheme are much more likely to find work when economic conditions are buoyant. During a recession, work experience programmes are a useful means of maintaining young people's attachment to the labour market without giving them unrealistic expectations of post-programme job openings. In times of relative prosperity, job training programmes can help resolve problems with skills mismatches. Furthermore, the displacement effect of work experience programmes is likely to be much lower during a recession when there are fewer job opportunities for young people. A recession can also free up capacity, providing opportunities for workers to upgrade their skills. Thus, the choice of programme will, to some extent, depend on prevailing economic conditions.

And what about job search assistance? It is argued ever more frequently (see OECD, 1993) that measures aimed at helping job search are as effective as the much more expensive job training and employment creation programmes. However, this raises questions about how job search "assistance" works and how its effectiveness is measured. First, such "assistance" typically involves a degree of obligation on the part of those who are "assisted". For example, jobseekers are often required to attend interviews at the employment office after a fixed period of unemployment, and failure to do so can lead to the partial or total loss of unemployment benefit. Thus, it is plausible to assume that the degree of obligation could be forcing benefit recipients to accept

unsuitable jobs or may even be discouraging them from claiming benefit at all. Second, and by extension, the measure of success most frequently used to evaluate job search assistance is the effect it has on the unemployment register: most evaluations find that the number of people receiving unemployment benefit falls slightly as a result of job assistance measures. However, as just explained, this does not necessarily mean that people are finding jobs. Another point is that in some countries, such as Canada, job search assistance programmes have been associated with a fall in the subsequent earnings of participants (Fay, 1996). In the United States, Meyer (1995) found that re-employment bonuses had no effect on earnings. Both these findings raise the possibility that participants in such programmes are possibly feeling compelled to accept unsuitable jobs. Thus, it would seem logical to deduce that job search assistance is not an adequate substitute for training and employment programmes. It should be added, however that the two approaches are not mutually exclusive. Indeed, some forms of job search assistance – above all vocational guidance and counselling – are increasingly included in more general training and employment programmes in industrialized countries. This is the case with the New Deal in the United Kingdom.

### *Targeting*

One of the main findings of programme evaluation is the importance of targeting. It has generally been found that closely targeted programmes are more effective than non-targeted ones (OECD, 1993; Fay, 1996). The reasons for this are not hard to identify: programmes that are better tailored to meet the needs and abilities of specific groups are obviously likely to be more successful than others. Targeting can also apply to the industrial sectors involved. Thus, in the Jamaican case study considered below, vocational training programmes were designed for specific sectors, following an investigation of skills needs in the economy.

### *Diminishing returns*

Related to targeting is the scale of programmes. A general finding in the literature is that programmes are subject to diminishing marginal returns: the larger a programme is, the less likely it will be able to help all the participants and its average effectiveness will also decline. In other words, the larger work experience and training programmes are, the more difficult it is to tailor them to the specific needs of participants. Furthermore, as programmes are extended, the scope for improving the relative competitiveness of participants falls and deadweight losses increase (Calmfors, 1994). If one combines this observation with the general finding that most programmes have tended to help those who are already in a relatively advantaged position in the labour market, then it would seem logical to concentrate efforts on more disadvantaged groups, an idea that is developed in section 8.3.

### *Financing*

What is the best means of financing programmes? The most common method is for governments to finance schemes from general revenue, although at least part of the cost is often borne by firms. Thus, where a fixed subsidy is offered, some of the cost can be paid by firms, either by “topping up” trainee allowances or by contributing to the cost of off-the-job training. Similarly, young people sometimes contribute to the scheme by accepting a lower level of remuneration. In the United Kingdom, it was found that the more successful schemes were those in which firms contributed to the cost, perhaps reflecting the greater commitment of these firms to ensuring high-quality training. A similar method of financing has been adopted in Italy, where Training and Employment Contracts (*Contratti di Formazione e Lavoro*) are financed through tax exemptions for participating firms. An alternative method is to impose a levy on all enterprises above a certain size, an approach that has been adopted in Jamaica and has the advantage of not drawing on limited government resources. It has also allowed the agency responsible for vocational training schemes to operate in an atmosphere relatively free from political interference. In the case of Jamaica, firms that offer placements are exempt from the levy, which acts as an effective incentive for firms to participate in the scheme.

### *Voluntary versus obligatory schemes*

What are the arguments for making schemes voluntary or compulsory in countries with systems of unemployment and social security benefits?<sup>3</sup> Exercising a degree of compulsion by imposing benefit penalties on individuals who refuse to participate in programmes is becoming an increasingly common precondition of work experience, job training programmes and job search assistance.

This can lead to problems, though. Employers might view participants of “obligatory” programmes as being poorly motivated and/or of poor quality, and consequently be less willing to participate or to offer employment at the end of a programme (Fay, 1996). Indeed, it has been shown that participants in obligatory programmes are likely to be less motivated, on average, than those in voluntary schemes, seeing the programme purely as a means to requalify for benefits. Thus, schemes involving benefit sanctions are unlikely to be as effective as voluntary programmes.

More unemployed young people are becoming discouraged and are stopping actively seeking work, and a degree of obligation would force them to maintain links with the labour market. However, there is a need to balance the roles of building or maintaining attachment to the labour market with the desirability of promoting individual choice – no one knows a person’s interests better than the person himself. A compromise position would be to broaden the definition of what are considered “acceptable activities”. For example, various sorts of artistic endeavours could perhaps be included in some programmes. It

has been argued in the press that one of the reasons the United Kingdom has such a thriving rock and pop music industry is because would-be singers and bands are eligible for income support from the State, which tides them over while their earnings from performing are low or non-existent.

#### *The role of employers' and workers' organizations*

Workers' and employers' organizations could be involved in the design and implementation of ALMP for young people. As observed above, the most effective schemes are those with good links with the private sector; employers know what types of skills are required. Trade unions, on the other hand, can help ensure that the schemes provide a high level of general training, which will enhance the employability of participants rather than simply provide cheap labour.<sup>4</sup> Involving the social partners at the design stage and in overseeing the implementation of programmes will help make the policy measures more effective, partly by obtaining widespread support for the schemes. One problem with the United Kingdom's YTS described below was its failure to ensure consistent support from the trade unions (Ryan, 1994a).

#### *Centralization versus decentralization*

Many countries have moved towards decentralizing youth employment and training programmes. This has certainly been the case in the United Kingdom, where local Training and Enterprise Councils (TECs) are responsible for overseeing youth programmes, so that programmes can be more responsive to local needs (Deakin, 1996). However, there is a danger that the quality of programmes will be inconsistent across the country. To avoid this, monitoring needs to be supervised at the national level. For example, the information content of diplomas should be set nationally. Decentralization can also facilitate the process of involving employers' and workers' organizations in the design and implementation of policy. This has been the case in Denmark, where a decentralized employment policy has been accompanied by a rise in the role of the social partners (Madsen, 1999).

### ALMP and youth unemployment: The United Kingdom<sup>5</sup>

The United Kingdom is fairly representative of a number of countries that have introduced ALMPs to integrate young people into employment as salaried workers. This is true in terms of the nature of the schemes and of their impact.

Since 1975, the United Kingdom has operated a series of work experience and training programmes: the Work Experience Programme (WEP, 1975–78); the YOP Programme (1978–83); the YTS (1983–88); Youth Training (YT, 1988–98); and most recently the Modern Apprenticeships (MA, 1995–) and National Traineeships, introduced in 1998.

## Youth unemployment and employment policy

The schemes have naturally changed somewhat in form and content over the years. Most notably, the introduction of the YTS in 1983 marked the start of a compulsory training component in the programmes. The YTS was also large in scale: by 1984, the scheme had replaced a full-time job as the principal activity of new entrants to the labour market. However, all the programmes have been characterized by their aim of improving the employment prospects of 16- to 17-year-olds through two mechanisms:

- increasing the skills level or enhancing the human capital of participants; and
- reducing the wage expectations and consequently the reservation wage of participants.

These mechanisms grew out of the British Government's analysis of the youth labour market "problem", which was seen not so much as a lack of job openings but rather as the result of an inadequately skilled young workforce with excessive wage expectations. With regard to skills, the argument was that firms had no incentive to pay for the acquisition of general or transferable (as opposed to firm-specific) skills, since, once they had been acquired, young people could reap the benefits of their enhanced productivity and move on to another firm, leaving the company that gave the training with no way of recouping its investment.

Hence, the programmes have been characterized by:

- a period of government-subsidized work experience, mainly with private employers, and off-the-job training; and
- the low remuneration of programme participants.

### *Effects*

Analyses of the effects of the schemes on participants compared with non-participants have found that:

- participation in the programme had a small, positive influence on the chances of finding work;
- the benefits as regards employment prospects were not evenly spread among individuals; and
- the schemes had a negative effect on the post-programme wages of those participants who succeeded in finding work.

### *Employment*

Table 8.1 reproduces the estimated effects from several evaluation studies carried out on the YTS.<sup>6</sup> The first part of the table shows the employment effects of participation in the scheme for an individual with "average" employment prospects between one and two years following completion of the programme, or two (Main and Shelley, 1990; O'Higgins, 1994) to three (Whitfield and

**Table 8.1** The effects of the United Kingdom's Youth Training Scheme (YTS) on the probability of employment for an "average" individual one year after programme completion

	Effect
<b>YTS</b>	
Main and Shelley (1990)	0.11
Whitfield and Bourlakis (1991)	0.05
O'Higgins (1994)	0.09
<b>Other characteristics</b>	
Early employment experience	0.18
Female	-0.12
Ethnic minority	-0.13
Disability	-0.47

Note: The first three rows of the table report the shift in the probability of finding work brought about by participation on the YTS as estimated in the three sources. In order to maintain comparability, the effects are the author's re-estimates using the same base probability representing an "average" male individual who did not participate in the scheme. The base probability used is 0.77, that is, an "average" individual would have a 77 per cent chance of finding work. The last four rows report the effects on an otherwise "average" individual of the addition of one further characteristic. Thus, for example an otherwise "average" female would have a probability of being in employment of 65 per cent (0.77-0.12). These are based on the reported coefficients in O'Higgins (1994).

Bourlakis, 1991) years after leaving school. The estimated effects appear to be of the order of 5 to 11 percentage points, that is, an individual with a 77 per cent chance of finding a job would see this probability increased to between 82 and 88 per cent by participating in the YTS.

The lower half of the table shows the effects on employment probability of other individual characteristics. This allows a comparison to be made of the effects of the YTS on labour market success with the effects of other factors. The first of these is "early employment experience" and refers to young people who moved straight from school into a job. The table suggests that, for otherwise "average" individuals, starting a job straight after leaving school increased the probability of being employed later from 77 per cent to 95 per cent. This implies that the YTS did not, in fact, compensate for a lack of success in finding a "real" job immediately after leaving school.

The table then reports the effect of three intrinsic characteristics. Thus, a young woman with otherwise "average" characteristics would have an employment probability of 65 per cent, or 12 percentage points lower than a comparable young man. Ethnic minorities seem to face a similar initial disadvantage, while the chance of a young person with disabilities finding work is as low as 30 per cent. The picture that emerges is that the YTS did little to compensate for disadvantage in the labour market. Indeed, the YTS had no statistically significant impact on the chances of disabled and ethnic minorities finding work (O'Higgins, 1994). Since other groups of young people did draw some

## Youth unemployment and employment policy

advantage in terms of finding work, the programme succeeded in widening the gap in employment opportunities between these two disadvantaged groups in the labour market and "average" individuals.<sup>7</sup> The situation of young women improved in that their employment opportunities increased more than those of an "average" individual following participation in the YTS. Thus, the YTS went some way towards redressing the imbalance between the employment opportunities of young men and young women.<sup>8</sup>

Furthermore, these types of evaluation take no account of deadweight, substitution and displacement effects, since they look at what happens to the individual and do not evaluate the net effect of the programme in terms of the number of new jobs and training places created. Estimates of these effects vary enormously. Begg et al. (1991) have estimated the total deadweight and substitution effects for the YTS to be as high as 80 per cent.<sup>9</sup> If this is true, then the positive employment "effect" for individuals is almost entirely attributable to an improvement in participants' employment prospects at the expense of others, rather than through an improvement in the demand for young workers.

## Wages

Studies that have considered the issue (Main and Shelley, 1990; Whitfield and Bourlakis, 1991; O'Higgins, 1995a, 1995b, 1996) have generally found that participating in the YTS had a negative effect on post-programme wages.<sup>10</sup> These studies also found that, when controls for non-random employment determination are introduced, this negative effect tends to disappear.<sup>11</sup> This "disappearing" negative wage effect can be interpreted in terms of the two underlying mechanisms through which the scheme was intended to work. Higher skills levels would raise both the post-programme employment prospects and the wages of participants. On the other hand, the reduction in the reservation wage would improve employment prospects but *reduce* the wages of participants who subsequently found work. O'Higgins (1995a, 1995b) has demonstrated that the "disappearing" negative wage effect can be attributed to the existence of a reservation wage effect but not to a human capital or skills effect; O'Higgins (1996) confirmed this finding six years after the scheme had ended. In other words, the failure of the scheme to improve the wage prospects of participants cannot be attributed to the fact that evaluations were carried out too soon after completion of the scheme for the (supposedly) enhanced human capital of the programmes to have been translated into higher wages; rather, it must be seen in terms of no gains having been made in productive potential. The implication is that the YTS marginally improved the employment prospects of participants by lowering their reservation wages rather than through improving the quality of their skills. This is important as, logically, an improvement in skills should be thought of as unequivocally positive and worth paying for in terms of a reduction in wages while training is being undertaken. However, it is

much less clear whether increasing the YTS participants' chances of finding work by low reservation wages represents a positive result or not, particularly if, as it appears, the YTS had little effect on net job creation.

Certainly, more research needs to be carried out into the reasons for the success or failure of this and other schemes. However, the results so far point to the importance of carefully controlling programme quality and relevance. A second conclusion emerging from this section is that more attention should perhaps be paid to disadvantaged groups in the labour market.

### *Some explanations*

So why did the United Kingdom's YTS achieve so little? A number of reasons can be identified:

#### *1. Definition of the nature of the problem*

Since at least the early 1980s, the youth labour market "problem" in the United Kingdom has been identified as one of inadequate skills and excessive entry wages. According to this view, young people are unemployed because they are not sufficiently skilled and, given their lack of skills and work experience, their wage expectations are too high. While it is true that skills requirements have been rising in the United Kingdom as elsewhere, such a focus tends to direct attention away from the importance of labour market conditions in general and places responsibility for the problem on the individual's shoulder. When designing schemes, one needs to bear in mind the constraints imposed by macroeconomic conditions.

#### *2. Lack of monitoring*

At least initially, the level of monitoring was extremely low, with the emphasis being placed on moving young people out of unemployment and on providing some form of work socialization (as well as reducing youth unemployment rates) in the absence of adequate job opportunities. This meant that schemes varied greatly in their quality and, therefore, their usefulness.

#### *3. Lack of universally accepted qualifications*

A related point is that, at least initially, little or no emphasis was placed on the certification of skills. This has now changed with the introduction of NVQs, but there are still problems. Heavy reliance on employers in the certification of employees' skills gives them an incentive to certify low-quality training as high quality (Ryan, 1994b). Certainly, these qualifications have not been universally accepted. Robinson (1996) shows that the NVQs have not replaced traditional means of certification and have not led to an increase in the overall level of training available to individuals. Again, insufficient attention has been paid to the quality of provision.

**4. Lack of integration of the education system with youth employment policy**

The development of youth employment policy in the United Kingdom in the 1980s ran in parallel and sometimes in competition with the formal educational system.<sup>12</sup> Steps have now been taken to rectify this with the introduction of GNVQs and Youth Credits, although they seem to have done little to increase the amount of education and/or training available, besides increasing the number of educational and training alternatives (Robinson, 1996; Croxford et al., 1996).

**5. Lack of involvement of the social partners**

Youth employment policy in the United Kingdom has been developed very much with employers' requirements in mind, with little or no involvement of the trade unions. Workers' organizations have, consequently, had an ambivalent attitude to the scheme.<sup>13</sup> The positive experience in Germany has shown the importance of involving all the social partners in programme development and implementation. The OECD has also noted the positive effects of tripartite involvement in ALMP.

**6. Lack of targeting**

Youth employment policy seems to have done little or nothing to aid the integration of disadvantaged young people into the labour market. As noted above, most of the research carried out on the subject has shown that the more closely targeted programmes are, the more effective they will be. Targeting is a double-edged sword, however, inasmuch as if one targets disadvantaged groups one runs the risk that participation will be seen as a negative indicator of potential productivity.

**The New Deal: A new start?**

In 1998, the British Government launched the New Deal for young people under the age of 25. After a period of counselling and guidance lasting up to four months, participants must choose one of five options:

- a subsidized job with an employer in the regular labour market for six months;
- six months' work with the Environmental Task Force (a job creation programme in environmental work);
- six months' work with a voluntary sector employer;
- full-time education and training for up to 12 months without loss of benefit;
- entry into self-employment.

Young unemployed people who refuse to participate in the scheme can have benefit penalties imposed on them.

It is still too early to evaluate the effectiveness of the programme, although it is clearly achieving its first aim – to get people off the unemployment register, which is ensured by the use of benefit sanctions. However, it

is not yet clear whether the programme will lead to any long-term improvements in participants' job prospects. Evidence is needed of the sustainability of employment created by the programme in terms of the retention rates of participants and the extent of their success in obtaining or keeping a job once they have gone through the scheme. There remains a danger that the New Deal will simply replicate the "revolving door" pattern of previous measures, with one set of participants quickly being replaced by another, leaving earlier participants to join the unemployment register once more.

### ALMP and youth unemployment: Jamaica

Jamaica has extremely high levels of youth unemployment<sup>14</sup> but at the same time, a well-established and articulated youth employment and training policy. So how can these two phenomena co-exist? First and foremost, there is the influence of the country's general economic conditions. Since 1991, when the foreign exchange market was completely deregulated as part of the country's structural adjustment programme, real economic growth in Jamaica has averaged 1 per cent per annum, compared with the previous period (1986-90) when the economy grew, on average, by 5 per cent per annum. The slower growth performance is a result of Jamaican industries being exposed to the full impact of global economic forces. Second, it is the young who have been disproportionately affected by the slowdown in growth. Whereas the ratio of teenage unemployment to the unemployment rate of people over 35 was 4:1 in 1980 and the corresponding ratio for young adults was around 3:1, by 1995 the two ratios had risen to 14.5:1 for teenagers and 9.3:1 for young adults.<sup>15</sup> Thus, not only has the slow growth rate militated against the integration of young people into the Jamaican labour market, but the composition of labour demand is also a growing problem.

Third, the emphasis in youth labour market policy has been laid on the development of vocational training programmes for those with a basic level of education or skills. Young people leaving school with few or no qualifications have tended to be ignored, although recent initiatives have begun to target this particularly disadvantaged group. Finally, the scale of the response does not match the scale of the problem: the number of people on training and employment programmes is simply too low to have any significant impact on youth unemployment levels.

Nevertheless, the experience of Jamaica's employment and training policy for the young could provide useful lessons for other countries. Jamaica is clearly committed to improving its policies and programmes. It was the launch of the Human Employment and Resource Training (HEART) Trust in 1982 that inspired Jamaica's current ALMP system. Initially, HEART programmes were financed by mandatory employers' contributions and international donors, which allowed the trust to remain independent of any particular political party or interest group and enabled it to maintain support

**Box 8.1 Jamaica: HEART Academies**

**Objectives**

- The academies' programme seeks to offer skills training to young people who have left school and to meet existing demand from industry.

**Institutional base**

- The academies fall under the aegis of HEART, and were developed on the basis of both new and previously existing training schools.

**Target groups**

- Enrolment in the programme is open to young people from the age of 17. There is no upper age limit, although few applicants are over 30. The lower age limit is modified to allow students who are 16+ to gain entry if they will be 17 on completion of the programme.
- The academic level required for admission is equivalent to Grade 9 secondary school (age 16), and this is determined by an entrance examination. Dexterity tests are administered where relevant.

**Scope and organization**

- Curricula for the academies comprise 70 per cent vocational skills and 30 per cent related academic skills.
- There are seven academies, of which six concentrate on specific skills and one is a multi-skills centre. The specific skills areas are hospitality, cosmetology, commercial business training, construction, garment manufacturing and agriculture.
- Training usually lasts one year, except for garment manufacturing, where courses last from seven to 12 weeks. With the exception of the School of Cosmetology and Garmex, programmes cater for residential and non-residential students. All trainees receive a stipend, which is J\$125 (US\$3) weekly for residential trainees and J\$250 for non-residents.

**Numbers enrolled**

In 1995-96, 3,830 trainees graduated from the HEART Academies. They were distributed as follows:

	No.	%
Construction	743	19.4
Apparel, sewn products and crafts	643	16.8
Commercial skills, including data entry	1 285	33.6
Cosmetology	130	3.4
Hospitality	788	20.6
Agriculture	130	3.4
Industrial maintenance	20	0.5
Cabinet-making	91	2.4

**Source of funding**

- The academy programme is fully funded by the HEART Trust, based on subsidies from companies and assistance from international agencies.

**Indicators of success**

- Tracer studies show that graduates have significantly higher rates of employment than non-graduates: two-thirds of academy graduates found employment, while less than half of those from a matched group of non-participants found work. In addition, training has a positive impact on earnings.
- The main exceptions are the garment training programme and agricultural training. The first has experienced low enrolment and low retention of trainees by firms, leading to the suspension of contracts by the Kingston Free Zone company. In the case of graduates from the agricultural training programme at Ebony Park, there are persistently low employment rates, averaging 40 per cent (1988, 1989).

from all sides. HEART represents the higher level and more successful side of the Jamaican Government's two-pronged strategy for young people. The strategy emphasizes income-generating activities through self-employment for those with low levels of education, and vocational training for those with only basic competencies. Over its initial phase (1982-89), HEART established a strong programme of sectoral training by concentrating on the development of residential and non-residential academies, each of which focused on a particular skill.

The two main programmes are the HEART Academies, which provide off-the-job occupational and academic training, and the HEART school-leavers' programme, which involves placement with firms. The two programmes are summarized in boxes 8.1 and 8.2: both have been fairly successful in integrating participants into employment.

**Lessons from the Jamaican experience**

What can be learned from the Jamaican experience? First, what to try and avoid – an unbalanced labour demand structure. The pattern of unemployment in Jamaica suggests that the jobs being generated by current development strategies call for relatively low skills levels. This contrasts starkly with the characteristics and aspirations of young people who are entering the labour market with some secondary schooling and who are aspiring to higher-skilled or white-collar jobs. The country needs to shift production to a more advanced technological level, both for future economic growth and for job creation.

Second, the independent funding regime supporting HEART has allowed the trust to act independently of the vagaries of the political situation. The mandatory contribution from employers, along with a levy exemption for businesses that offer placement for HEART trainees, has gone some way

**Box 8.2 Jamaica: HEART school-leavers' programme**

**Objectives**

- This programme provides job placements for school-leavers in public- and private-sector agencies. The objective is to encourage the acquisition of skills through on-the-job training, thereby reducing youth unemployment.

**Institutional base**

- This programme was first established in December 1977 as the Grade 11 school-leavers' programme in the Ministry of Education. It was subsequently transferred to the Apprenticeship Division of the Ministry of Youth and Community Development. With the establishment of HEART in 1982, the school-leavers' programme was relocated and has remained one of HEART's core programmes, supported by employer contributions.

**Target groups**

- The programme targets secondary school graduates aged between 17 and 25 who have at least two passes in recognized external examinations, or four passes in local examinations.

**Scope and organization**

- The training period varies from one to three years. Employers receive a credit on their 3 per cent HEART levy for each trainee accepted. Trainees receive a fixed stipend from HEART, and companies are free to supplement this amount.

**Numbers enrolled**

- At the end of August 1996, a total of 802 firms were participating in the programme, providing placements for 1,595 trainees. The number of placements fluctuates but reached 3,311 in 1995.

**Source of funding**

- The school-leavers' training programme is funded through the HEART tax.

**Indicators of success**

- The programme is widely accepted by employers, although problems have been reported in regard to the supervision of trainees. Results from tracer studies show that participation in the programme helps reduce unemployment rates. Those who completed the programme were more likely to be employed than a control group of non-participants.

towards solving the problem of financing. The exemption for participating firms also provides an incentive for employers to participate actively in the training programmes by offering job placements.

Third, and more generally, the experience of HEART demonstrates the fundamentally important role of monitoring and evaluation. Evaluation may still be insufficient, but the work that has been done has allowed modifications to be made that have enhanced programme effectiveness. One example is the progressive integration of different programmes under the HEART umbrella.

Further links between programmes need to be developed to avoid duplication of effort and to provide an opportunity for young people to pass from one level to another. Some steps have been taken in this direction – one objective of the remedial Special Training and Employment Programme (STEP) is to channel trainees who complete the programme into skills training in HEART (see Appendix 3). If all the programmes were administered by a single organization, such links could be developed more easily.

## 8.2 POLICIES THAT PROMOTE SELF-EMPLOYMENT<sup>16</sup>

Programmes aimed at promoting self-employment among young people are becoming increasingly common, particularly in developing countries. They are also becoming more popular in many industrialized nations, although they tend to take on a different form. It should be emphasized, however, that self-employment programmes should not be the only, and perhaps not even the main, response to the problem of youth unemployment. Many young people are simply not suited to becoming entrepreneurs and scope for the creation of new firms will necessarily be limited by prevailing economic conditions. Thus, a strategy to combat youth unemployment cannot be based on self-employment programmes alone, although they could contribute to a broader package of measures aimed at integrating young people into jobs.

Self-employment programmes come in a variety of forms. They usually contain at least one, and typically several, of the following elements:

- promoting and introducing the self-employment option;
- training in the necessary skills for self-employment;
- mentor support;
- access to finance;
- access to work space;
- business expansion support;
- access to support networks.

All of these elements are important and the most successful programmes are those that include them all.<sup>17</sup>

### Promotion and introduction of the self-employment option

#### *Role models*

Using role models is a powerful way of encouraging enterprise in the young. Experienced business people can be of great value in promoting self-employment as a genuine career alternative and as an avenue to higher levels of financial reward and work satisfaction, rather than solely as a means of escaping unemployment.

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### *Youth business competitions*

Competitions can raise the profile of young entrepreneurs and provide a special incentive for participants who aim to win. However, the value of competitions is much more far-reaching – they attract young people to the support services that are offered to competition entrants.

### *Use of enterprise-focused curricula and educational experiences*

The value of enterprise-focused curricula and educational experiences that allow young people to explore the self-employment option at school has been recognized in many educational and training institutions around the world. The school environment can have a powerful impact on young people and can significantly influence their career aspirations.

The purpose of “enterprise education” varies according to the type and level of institution involved. In schools, for example, the main objectives are to teach and encourage entrepreneurship among students and to foster their personal development. At colleges and universities, students may be exposed to learning situations that develop their capacities for action planning, encourage creativity and develop their skills in time and personal management.

In the United States, the Rural Entrepreneurship through Action Learning (REAL) programme links education with rural economic development by assisting students in rural areas to plan and establish their own businesses. In many cases the businesses graduate along with the students – by continuing as profitable concerns. REAL is now established in many rural communities of the United States and is also being tested in Eritrea, east Africa.

### *Links with industry and education*

The creation of links between educational institutions and industry enables students to explore the opportunities for self-employment through practical and direct involvement in local businesses. The Graduate Enterprise Programme of the United Kingdom is a national programme that targets final-year undergraduate students in any discipline for a range of training workshops and placement opportunities within local businesses. It allows students to learn more about the realities of small business and to explore their own potential for self-employment.

Young Achievement Australia (YAA) is a non-profit organization that attempts to bridge the gap between business and education by teaching young people hands-on business skills while they are still at school. Supported by some 600 companies, YAA provides business education programmes to over 14,000 students each year: between 1977 and 1995 more than 70,000 secondary school students participated in the scheme.

## Skills training

An entrepreneurial spirit is essential to business success. Business development is, therefore, concerned with developing the ability of young people to address the challenges they will face, rather than make them follow a step-by-step guide. Different ways of behaving and various skills are required in different situations. These fall into three main types (Commonwealth Youth Programme, 1991):

- being enterprising – learning to see and respond to opportunities;
- business development skills – learning to investigate and develop a business idea;
- business management skills – learning the skills required to get a business going and managing it successfully.

Training companies have been developed in some countries to help young people learn about business in a practical way. They provide an environment for the young to plan, develop and operate their own company under the supervision and management of a support agency. A facilitator works with a group of young people to identify business ideas. The organization has to become enterprising itself and run the programmes as a business. This requires a high degree of flexibility and creativity on the part of the organization's management and staff. It is a mistake to suppose that a young person who has not been exposed to business life and situations will be able to plan and run an enterprise after having followed a conventional business training course, where the participant learns theoretical skills but not the attitudes and abilities required to undertake the running of a business. However, training companies do provide a hands-on learning environment.

In South Africa, the Education with Enterprise Trust was established in 1989 to develop skills appropriate to the world of work and more specifically to orient young people towards the option of self-employment. Two programmes are offered by the trust: the Youth Enterprise Society (YES) programme and Business Now. The YES programme is underwritten by Ohio State University (of the United States) and operates throughout the school year as an extramural activity. Students enter the programmes in Standard 7 (age 12) and proceed through Standards 8 and 9, graduating in Standard 10 (age 16) or after school. They develop business skills through a set of special learning and experiential activities. Regular teachers serve as YES facilitators; they are given one year's training, which starts with a four-day workshop followed by a one-day workshop once a month. Local business people, community leaders, educationalists and young men and women are involved in Local Enterprise Councils (LECs) that own the local YES societies and form a business support system for participants.

The Business Now programme is aimed at young unemployed people who have left school. In 1994 the trust followed the basic YES approach with a

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group of young unemployed people, and a year later the entire group had found employment. However, it has been necessary to rework the approach to make it more appropriate to the target group. As the participants are older, there is more pressure on them to generate an income immediately: they need to gain business skills and access to start-up finance as quickly as possible.

### **Mentor support**

One of the most beneficial forms of assistance that can be offered to young entrepreneurs is mentor support, that is, informal advice and guidance from a person with good business experience and, in some cases, business networks, that may help a young beginner. Research in Australia (Kenyon and White, 1996) has found that this form of support is of great value to young people because it helps them overcome two of the major obstacles they face when they enter the business world: limited experience and a lack of networks and contacts.

Organizations that claim good results from mentor support strategies and programmes stress the need for:

- the careful selection of mentors – people who are prepared to coach and support, rather than lecture or give unnecessary advice;
- guidelines to help the mentor and the young person understand what is expected of them;
- mentor training – so that mentors are clear about their role and expectations, and have some training in basic counselling and support skills; and
- regular monitoring of the mentor/young person relationship, especially in situations where problems are likely to arise.

### **Finance**

Perhaps one of the greatest obstacles for young people setting up their own businesses is the lack of access to finance. This is likely to affect young people more than adults and usually arises because of a lack of previous business experience, lack of collateral for the loan and/or a general bias against young people taking on such initiatives. To address the problem, four general strategies and programmes tend to be used: the provision of grants; soft loans; access to conventional banking finance; and the creation of finance and support networks.

#### *Grants*

Proponents of grants claim that they help people who have been refused conventional forms of finance because of their lack of collateral. According to this argument, young people with little collateral should not be prevented from starting a business if they can demonstrate its viability and expected

growth through a well-prepared business plan. The opponents of this method of finance, however, suggest that businesses should not need grants to establish themselves successfully and that this approach circumvents the real problem of business finance; instead of giving money to young people to start their own businesses, programmes should help people deal directly with the problem of access to capital.

### *Soft loans*

There are a number of schemes that provide low-interest loans to young entrepreneurs – usually through some form of revolving loan fund. For example, the Canadian Youth Business Foundation runs a Youth Business Loan Programme designed to help young people, particularly those who are unemployed or underemployed, over the initial start-up phase of their own business. There are no collateral requirements other than genuine commitment, appropriate business training, a valid business plan and agreement to a mandatory mentor programme.

### *Access to conventional banking finance*

Many organizations believe that young entrepreneurs should be assisted by conventional finance schemes, rather than by specially designed loans. Young people are usually given advice in preparing business plans, introduced to banking officials and given continued support and mentor services. Loan guarantee schemes are sometimes used to provide an incentive for financial institutions to lend money to people without collateral. Guarantee funds can be spread across many more businesses than grant funds because they may never be called upon.

### *Finance and support networks*

An example of this type of scheme is a network that has been established to help women gain access to business finance in New Zealand. The Angel Fund is a non-profit incorporated society linking women who are entering business and are finding it difficult to obtain credit from traditional sources, although they are able to repay a loan. “Angels” are the people who offer the money they need. They either lend directly to a borrower, or to the Angel Fund itself, and they can also give a donation. The Angel Fund also helps women with training or further education opportunities, transition to work expenses, and pre-commercial business proposals, as well as with emergencies that prevent transition to work or education.

### *Access to work space*

Finding a secure place to work – one that is affordable, well-located and with potential for expansion – is usually a necessity for young people establishing

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their own business. Shared work space or business incubators are property developments that accommodate the start-up of small businesses. They provide a modest space on flexible terms, together with a range of back-up services including management support. The commercial criteria that apply to all business activities also apply to the establishment and management of incubators. Tenants enter into a short-term, flexible licensing arrangement rather than a long lease, and centralized services such as reception and bookkeeping are provided, either as a part of the rent or on a “user pays” basis. Incubators and shared work space facilities can be found in different forms in many countries, and there are few that specifically address the needs of young men and women.

## **Business expansion support**

The problem of expanding an existing business is often forgotten in enterprise promotion programmes, although it requires specific skills, knowledge and attitudes that differ from those needed to start a new business. While many young entrepreneurs may have the potential to expand and take on additional staff, they are often worried about doing so and need support measures to assist them take such a vital step. Since the mid-1980s, Livewire in the United Kingdom has piloted a range of successful programmes focusing on this issue. They have included:

- **Business Growth Challenge** – offering young business owners and managers a weekend workshop of personal, management and business development activities with other young people planning to expand their businesses; and
- **“On the Right Tracks”** – a series of workshops funded by the United Kingdom’s former national railway, British Rail, that explored the continuous review of business objectives, using an informal, hands-on approach. The workshops covered selling techniques, perceptions of business, recognizing achievement, goals and uncertainties, and action planning.

## **Creating support networks**

Isolation, the absence of support networks and a lack of business contacts are common obstacles to setting up your own business. To address this, youth chambers of commerce, or young entrepreneur clubs, have been established in some areas. They can help their members in a variety of ways, such as by:

- providing networks to support young people in business;
- promoting entrepreneurship and a culture of enterprise among young people;
- encouraging links between the formal and informal sectors;
- representing youth business interests to government, commercial banks and other agencies affecting the viability of small businesses;

- facilitating access to new learning experiences, such as internships with established businesses or scholarships;
- identifying and addressing the problems experienced by young people in business;
- promoting and marketing businesses that are owned and managed by young people;
- assisting in the identification of new products, services and markets; and
- facilitating access to business training and skills development.

Which interventions are needed will depend on many factors, including the specific needs of young entrepreneurs, the roles of other organizations and institutions, the capacity (financial, human and technical) of the chamber and the support received.

The Junior Chamber International (JCI), a worldwide organization of people aged 18 to 40, also known as Jaycees, offers a number of activities to help members develop or refine their leadership skills. The aim of JCI, which has some 300,000 members belonging to 88 affiliated national organizations, is to “contribute to the advancement of the global community by providing the opportunity for young people to develop the leadership skills, social responsibility and fellowship necessary to create positive change”.

### Further design issues

Two further issues arise concerning the design of self-employment programmes. These relate to targeting and evaluation.

#### *Targeting*

First, as with training and employment programmes, the more closely self-employment programmes are tailored to provide the services required by specific groups of young people, the more likely they are to succeed. It is, therefore, necessary to be aware of the precise needs and abilities of the group to be helped. The services required by university graduates setting up their own businesses are not the same as those required by young unemployed people with low levels of education. Second, it is necessary to establish which groups should be targeted. In many countries, particularly developing economies, a case can be made for running self-employment programmes for educated young people who are likely to have fewer difficulties with the basics of running a business. For these young people, the programmes need to emphasize self-employment as a genuine career option – an alternative to the traditional public- or formal-sector job.

#### *Monitoring and evaluation*

It is important to recognize the central role of monitoring and evaluation in the development of appropriate forms of programme. Relatively little research has

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been carried out in this area, particularly of a comparative nature. One exception is a study by Meager (1996), which has looked at the experiences of four European countries with self-employment programmes. Evaluation of the ILO's Start Your Business (SYB) programme in three African countries (Ijsseling, 1997) has identified a number of issues that were important in successful business start-ups: delays in the processing of credit applications were identified as a key reason for programme participants failing to set up their own businesses after they had completed the scheme.

Evaluation needs to take into account two types of data: displacement rates and survival rates. In general, it has been found that schemes aimed at more highly qualified young people are likely to have higher survival rates but also higher levels of displacement than schemes for the disadvantaged. Schemes for the latter must, therefore, balance the costs of relatively low start-up and survival rates against the benefits of relatively low levels of displacement.

### *An example: Jamaica – The Solidarity Programme*

To illustrate some of the aforementioned points, it is worth taking a look at the Solidarity Programme in Jamaica, which provides a useful example of what to avoid. However, it does demonstrate the usefulness of adequate evaluation in helping prevent mistakes being repeated. It is also fairly representative of the problems faced by many programmes in developing countries.

The Solidarity Programme, coordinated by the country's Ministry of Youth, Culture and Community Development, was set up in 1985 on the premise that "microenterprise creation is a reasonably efficient strategy for reducing the level of youth unemployment among those persons who are marginally skilled and unable to gain access to jobs in the modern formal sector" (Gregory et al., 1989, p. 7).

Under the programme, unemployed young people were given a loan to purchase the capital items they needed to set up a business and meet initial operating costs. However, before obtaining a loan, the applicants were required to attend a two-week intensive training programme on establishing and running a small business. After the training period, they had to develop a business plan and apply for an enterprise loan. If this was approved, it was submitted to another government organization called the Self-Start Fund (SSF), and on approval a loan was given to the trainee through an approved lending agency. A number of criteria were used to assess the applications, including the feasibility of the proposed business and the presence of a sponsor to act as guarantor. Once the business was established, additional support was provided by field officers.

The Solidarity Programme's main area of concern was establishing micro-enterprises in agriculture (goat rearing, vegetable gardening, calf fattening and oyster/shrimp farming) and in sales (fruit, snow cones, fish, honey, jerk pork and chicken, ice cream and handicrafts). It was anticipated that 3,000 jobs would be created during the programme's first year and 5,000 jobs per

annum in subsequent years, with the idea that the programme would continue until youth unemployment had dropped to an acceptable level.

At the end of the 1980s a number of independent consultants evaluated the programme. They found that in the first three years a total of 4,391 applications had been approved by Solidarity, out of which 2,702 were approved for funding by the SSF. Of these applications, 56 per cent were from young men and the remainder from young women. The programme was fairly equitable in terms of sex, but it is not certain that it reached the initial target group. Evidence from interviews showed that a large proportion of the loans went to young people with secondary education and to people who were employed at the time of their application. In other words, many loans were used to expand existing businesses.

The survival rate of the microenterprises was also disappointing, with only 30 per cent of the original applicants still in business by the end of the decade. This high failure rate can probably be explained by shortcomings in the management of the programme. These included:

- the failure to check the creditworthiness of applicants;
- unsuitable training (complex business forecasting is not necessary for a microenterprise);
- the inability of staff to advise on establishing or operating a microenterprise (the staff had human resource development and administrative skills but lacked business experience);
- the failure to link the receipt of a loan with the obligation to repay it (clients tended to view the loan as a gift, not as a liability); and
- the failure to monitor the loan repayments carefully or contact the sponsors who were supposed to act as guarantors.

### 8.3 PROGRAMMES FOR DISADVANTAGED YOUNG PEOPLE<sup>18</sup>

Government policies for disadvantaged young people tend to be considered along two lines: the labour market and the personal. Falling demand for labour is the single most important “cause” of youth unemployment, but it is not the only “cause” of disadvantage. Unemployment is by no means spread evenly among young people, just as young people are by no means a homogeneous group. Thus, the personal characteristics of young people themselves are sometimes an additional cause of disadvantage. Below are a number of case studies that are organized according to whether the problem is identified in terms of a general deficiency in demand for labour – in which case schemes will tend to focus on job creation and holding young people until they can be absorbed by the labour market – or in terms of the personal characteristics of young people.<sup>19</sup> In the latter case, schemes will attempt to bring

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about changes in the young to make them more employable. In practice, many schemes contain elements of both, providing young people with new skills at the same time as seeking to create jobs for them.

### The personal dimension

The first two case studies describe programmes that concentrate on the personal dimension, where the attributes and/or behaviour of young people is the main cause of their disadvantage. A distinction is made between two types of programme:

- those for young people with multiple disadvantages, which prevent them succeeding in the labour market; and
- those for whom the problem is a form of personal failure, such as dropping out of school or low educational achievement.

#### *Multiple disadvantages: The Job Corps (United States)*

This programme focuses on young people in economically deprived communities, who have poor literacy and numeracy skills, often compounded by language problems. Their ethnic backgrounds are predominately African-American or Hispanic. Their disadvantages are exacerbated by the American labour market, which, over the past two decades, has seen jobs and wages become increasingly polarized, resulting in a fall in wages for entry-level jobs and persistently high levels of youth unemployment.

The Job Corps has been running for over 30 years in the United States. Training is residential and is administered by the United States Department of Labor through 111 centres, which are run by public, private and non-profit organizations. The overall aim is job placement or further education and training. The Job Corps differs from other state programmes in that: (a) it serves the severely disadvantaged; (b) it provides basic education; (c) it provides vocational training; (d) it is delivered in a residential setting; and (e) its objective is occupational placement or further education/training.

In 1995, programme capacity was 41,000, although in the year ending June 1994 a total of 63,000 students had left the programme. Although officially defined as being aimed at seriously economically disadvantaged youth (16- to 24-year-olds), the programme tends to cater for young people who are experiencing difficulty in securing employment. In 1994, 68 per cent had two or more barriers to employment, such as a very low level of educational achievement (no high school diploma), a lack of basic skills, or a limited command of English. Most had never held a full-time job; they are predominantly male and from minority communities.

The programme operates an open-entry and open-exit policy. Progress is self-paced. The average length of stay in the early 1990s was 7.5 months. Participants receive a basic allowance but can earn bonuses for exceptional

performance and for obtaining the General Equivalency Diploma (GED). The programme delivers a comprehensive mix of services in an integrated manner in one location. In 1995 these services included diagnostic tests in reading and maths, occupational exploration and training programmes, and comprehensive basic education covering parenting, computers, driving lessons and health education. The residential character of the programme means that it can address multiple sources of deprivation in a structured setting, both through the range of services and through support for the acquisition of social skills.

An evaluation carried out in 1982 found that, in comparison with a control group over a four-year period, Job Corps participants had: three weeks more employment per year, a 15 per cent increase in earnings per annum, five times the probability of earning a high school diploma or GED, one week more of college attendance, one week less of serious health problems, two weeks' fewer welfare receipts, one week less of unemployment insurance and less criminal activity in terms of a shift from serious (felony) to less serious crimes (traffic offences). Those who stayed in the programme longer gained more than those who left or dropped out early. With regard to gender, women with children showed little gain, while women without children had larger gains in income, education and health, as well as reduced reliance on welfare. Men were more likely to join the military and need unemployment benefits less. Overall, the researchers calculated that the social benefits outweighed the costs.

The 1995 Job Corps annual report was similarly positive: 75 per cent of participants in the programme found jobs or returned to further education; 46 per cent found jobs that matched their skills; and placement rates were higher for GED recipients and for those who had completed vocational training within the programme.<sup>20</sup> The drop-out rate of 31.4 per cent for 1991-94 increased to 37.7 per cent as a result of the zero tolerance policy introduced by the programme organizers against violence and drugs in 1994. However, as Grubb (1996) has pointed out, most participants moved back into jobs that do not pay well enough to enable them to escape from poverty. Yet, where the vocational training component is closely linked to local labour market skills and young people complete their training, there is evidence that the programme does help them secure better-paid employment. The main drawback is that Job Corps is so expensive – it is the most costly of all American employment programmes.

\* \* \*

The next case study also looks at how attempts are made to change the behaviour of young people. However, the programme considered below focuses on a specific aspect of the young person's behaviour, that is, the attitudes that lead young people to drop out with extremely low education levels. This is of particular concern to governments, especially those seeking to encourage

higher value-added production, since failure to master basic literacy and numeracy skills can have a permanently damaging impact on people's labour market prospects (Bynner and Parsons, 1997).

*Personal failure: The remedial approach of the JOBSTART programme (United States)*

The JOBSTART programme was an experimental attempt (1985–89) in 13 states to help young people (17- to 21-year-olds) who had dropped out of school in the United States. They had found their earnings declining relative to those who had completed high school; they also constitute the majority of people living permanently on welfare. The programme was modelled on the Job Corps but was less intensive and had no residential component. It provided remedial and vocational training, job placement assistance and support services, such as child care and counselling. It offered a minimum of 200 hours' basic education and 500 hours of job training, making it more intensive than conventional programmes. Recruits were taken largely from the African-American and Hispanic communities, with the majority having left school before the 11th grade, that is, around the age of 16.

Official evaluations of the programme have shown that more young people achieved the GED, although this did not affect their earnings or employment; it is widely believed that this was because employers did not value the certification. The impact of the programme as a whole on earnings was insignificant. Moreover, there was no effect on the proportion of women on welfare, while the proportion of women giving birth during the programme actually increased. On the positive side, the rate of arrests fell, as did the use of drugs. Over the longer term there was evidence that earnings and employment for some groups increased in the third and fourth years after completing the programme, although this was not the case at all the sites at which the programme was conducted. In fact, those enrolled at most of the sites experienced a decline in earnings. Following these evaluations, the JOBSTART programme was dropped.

While the overall results of the JOBSTART programme were disappointing, Grubb (1996) has pointed out the relative success of the San Jose site in California, where results were more encouraging, and argues that schemes for disadvantaged young people can be successful as long as they are embedded in the community and include the following: good links with employers to secure placements; concentration on specific ethnic groups (Hispanics in the California programme) with bilingual instructors providing bilingual education, job instruction skills, mentoring and acculturation to American practices for immigrants; the achievement of real work (the California site offered child care, a copying business, a cafeteria and auto-repair shop, each providing training and linked to classroom instruction in job skills and remedial subjects); and counselling and welfare advice available on site. Grubb claims that it is the

integration of these components that distinguishes the successful from the unsuccessful sites. However, perhaps one of the principal lessons to be learned from the JOBSTART programme is that the remedial approach is not as effective as tackling the problem when young people are still at school. In other words, prevention is better than cure.

## The labour market dimension

Programmes that are based on the assumption that the principal source of the problem facing disadvantaged young people is the lack of jobs naturally focus on the labour market dimension: where there is little demand for labour, then young people as well as adults face the prospect of prolonged periods of unemployment. Under these conditions large numbers of young people seeking entry to the labour market become disadvantaged, which was the case in the United Kingdom and the United States during the 1980s and 1990s. Many developing economies also suffer a chronic lack in demand, with many young people underemployed, particularly in rural communities. In industrialized countries, the problem has been exacerbated by globalization and the decline of traditional labour-intensive industries that employed large numbers of young workers. This has meant that young people with basic schooling but relatively low levels of educational achievement are also becoming disadvantaged.

### *Youth training schemes in the United States*

The United States has a long history of making provisions for disadvantaged young people who are unable to secure employment. In 1995, the United States General Accounting Office estimated that there were 163 such programmes then in existence. In the 1960s, these operated under the Manpower Development and Training Act, then under the Comprehensive Employment and Training Act (CETA) of 1973 and later under the JTPA of 1983. The latter includes job training, work experience and summer youth programmes.

The results of the numerous government-funded evaluations of these programmes are similar to those of the British schemes considered earlier in this chapter. In his analysis of these evaluations, Grubb (1996) found that federal programmes were less effective for young people than for other groups such as adult males and adult females. In particular, the JTPA had a negative effect on earnings because young people withdrew from the labour market while on the programme. But the JTPA offset this effect to some extent with later increases in earnings. Overall, Grubb argues that the evaluations indicate that most job training programmes for young people "leave those enrolled worse off than they were before enrolling" (Grubb, 1996, p. 92).

## Skills mismatch

In both developed and developing economies, a mismatch between the skills of young people and the skills required by local employers can lead to young people becoming disadvantaged. Both labour market deficiency (lack of demand for the skills offered by unemployed young people) and a personal element (the absence of appropriate skills or experience among young people seeking work) contribute to this mismatch. Programmes, therefore, have to focus on both dimensions, that is, they need to persuade managers of the employability of young people and at the same time provide young people with appropriate skills and experience. Although this is certainly a difficult task to accomplish, there are success stories, notably the *Joven* scheme in Chile.

### *Skills mismatch: The Chile Joven programme*

Since the 1980s the role of the state sector in Chile has declined and the role of the private sector has increased, transforming the economy: gross domestic product (GDP) grew very rapidly and unemployment dropped from a high of nearly 20 per cent in the early 1980s to a fairly stable 4 or 5 per cent in the 1990s. In contrast to other countries in Latin America, Chile has been able to make significant changes to its human resource base: the average number of years' schooling of those entering the labour force rose from 6.2 years in the 1960s to 9.2 years in the early 1990s.

Despite this economic success, young people aged between 16 and 25 have not benefited as much as older workers. Indeed, unemployment for this age group is more than double the national average. This may be the result of structural changes in the economy. Economic restructuring has meant that industries that traditionally employed large numbers of school-leavers are closing down and being replaced by small and medium-sized enterprises. The new industrial sectors do not normally recruit school-leavers, relying instead on older workers or being managed and operated by their owners. In addition, Chile still has many young people who dropped out of the formal education system, are unemployed, or are engaged in precarious forms of employment. The challenge, therefore, was to improve the skills of this group to enable them to find work, while at the same time opening up jobs for young people in the new industrial sectors.

In an attempt to facilitate labour market entry for this group, the *Chile Joven* programme was launched in 1991. Coordinated by the Ministry of Labour and Social Assistance and originally predicted to run until 1995 (the second phase came to an end in 1999), the programme's initial aim was to assist 100,000 vulnerable young people at an estimated cost of US\$83 million. The programme was administered by two separate organizations: the first, SENCE (National Service for Training and Employment), was responsible for training and work experience in enterprises, alternative apprenticeships and independent job training; the second, FOSIS (Solidarity and Social Inversion Fund), was responsible for general education and training.

The content of the training programmes was based on locally identified labour market needs – a highly decentralized approach. The actual courses consisted of basic skills training, although trainees were not awarded a recognized qualification on completion of the course.

The responsibility for providing training was open to competitive tender from private- or public-sector organizations. Tenders were judged on their labour market relevance and potential to provide young people with future employment. Bids were accepted only from training organizations that were officially recognized and approved, which ensured some form of quality control. During training, the participants received an allowance amounting to 40 per cent of the national average wage.

Evaluations of the *Chile Joven* programme indicate that it exceeded its initial objectives and that by 1994 a total of 124,699 young people had benefited from it. One evaluation compared the changes in wages of participants before and after the programme with a comparable group of non-participants and found that *Joven* participants were much more likely to have higher salaries and better-quality jobs than the control group (Caceres Cruz, 1997). The same study found that 96 per cent of participants came from medium or low socio-economic backgrounds, suggesting that the programme had reached its designated target group.

One of the main achievements of this programme seems to have been its success in opening up new segments of the labour market to young people by persuading employers of the value and relevance of youth labour. The delivery of skills matching employers' requirements is likely to have been a function of the highly decentralized administration of the programme. However, in the absence of detailed labour market evaluations it is impossible to determine whether the jobs obtained by participants were all low skilled or whether some were higher skilled, leading to higher earnings. It is possible that the programme simply facilitated entry to the labour market; without data on earnings, the range of outcomes cannot be identified. The fact that female participation rates were high is significant, but there are no data on the type of jobs taken up by young women or whether the programme had any impact on gender segregation in the labour market.

Three important lessons can be learned from the Chilean model. First, it demonstrates that the private sector can play an important role in social policy provision. Second, it shows that if the right sort of incentives are offered, the State need play only a minimal role in implementation. Finally, the *Joven* programme has helped develop a training culture in small and medium-sized enterprises.

### Considerations for policy-makers and practitioners

The first point that needs to be considered is how policy objectives aimed at disadvantaged young people fit into the particular labour market context. If

the demand for young workers is for unskilled/semi-skilled labour, then in conditions of relatively full employment the most cost-effective schemes will be those that provide short-term work experience and/or advice to help young people gain a foothold in the labour market. In this respect, the *Chile Joven* scheme proved effective, although the JTPA schemes in the United States were less effective, for reasons that are not entirely clear. They may have given more training than necessary for the low-paid jobs available in the manufacturing industry, thus causing young people to delay their entry into the labour market. This situation shows that young people need access to job information networks, which is best done through work experience with employers.

If the long-term aim is to upgrade the skills of young people so that they can move into high-quality employment, then schemes that speed up entry into secondary-sector jobs are inappropriate, because upskilling requires more extensive education/training programmes. To upskill young people effectively requires something more akin to the German apprenticeship system, which enables young people to acquire intermediate-level skills on entering the labour market. To this end, the United Kingdom recently launched the MA scheme, with some success.

The second area that needs attention is establishing the purpose of a training programme and then evaluating whether it has been achieved or not. In some instances, programmes have the single objective of getting young people into work. Then, it may be sufficient to establish that the young person has obtained a job. In other cases, where the programme aims to tackle multiple personal problems, a range of indicators of success or failure will need to be taken into account. Where the programme has more than one objective, then evaluations based on simple indices, such as the proportion of young people integrated into work, represent only a very crude measure of one of the objectives of the programme.

Programmes directed at young people with a number of disadvantages are likely to be most effective if they are residential. This arrangement makes it possible to deliver a variety of services and support mechanisms directed at the range of problems to be addressed, and makes constant support and the reinforcement of valued behaviour possible. It is possible that the combination of inputs enables these programmes to add to the social skills as well as to the human capital of the participants, benefits that can contribute to improving the prospects for employment, health and training throughout a lifetime. However, to capture this element through a programme assessment requires a much longer time frame than most government-sponsored evaluations can usually afford.

For young people who are disadvantaged only by low educational achievement, a reform of the education system or specific programmes delivered outside school is probably in order. When the problem is extensive, the evidence suggests that changing the structure and content of the school curriculum may be more effective than remedial programmes that tackle the problem after

young people have left school. However, experience gained in the United States suggests that design principles can help improve policy success rates.

Where the problem concerns labour market deficiency, such as a mismatch between the demands of employers and the skills of young people, then short-term training programmes can be effective in two ways: first, by facilitating the entry of disadvantaged young people into jobs; and second, by changing employers' attitudes towards young workers, thus extending the range of jobs open to them. Employers need to be closely involved in the delivery of programmes, and training should be mostly employer based and closely linked to local labour market needs. However, it is important to bear in mind that such schemes usually feed young people into low-quality jobs.

The implementation and delivery of programmes should not be forgotten. The importance of linking training programmes with local labour market needs has already been mentioned. Yet this is not a simple matter. If the objective of the scheme is to speed the entry of young people into employment at the lower end of the labour market, then the choice of industry in which the work experience takes place may not be of great concern. However, if the objective of the programme is to upskill young people, then the location of the work experience or training is important. In the United Kingdom, the use of enterprise facilities to train young people resulted in many YTS trainees acquiring skills in declining industries, because it was only in those industries that employers had spare capacity in their training centres. Schemes for upskilling must be located in industries that are either expanding or planning to expand, if the programmes are to meet existing and future skills needs.

Another important issue is gender equality. The *Chile Joven* programme demonstrated that women will and do participate equally in government programmes. However, it is far more difficult to ensure that women have equal access to all positions in the labour market served by the programmes. Work- or employer-based training schemes usually tend to reproduce gender segregation in the labour market.

Experience has shown that it is difficult to overcome the disadvantages associated with belonging to an ethnic minority. It could be that the problem areas need to be addressed separately. For example, the CETA programme in San Jose, California, employed bilingual instructors to help participants with poor English-language skills.

The case studies examined also show what not to do. Perhaps the most common mistake of policy-makers is to reward success as measured by gross outcomes, such as the number of people placed in a job or the number gaining qualifications. Where this occurs there is a tendency for the programmes to recruit young people who already have the skills that will ensure positive results. In these circumstances the disadvantaged are frequently squeezed out of the programme. Once again, the need for adequate programme evaluation as a basis for judging the success or failure of programmes cannot be overemphasized.

## 8.4 CONCLUDING REMARKS AND POLICY RECOMMENDATIONS

The preceding discussion has indicated a number of ways of improving the design and implementation of employment policies for young people. The main points can be summarized as follows:

1. *Aggregate demand* – First, policies are more likely to be effective in a healthy economic climate. Second, the relative usefulness of different types of programme will vary with economic conditions. Training and job search assistance do not of themselves create employment, but they are likely to be of most use in times of economic growth when they can help match vacancies with job-seekers. During a recession, employment subsidies can play a more important role in helping maintain the attachment of young people to the labour market without raising their hopes and expectations about long-term job prospects. On the other hand, a recession may be just the time to upgrade the skills of the existing workforce (when there is unused capacity in firms), rather than lay them off, in order to be better prepared for an increase in productivity when the economy picks up.

2. *Targeting* – Policies need to be carefully targeted if they are to be effective. It could be argued on social grounds that the most disadvantaged groups should be targeted to try and remedy some of the additional problems they face in the labour market. Unfortunately, the use of certain simplistic measures of success, such as post-programme placement rates, leads many administrators to favour those young people already in a position to help themselves; a common finding is that broadly based programmes tend to aid those who are already relatively well-equipped for the labour market. In doing so these types of programmes end up increasing levels of inequality between different groups of young people.

3. *Financing* – The most usual sources of financing are general government revenues or international donors. However, other ways of funding exist. One such possibility is imposing a compulsory training levy on firms. Exemptions for employers who offer job placement for trainees provide an excellent incentive for firms to become involved in training. And there are other ways of raising private funds for self-employment programmes.

4. *Obligation* – In industrialized countries there is an increasing tendency for programmes and policies to be obligatory in nature in that registered unemployed people who fail or refuse to participate in programmes can lose their right to unemployment or social security benefits. The argument in favour of “activation”, as it is increasingly being called, is that it encourages young people to maintain links with the labour market, so that they do not become unemployable through being out of work for long periods of time. On the other hand, it has been shown that compulsory programmes are less likely to be as effective as voluntary ones. Young people who are forced to participate

tend, on average, to be less motivated than those on voluntary schemes. There is also a danger that employers may see participation in a compulsory scheme as an indicator of low motivation and other negative characteristics.

5. *The social partners* – The involvement of workers' and employers' organizations in the design and implementation of programmes is an important factor in determining their success. Such involvement engages their commitment to the scheme and at the same time tends to enhance the relevance of programme content and the quality of training. More generally, policies and programmes are likely to benefit from closer links between education and the world of work.

6. *Monitoring and evaluation* – Monitoring ensures that programmes are implemented the way they were intended and evaluation helps in identifying the design features that increase or decrease their effectiveness. All too often programmes are not subject to adequate evaluation. In particular, the success or failure of programmes is judged by their gross outcomes rather than by a comparison of results with some estimate of the situation had the programme not taken place. Apart from being an inappropriate measure of success, this kind of approach tends to favour programmes that select the relatively advantaged from among the potential target population at the expense of the disadvantaged.

7. *Training plus employment* – Combined training and employment programmes are generally more effective than programmes that contain only off-the-job training or work-based placements. The benefits of job search assistance, at least in industrialized countries, may have been overestimated: their real effects may be substantially less than the measurable effects they have on the unemployment register because of the compulsory nature of most of these programmes. Another disadvantage is that unemployed young people may feel forced to accept unsuitable jobs. Nevertheless, job search assistance can be effective in improving the matching of job applicants in times of economic growth, and it can also be a useful complement to training and work experience programmes.

8. *Self-employment* – Self-employment programmes come in many shapes and forms. Particularly when aimed at disadvantaged groups, these programmes need to be carefully designed in order to provide an adequate range of services. Indeed, the extent to which these programmes are useful for seriously disadvantaged young people is open to question. Such programmes tend to be much less expensive than those aimed at preparing young people for wage employment. However, in so far as the rather meagre evaluation results allow a judgement to be made, programmes targeting the better educated seem to be much more effective. Also of central importance in self-employment initiatives is access to finance, which is often a major impediment for young unemployed people wishing to set up on their own. Finance, though, is not enough in itself. A range of services, such as training in skills for self-employment and

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post-programme counselling and support, are also necessary if ventures are to succeed.

9. *Programmes for the disadvantaged* – An important finding is that programmes for young people with many disadvantages are more likely to be successful, albeit at a higher cost, if they are residential. Evidence also suggests that changing the structure and content of the school curriculum is likely to be more effective than remedial programmes for those who have left school and entered the labour market.

### Notes

<sup>1</sup> The concept of ALMP is easier to understand than to define. This definition includes measures to “activate” the unemployed, such as the requirement to attend interviews at the employment office as a precondition for claiming unemployment benefit. Numerous operational definitions are in use (see, for example, Calmfors, 1994, and Meager and Evans, 1998).

<sup>2</sup> The term “wage” employment is used here to refer to employment with an employer and thus to distinguish it from self-employment. In French and Italian, the term “dependent” (as opposed to independent) employment is used to make this distinction. However, in English, this term does not convey the same meaning. Programmes covered under this heading include direct job creation measures, such as the Environmental Task Force option in the United Kingdom’s New Deal and the *Contrats d’emploi solidarité* in France.

<sup>3</sup> This is naturally only an issue in countries that provide the unemployed with some form of social protection. Thus, for most developing countries, the problem does not arise.

<sup>4</sup> This was one of the major criticisms of the YOP (1978–83) in the United Kingdom, the precursor of the YTS.

<sup>5</sup> This subsection is based on O’Higgins (1997).

<sup>6</sup> The results reported here are all based on single equation Probit models controlling for individual characteristics in determining the effects of the scheme. Since the studies were all based on non-linear probability estimates, the effects of the scheme varied according to the pre-programme employment probability of the individual. The reported effects are the present author’s own calculations based on the various authors’ reported coefficients, so that the base probability could be standardized. The table reports only the results of single equation models.

<sup>7</sup> With regard to ethnic minorities, this provides more formal evidence to support the qualitative picture presented by, for example, Fenton et al. (1984) and Pollert (1986).

<sup>8</sup> This result is also supported by the work of Dolton et al. (1994b), who looked at the effects of the YTS on the duration of unemployment. These authors also say that, in a Probit estimation, they find the YTS to have had a negative impact on the probability of employment, although they do not actually report these results. One explanation for the negative effect is that other comparable early labour market experiences (such as early employment) are not included as controls in their estimation (O’Higgins, 1995c).

<sup>9</sup> One must be a little careful here, since deadweight and substitution effects are estimated in terms of YTS places rather than post-YTS employment. Indeed, whereas the scheme seems to have been of most value in terms of securing post-programme employment in periods of relative prosperity, it is precisely at these times that deadweight and substitution effects are greater.

<sup>10</sup> The studies were all based on linear regression models controlling for differences in individual characteristics. Negative wage effects of job training schemes for young people have also been observed in the United States. See, for example, Grubb (1995).

<sup>11</sup> The minor exceptions to this are Dolton et al. (1994a) who find a negative effect for females but not for males, while Whitfield and Bourlakis (1991) find that the effect of non-random

employment determination is not statistically significant. Ideally, controls should be introduced for both non-random employment determination and non-random YTS participation, which is the approach adopted by O'Higgins (1995a, 1995b).

<sup>12</sup> An example of this is provided by the TVEI in the 1980s, which was developed independently of the YTS and with little or no reference to it (Finegold and Soskice, 1988).

<sup>13</sup> See, for example, Ryan (1994a) for an account. Recently, Green et al. (1996) have shown that the presence of a trade union in a workplace increases the likelihood that its workers will receive training.

<sup>14</sup> One needs to be a little careful in interpreting unemployment figures in Jamaica since they refer to the ILO's broad definition of unemployment, that is, the unemployed are defined as those not in work or in education but who are willing to work. It does not require the additional qualification that they have actively sought work in the brief reference period. Obviously, this leads to an increase in reported unemployment rates for all groups.

<sup>15</sup> Again, one needs to use caution when interpreting these figures. If one includes the 25–34 age group among the adults, the ratio has remained roughly constant.

<sup>16</sup> This section is based largely on a report prepared for the ILO's Action Programme on Youth Unemployment by Simon White and Peter Kenyon.

<sup>17</sup> It is important to add that this does not imply that all these services should be offered by the same institution. In particular, access to finance should be left to specialized agencies and not undertaken by training providers.

<sup>18</sup> This section is based largely on a report prepared for the ILO's Action Programme on Youth Unemployment by David Ashton, Johnny Sung and Marcus Powell.

<sup>19</sup> Of course, there is an overlap between the two, and some programmes, such as the Job Corps in the United States, deal with both.

<sup>20</sup> One should note, however, that these are based on gross outcomes rather than on the more appropriate quasi-experimental Job Corps evaluation of 1982.



## THE ROLE OF EMPLOYERS' AND WORKERS' ORGANIZATIONS

# 9

Workers' and employers' organizations are in a position to play a critical role in the design and implementation of labour market policies and programmes for young people. Some of the ways in which they can become involved have already been outlined. This chapter considers the possibilities in greater depth.

### 9.1 SCHOOL/INDUSTRY LINKAGES

#### Training in schools and workplaces

The most obvious way to link education and work is to use a system in which vocational preparation is divided between school-based general training and firm-based specific training, as in the case of the dual system. This type of system has been particularly successful in easing the transition of young people from school to work. However, the key to success is not only in the division of responsibility but also in the matching of the general education and training provided in schools with the skills requirements of the world of work. Sako (1994) has noted a number of reasons that might explain why the education sector often does not meet such requirements. Common problems include an approach that is too theoretical or academic; another problem is that the curricula for vocational training are often outdated.

In Germany, the involvement of employers' organizations and trade unions in developing curricula for the dual apprenticeship system means that the requirements of the world of work (both in individual terms and at the level of the firm) are borne in mind. The qualifications gained are, therefore, more relevant to the needs of the labour market. Of course, firms are not perfect judges of skills requirements and the system is often slow to adjust to unforeseen and new developments. However, enterprises are likely to be able to assess their needs more accurately than educational policy-makers far removed from the realities of the labour market. The challenge of adapting education systems to

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rapid changes in the demand for skills can be partly met by strengthening basic educational qualifications and giving young people the skills they need to enable them to adapt to a constantly changing work environment.

### **Placements and sponsorship**

Another way of linking the world of education with the world of work is by placing trainees in public or private firms. Job placement comes in many forms and can operate at different levels. Work experience can be offered as part of the school curriculum to less academically inclined students to prepare them for entry into the workplace. Young people can thus gain a more realistic idea of specific types of employment, and practical experience often provides a welcome break from the classroom. For their part, employers gain access to prospective employees and strengthen their formal and informal links with educational establishments. In addition, the output of young people on work placement schemes can be valuable to employers.

Links could also be established by firms sponsoring individuals working towards higher qualifications, which is likely to be particularly relevant when there is a shortage of skilled workers. In the United Kingdom, corporate sponsorships by such companies as BP, IBM and Shell have been offered to science and engineering undergraduates. Sponsorship can help maintain a supply of young people with the right kind of qualifications and may also give industrial employers some degree of influence over specific subject areas.

### **Other school/employment links**

Employer and trade union involvement can also take place in schools. Representatives, for example, can give talks on the nature of different jobs or occupations. Union representatives from a particular trade can give students an idea of what an apprenticeship in that occupation involves. Employers can enhance their company image by presenting the work of the firm to students or by offering prizes for school projects. Needless to say, such interventions should be an addition to, not a substitute for, high-quality employment and training opportunities.

## **9.2 ACTIVE LABOUR MARKET POLICY**

In many countries, employers' and workers' organizations are already involved in the design and implementation of ALMP. However, the extent to which formal involvement is actually translated into a real input into the policy-making process can vary enormously. Often, the social partners are included on a collaborative or consultative basis with national labour market boards and/or public employment services. Indeed, the collaboration of representatives of employers and workers in the organization and operation of the employment

service and the development of employment service policy is provided for in Article 4 of the ILO's Employment Service Convention, 1948 (No. 88).

Furthermore, *Youth*, an ILO report to the 72nd Session of the International Labour Conference, stated that:

Trade unions and employers' organizations have a crucial role to play at all levels where policy is made or action taken to create employment for youth or to facilitate the transition from school through training to employment. Workers' and employers' organizations not only contribute with their experience but also take part in the creation of policies in whose implementation those they represent have a major role to play. (ILO, 1986, p. 137)

Involving the social partners in the formulation and implementation of ALMP is likely to increase the effectiveness of such policies. There are several reasons for this. First, the involvement of employers and workers implies a commitment on their part to the success of policies and programmes. This joint commitment will, in itself, tend to enhance the effectiveness of policy. Indeed, the lack of such commitment can be a key reason for the failure of youth employment policy (as was the case in the United Kingdom during the 1980s).<sup>1</sup>

Second, the quality of programmes is likely to be higher if the social partners are involved. Numerous studies have shown that the closer programmes are linked to private employers, the more effective they are likely to be.<sup>2</sup> Employers may use programmes as a recruitment and/or screening device. Also, the relevance of training is probably greater when private employers are involved. The skills acquired are likely to be closer to those required by the labour market than those taught on programmes without such direct labour market links.

Some of the pitfalls of work experience and training programmes can be avoided through the involvement of workers' organizations. In promoting the training content (and, through careful monitoring, ensuring the effective implementation) of programmes, workers' organizations can guard against the exploitation of programme participants, at the same time helping to promote their long-term prospects of good-quality employment. They can also ensure that programme participants are not used as substitutes for other categories of worker.

Experienced employers also have an important role to play in programmes promoting self-employment. They can provide advice and support by introducing the self-employment option in schools and acting as mentors. They can also sponsor business competitions, of which the Livewire scheme in the United Kingdom (box 9.1) is a good example.

### 9.3 GUARANTEEING TRAINING

Workers' and employers' organizations can play an important role in guaranteeing training in education and training systems generally, and in employment

**Box 9.1 The Livewire scheme (United Kingdom)**

***Name of scheme***

Livewire

***Implementation organization***

Livewire – with sponsorship from the Shell Oil Corporation.

***Country***

United Kingdom, although Livewire also operates in other countries.

***Scheme purpose***

To highlight opportunities for young people in small businesses and to promote the development of good business plans. Livewire is a business plan competition that incorporates training and mentor support.

***Target group***

Young men and women aged from 16 to 30 years.

***Key lessons***

Livewire raises the public profile of young people in business and shows young people that there are many ways of starting a business. It promotes role models of young people in business. Although the competition is the organization's flagship, the real value of the programme lies in the combination of training and mentor support.

and training programmes that are a part of ALMP. It has been demonstrated by many authors that the presence of a trade union in the workplace increases the probability of that firm providing training for its workers (Booth, 1991; Tan et al., 1992; Green et al., 1996). Workers' and employers' organizations can also play an important role in guaranteeing the quality of training. A country where this works well is Germany. One of the key aspects of the German system described in Chapter 7 has been identified as being the value of the country's skills recognition system, made possible because of the participation of workers' and employers' organizations in national committees that regulate the content, quality and standardization of certification. As a result, gaining a nationally recognized diploma is proof of the skills and knowledge acquired by that young person. And potential employers are fully aware of the capacity and competence levels acquired by holders of these diplomas.

Workers' and employers' organizations can help resolve the financing problem. Who should, and who does, finance training is one of the major stumbling blocks to establishing an effective training system. The basic argument going back to Becker (1964) is that firms are not prepared to finance general training, that is, training that is also of use to other firms, but will only finance training that is firm specific. This is because enterprises giving general training run the risk that their employees will be "poached" by firms that do

not give any form of training once they have qualified, which means the training enterprise loses its investment.

This "financing problem" has been effectively resolved in the German system. The training that firms give employees contains both firm-specific and general elements. The tripartite form of control contributes significantly to the feasibility of the financing system, principally by facilitating agreement over the distribution of costs between the State, apprentices and employers. This contrasts sharply with countries such as the United States where apprentices pay the full cost of their training, which is likely to lead to a sub-optimal level of training from a societal point of view.<sup>3</sup> In Germany, the State contributes principally by supporting the vocational training centres providing off-the-job training to apprentices.<sup>4</sup> Employers provide on-the-job training and apprentices contribute by accepting a relatively low allowance during training.<sup>5</sup> Two key elements of the financing system, the avoidance of "poaching" by non-training firms and the low labour cost of apprentices, are made possible or at least strongly encouraged by the tripartite control of the system. Furthermore, poaching is made more difficult for non-training firms because trade union influence on plant-level Works Councils has led to the implementation of differential wage agreements for workers trained internally or externally to the firm (Soskice, 1994); the higher wage payable to externally recruited trained personnel has the effect of discouraging poaching. The relatively low apprentice allowance encourages firms to give training, since the effective cost of in-plant training is shared with the apprentices themselves.<sup>6</sup> The role of trade unions is fundamental in guaranteeing the quality of training and, therefore, in making the low allowance an acceptable solution for all, including the young people. Apprentices know that they will obtain good-quality employment with a relatively high level of remuneration once they have qualified.

This consensus-based approach is in stark contrast with the antagonistic attitudes that prevailed in the United Kingdom during the 1980s, which consequently had a negative effect on the quality and quantity of training. The unions feared that "training" for young people would be used to keep their older members' wages down, while failing to provide young people with good-quality training to promote long-term job prospects. This led to wage bargaining in which no clear distinction was made between young workers and young trainees, which pushed the relative wages of young people up, irrespective of whether they were undertaking training or not. Paradoxically, this behaviour on the part of the unions and employers increased the cost of training and, therefore, reduced the likelihood of it being provided (Marsden and Ryan, 1990).

There are two ways of dealing with poaching. One is to finance training through a payroll levy, with exemptions for firms that provide training. This could be administered at national level, or, perhaps better still, at sectoral level, given that differing skills requirements in different industries will affect the cost of training. The second approach is for employers' organizations

**Box 9.2 Cap sur l'Avenir**

The *Cap sur l'Avenir* campaign was first launched in France in 1993 by the Conseil National du Patronat Français in order to facilitate the integration of young people into the workplace. It was then relaunched in 1997, with a sharper focus on two concerns: encouraging and obtaining commitment from enterprises to increase the number of training places under apprenticeship contracts, as well as various other forms of work-based learning; and forging closer links between education and the workplace through units of initial work experience within higher education courses.

The campaign has consisted of a nationwide programme of events at which employers talk to young people with the aim of young people obtaining placements and firms finalizing commitments to create placements on work-based learning programmes. Other organizations involved include regional councils, local authorities and France's national public employment agency, ANPE.

From January to August 1997, the total number of contracts offered to young people was 155,869, representing an increase of 5.5 per cent over the same time period in 1996.

Source: IOE (1998).

through their control over firms' valuable resources to introduce sanctions against firms not giving training.

Employers' and workers' organizations could also be directly involved in the provision of training. This is particularly helpful in the case of small firms, where it may not be viable for training to take place within the enterprise.

Finally, workers' and employers' organizations can play an important promotional role in advocating measures aimed at improving the employment prospects of young people. This could include appealing to the private sector to create or increase the provision of training. In Belgium in 1997, for example, the Fédération des Entreprises de Belgique made such an appeal to its members. Also in 1997, the Union Patronale Suisse, in collaboration with the then Swiss Federal Offices of Industry, Arts, and Professions and Labour, invited enterprises to offer young people opportunities for professional training. In some cases, national employers' organizations have also launched information dissemination campaigns to raise awareness among employers about youth employment and vocational training, and have mobilized private enterprises to create more apprenticeship places. The French *Cap sur l'Avenir* campaign (box 9.2) is such an initiative.

## 9.4 INTERNATIONAL ACTION

Action by workers' and employers' organizations can also be taken at the international level. The ICFTU and the IOE have both recently produced reports focusing on the promotion of youth employment.

The ICFTU's Action Plan on Youth Employment was adopted at the 110th meeting of the ICFTU's Executive (ICFTU, 1996). Apart from stressing the gravity of the youth unemployment problem and the need for concerted global action, the plan emphasized the need to promote quality youth employment, not simply more jobs. Thus, "employment should be secure, safe, fairly rewarded, meaningful and compatible with non-working life" (ibid., p. 1). Furthermore, "employment generation programmes should aim to create jobs which are environmentally stable, meaningful, provide career paths and training, are safe and secure, close to where people live and remunerated based on collective agreements" (ibid., p. 3).

The ICFTU maintains that education and vocational training play a key role in promoting the employment of young people in good-quality jobs. Although the prime responsibility for education and vocational training lies with national governments, at both international and national levels, it believes that workers' organizations should put pressure on governments to take action. In particular, there should be: "increased linkages between school, vocational training and work and the provision of vocational guidance" (ibid., p. 2); "countries should have compulsory and free education for children" (ibid., p. 3); "governments should commit themselves to attaining the objective of guaranteeing a job or a place in relevant and meaningful training or education for all young people" (ibid., p. 3). National trade unions should vigorously pursue education and vocational training as an industrial issue through collective bargaining.

Direct action by trade unions in job creation can be achieved through collective bargaining agreements, inter alia: "joint employment projects between cooperatives and the private sector"; "supporting innovative ways of voluntarily sharing working time"; and "increasing the number of entry-level positions for young people" (ibid., p. 4).

The ICFTU has also noted the importance of net job creation through macroeconomic policies to promote industrial development, and rejects the concept of cutting youth wages as a solution to the problem, arguing that it is both unfair and ineffective. The empirical evidence presented in Chapter 6 on the effects of minimum wages tends to support this position. The existence of a minimum wage applicable to young people appears to have, at worst, a small negative impact on youth employment. Such an effect is certainly outweighed by the potential role of economic growth in promoting employment for all, including youth.

In April 2000 at its Congress in Durban, South Africa, the ICFTU presented its report, Youth Action Programme, containing proposals for specific initiatives aimed at young people.<sup>7</sup>

A recent report by the IOE (1998) discusses the ways in which employers can help promote youth employment. It is encouraging to note that a substantial degree of consensus exists between the views expressed by the IOE and those of the ICFTU. The IOE also emphasizes the importance of youth

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unemployment as a problem, recognizing that it "is, to a great extent, a reflection of aggregate economic levels and of the macroeconomic situation" (ibid., p. 2). Again, in line with the ICFTU, the IOE recognizes the roles that governments and workers' organizations can play in addressing the problem of youth joblessness.

The IOE report focuses on the role that individual employers as well as employers' organizations can play in promoting youth employment. It highlights the role of employers in promoting vocational education and training, suggesting three ways of helping young people prepare themselves for the world of work:

- providing enterprise-based training for young entrants into the labour force;
- providing workplace learning for young students; and
- orienting educational and training institutions, as well as young people, towards the real needs of the private sector.

Employers and their organizations can strengthen their role in vocational education and training by, inter alia:

- raising awareness among employers of their role in vocational education and training and in youth employment promotion;
- increasing the number and scope of training places in enterprises;
- establishing partnerships with educational and training institutions;
- setting up technical assistance schemes designed to build the technical capacity of enterprises in the provision of work-based training;
- setting up group training arrangements;
- exchanging information on experience with vocational training; and
- actively engaging in the review and formulation of training policies.

Employers can also help in the job search process. This type of assistance could include: the creation of job banks by employers' organizations or networks of employers; and the monitoring and dissemination of information on current and emerging job requirements.

Employers' organizations could play a facilitating role in allowing employers to pool their resources, whether financial, technical or institutional, so as to minimize the costs of a wide range of activities, such as apprenticeship training and the creation and maintenance of job banks. They could also negotiate school/industry partnerships and contribute to collective bargaining over the terms and conditions of employment of young workers and apprentices. Employer support for the extension and improvement of work-based training could perhaps be best mobilized by employer representatives.

Although there appears to be a substantial degree of consensus between employers' and workers' organizations at international level, important differences remain. One central concern of workers' organizations, at international,

national and subnational levels, is the risk that "training" for young people will be used as a pretext to reduce their older members' wages and/or substitute young workers for their older counterparts. They fear that employers might implement these practices without providing good-quality training that would lead to higher-quality employment and better wages. This was certainly the stand that the trade unions took in the United Kingdom in the 1980s, where collective bargaining on wages for young people was carried out with scant regard to whether the young people were trainees or not.

One way round this is to involve employers' and workers' organizations in determining the content of training for young workers, as well as in monitoring the quality of training. Provided the quality of training can be guaranteed, workers' organizations might be prepared to allow trainees or apprentices to receive a substantially reduced trainee allowance, as long as they acquire marketable skills and recognized qualifications that will enable them to obtain good jobs with high levels of remuneration. This is not the same thing as reducing the cost of employing young people per se. This measure reduces the cost of training to the firm by splitting the costs between the firm and the individual trainee. This, in itself, makes it more likely that firms will undertake training in the first place. It is not a question of reducing the wages of young workers so that they can replace older workers in low-skilled occupations.

## 9.5 POTENTIAL PROBLEMS

Involving workers' and employers' organizations in the design and implementation of youth employment and training policies is not without its problems. First, tripartite participation in policy-making and implementation is not sufficient in itself to ensure effectiveness. Both the business sector and trade unions need to be committed to the success of such arrangements. One problem identified in the relatively unsuccessful creation of tripartite Labour Market Boards in Canada<sup>8</sup> was the frequent failure of workers and employers to nominate sufficiently senior members of their organizations to serve on the boards (Haddow and Sharpe, 1997). Furthermore, Haddow and Sharpe have argued that differences in the degree of political commitment to the tripartite structure also go some way towards explaining why there were so many variations in the levels of success of the different boards across the Canadian provinces.

Second, the involvement of the social partners in policy-making can mean that the decision-making process becomes rather cumbersome (OECD, 1996). In 1991 the Netherlands radically reformed its Public Employment Service so as to involve the social partners, but decision-making was hampered by each party effectively holding a veto over policy decisions. Furthermore, the policy-making process was extremely complicated, because power was shared not only with the social partners but also with officials of the local municipalities, who could participate in the National Policy Plan. This illustrates a further point that needs to be considered when decentralizing policy-making. In many

countries, decentralization has gone hand in hand with the development or extension of the involvement of the social partners. In principle, decentralizing decision-making can make administration more flexible by allowing policy to respond to local labour market conditions. In addition, local union officials and key employers are better placed to influence the labour market behaviour of their members than officials at the central level (*ibid.*). However, the Dutch experience shows that this can greatly increase the complexity of the policy-making process (Hartog, 1999).

Nevertheless, in Denmark it has been shown that decentralization, coupled with the involvement of the social partners, can be a success. Madsen (1999) has suggested three elements that may help avoid the inherent problems of decentralized tripartite decision-making. These are: (a) the central formulation of goals and indicators of results; (b) the central supervision of regional plans involving dialogue and exchange of information; and (c) the creation of learning processes and the building of political culture at regional and local levels. Thus, a key element in the successful operation of such a system is formulating central targets and establishing a clear demarcation between responsibilities at the different policy-making levels.

## 9.6 POLICY IMPLICATIONS

The central theme of this chapter is that workers' and employers' organizations can play a constructive role in easing the transition of young people from school to the world of work. Their action can take several forms, including:

### 1. *The promotion of school/industry linkages*

Successful links have been promoted through involving the social partners. For example, employers' and workers' organizations can take part in determining the curricula of courses under the dual apprenticeship system. Trade unions and employers can get involved in sponsorship and placement, as well as in promotional/informational activities within schools.

### 2. *ALMP involvement*

It has been suggested that the involvement of workers' and employers' organizations in the formulation and implementation of ALMP is likely to improve the latter's effectiveness and increase the commitment of these organizations to the success of such policies. The sharing of knowledge and requirements will also tend to increase the relevance of the policies adopted. This is particularly true in programmes that combine training and work experience, which are currently the most common form of ALMP. Of course, the involvement of the social partners is not in itself sufficient to guarantee the effectiveness of programmes. However, under certain conditions (see section 9.5), such as a consensus on the basic aims of youth employment and training policy, employers' and workers' organizations can make a useful contribution to improving programme development and implementation.

3. *Guaranteeing training quality and quantity*

Perhaps one of the key ways in which employers' and workers' organizations can help improve policy is by guaranteeing the quality of training. As shown in section 9.3, the involvement of the social partners offers a solution to the "financing problem" and, therefore, also helps increase the quantity of training offered by employers.

The chapter also briefly discussed the new measures being adopted by international employers' and workers' organizations. Although substantial policy differences remain, it is encouraging to see that there is a high degree of consensus between these organizations on the type of action that should be taken.

**Notes**

<sup>1</sup> What occurred in the United Kingdom in the 1980s demonstrates the dilemma faced by workers' organizations when faced with training programmes of poor or variable quality. On the one hand, trade unions welcomed the opportunity that the YTS represented to encourage training, and thereby enhance the quality of work and increase (long-term) wages through increased productivity. On the other hand, a threat was posed by the possibility that low-cost "trainees" could be used as substitutes for other categories of worker, particularly those in relatively low-skilled occupations (where young people could effectively compete with older workers in terms of the necessary job skills) and the associated exploitation of trainee labour (Ryan, 1994a).

<sup>2</sup> See, for example, O'Connell and McGinnity (1997) for a recent consideration of a case in Ireland.

<sup>3</sup> Since capital markets are, in practice, imperfect, it is unlikely that trainees will be either willing or able to borrow enough money to finance the socially optimum level of training.

<sup>4</sup> The State also provides subsidies to support talented, disadvantaged and disabled apprentices (Gasskov, 1994).

<sup>5</sup> The training allowance varies widely from sector to sector. The allowance for an apprentice tailor is only about 15 per cent of that of a scaffold builder (Gasskov, 1994). However, as noted above, on average the apprentice allowance is around one-third of the skilled worker's wage.

<sup>6</sup> Indeed, the net costs to firms in some cases can sometimes be negative. That is to say, the value of the output produced by apprentices can be greater than their cost to the firm. This is most likely to occur in occupations with relatively low-skill requirements (Soskice, 1994).

<sup>7</sup> In April 1999, the ICFTU launched the campaign, "The future starts now – Join a union", which emphasized appropriate policies for the employment and education of young people.

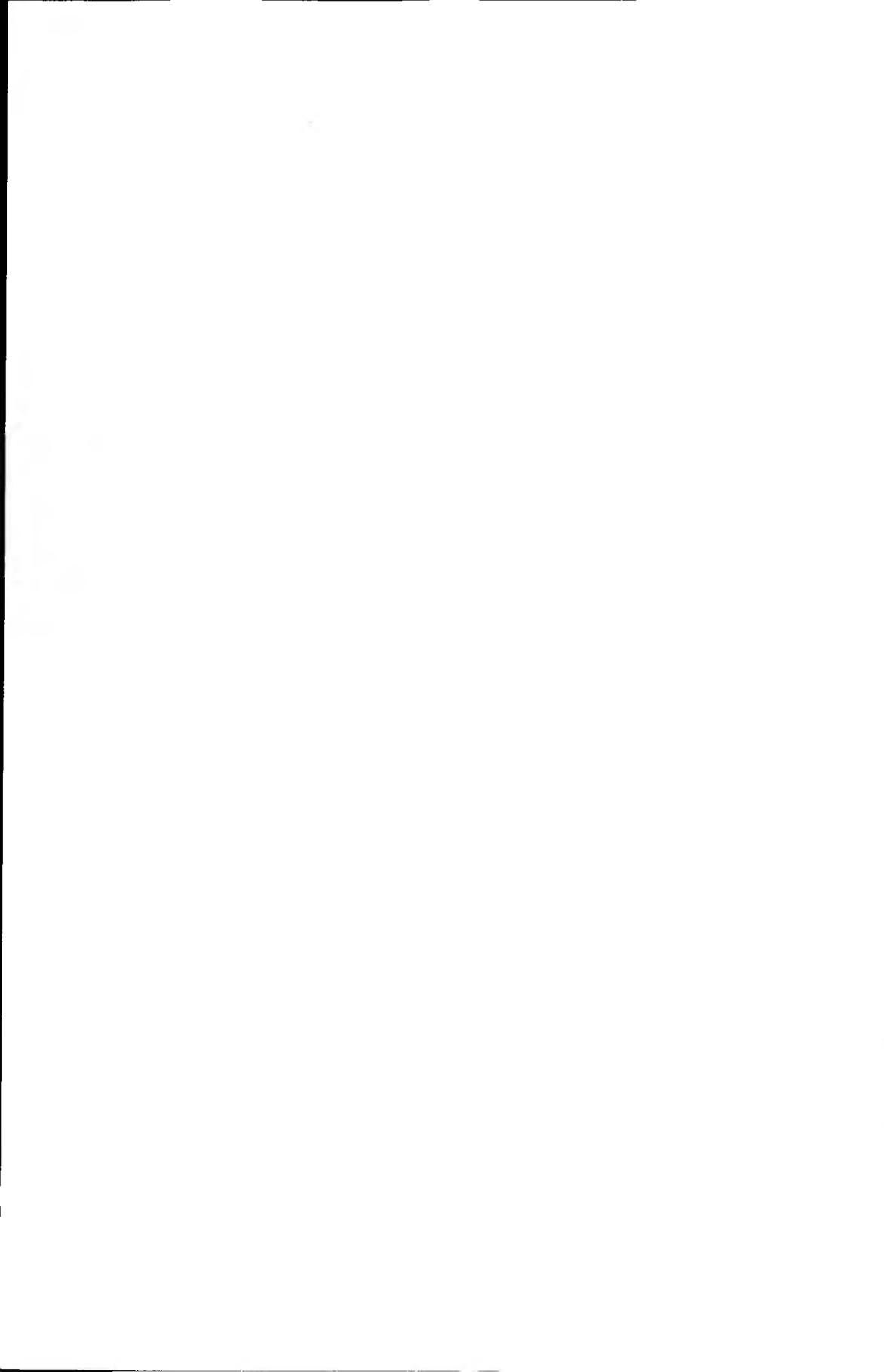
<sup>8</sup> Another problem was that the boards were not tripartite but rather multilateral bodies with representatives from different groups identified as being subject to discrimination in the labour market, such as women and ethnic minorities. Problems arose because the advocacy role taken on by these representatives impeded consensus-building in the Labour Market Boards (Haddow and Sharpe, 1997).



PART III

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TOWARDS AN EFFECTIVE RESPONSE



In this concluding chapter, the conclusions drawn from the analysis carried out in the previous chapters have been brought together to provide the basis for 11 policy recommendations.

(a) *The problem of youth unemployment*

The first and perhaps foremost conclusion concerning policy is that youth unemployment represents a serious cause for concern.

- (i) Youth unemployment has reached high levels across a wide range of countries and, almost everywhere, rates are significantly higher than adult rates.
- (ii) Although young people tend to be unemployed for shorter periods than older adults, the difference is not large enough to explain youth unemployment away as simply a transient problem of frictional unemployment.
- (iii) The consequences of youth unemployment, such as social exclusion, which can lead to drug abuse, crime and social unrest, are extremely serious and damaging for society as a whole.
- (iv) The time a young person spends unemployed, particularly if periods are prolonged, can have permanently damaging consequences on the rest of that person's "working" life. Even though long-term unemployment does not necessarily lead young people to behave unsocially, behavioural patterns established early on in life, together with the lack of training and employment experience, are likely to affect the employment and earnings' potential of young people for the rest of their lives.

(b) *Aggregate demand*

General economic conditions are of central importance in diagnosing the youth unemployment problem and in determining the appropriate response. Youth

## Youth unemployment and employment policy

unemployment is first and foremost caused by inadequate aggregate demand in the economy, and policy responses need to take this into account. Indeed, young people are even more affected by prevailing economic conditions than older workers. There are a number of reasons why youth unemployment levels are higher and more variable than adult unemployment levels. When firms face recessions, young workers are often the first to be dismissed, because they are the least costly for an enterprise to make redundant. Also, young people comprise a disproportionate share of new jobseekers. Very often the first reaction of firms to a recession is to halt, or reduce, recruitment. Young people are, therefore, more seriously affected by reductions in hiring than older workers.

Governments, whether in industrialized, developing or transition countries, have often failed to take this into account, which leads to the first recommendation:

*Policy recommendation 1: A strategy to combat youth unemployment must combine policies aimed at both the demand and supply side of the economy in question. Training and skills development are essential but not sufficient conditions for employment-intensive growth; better results are usually achieved in an overall growth-promoting environment. A combination of complementary macroeconomic, income and labour market policies are needed to move towards better-quality jobs and higher employment levels for young people.*

### (c) *Wage policies for young people*

The analysis shows that the relative wages of young people have had a relatively small role to play in determining youth unemployment. Similarly, in the consideration of minimum wages, there is little evidence to support the introduction of sub-minimum wages (or to exclude young people altogether from the provisions of minimum wage legislation). The negative effects of minimum wages on youth employment, where they are found to exist, are relatively small compared with other factors; indeed, recent studies have often found them to be non-existent or even positive. If one adds to this the constructive role that higher wages play in increasing the quality of employment, there is little justification for reducing the wages of young people as a means of combating youth unemployment. Thus:

*Policy recommendation 2: Lowering the wages of young people is not likely to be an effective means of combating youth unemployment, unless lowering the remuneration of young people is for the specific purpose of encouraging firms to provide training by sharing the costs between enterprises, the State and individuals. This is one area where the involvement of the social partners is vital. Workers' and employers' organizations at national, sectoral and establishment levels have a crucial role to play in monitoring and guaranteeing the quality of the training received and in arriving at a negotiated and acceptable level of remuneration, so that the costs of training are shared between firms and individuals.*

(d) *ALMPs*

The most appropriate form of ALMP to implement will depend on the general economic context, as well as on the specific nature of the youth labour market problem. This means that youth labour market programmes must take account of three basic elements:

- (i) the state of the economy;
- (ii) the sectors in the economy that have the potential for development;
- (iii) the target group.

The state of the economy as a whole will have an important influence on the types of programme that are appropriate. This leads to the third policy recommendation, which can be divided into five subgroups:

*Policy recommendation 3: In general, programmes that comprise both off-the-job training and work placements with enterprises are likely to be more effective than programmes that contain only one of these elements, such as programmes based purely on work placements or classroom training.* However, the effectiveness of different types of programme will depend on the three factors identified above. Thus, other things being equal:

*Policy recommendation 3a: In times of recession, public works and employment subsidies can be just as effective as more expensive programmes containing a substantial off-the-job training component; subsidized employment will also involve fewer deadweight effects and is more likely to lead to net job creation.* There is also a danger that higher-level skills programmes may result in some participants acquiring unrealistically high job expectations. It is worth stressing that skills training alone does not create jobs.

*Policy recommendation 3b: Unemployed young workers benefit most from initiatives that offer a broad range of mutually supporting programmes.* Multiple services can include educational support, training, subsidized work, job search assistance and career advice, and counselling to deal with drug, alcohol and family problems. In addition, programmes that include experience and training in regular workplaces are effective in providing young people with a foothold in the labour market and in overcoming employers' negative attitudes towards young people with no work history. The *Joven* employment programme in Chile, described in Chapter 8, is a successful example of such an approach.

*Policy recommendation 3c: Skills training needs to be carefully geared to the existence of effective market opportunities.* In many developing countries, there are still areas of activity to be exploited in the farming and non-farming sectors in rural areas, in terms of public works aimed at developing physical infrastructure, as well as skills development through training in self-employment for

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job openings in the informal sector. In the industrial sector, especially in more industrialized economies where the potential for expansion of the agricultural sector is largely exhausted, attention needs to be concentrated on skills training for sectors that are expanding or that have the potential to expand. In all these cases, the underlying aim should be to promote programmes in which the jobs created are likely to survive long term. This requires obtaining data on the promising areas of activity, as well as carefully monitoring programme implementation to ensure that projects providing training in declining sectors are discouraged.

*Policy recommendation 3d: Of central importance in self-employment initiatives is access to finance, the lack of which is a major impediment for unemployed young people trying to set up on their own. Yet, finance in itself is not enough. A range of services, such as training in skills for self-employment and post-programme counselling and support, are also of crucial importance in determining the success of self-employment ventures. It is also unrealistic to hope that self-employment programmes will solve the labour market problems of all unemployed young people; not every young person has the makings of an entrepreneur.*

*Policy recommendation 3e: The type of programme should be carefully geared to the groups that programmes are intended to reach. Not all programmes are suitable for all types of young people. Clearly, the type of programme that is most appropriate will depend in large part on the level of participants' existing skills. Public works and work experience programmes with little concentration on skills training are more appropriate for those with a relatively low level of initial skills. If the aim, however, is to help those who have already acquired basic levels of education and skills, more advanced training in vocational skills and the skills required for self-employment will be required. In order to target policies accurately, information on the labour market situation of different groups will be needed as well as (once problem groups have been identified) a clear idea of the target group.*

### (e) LMI

In order to adopt the appropriate form of policy and programme, a country's general economic situation needs to be analysed. In addition, and of vital importance, up-to-date and accurate LMI is required. Particularly in many developing countries, LMI is still not collected on a sufficiently regular basis and, even when it is, it is not always exploited to the full. The collection of information of the labour market situation of different types of young people can help determine more precisely which groups need assistance. Obviously, not all young people are alike. For some, the experience of unemployment is purely frictional: the initial job search process is quickly completed with no long-term consequences. For many others, this is often not the case. Some

groups of young people – such as those with low levels of education and disabilities – are much more likely than others to become unemployed and remain so for substantial periods of time. However, which groups will be affected will vary according to country and to period. Thus, within countries (and regions) information should be collected on unemployment rates by age, educational level, sex, ethnic origin and so on in order to identify the problem groups in a specific country or geographical area. Thus:

*Policy recommendation 4: The collection of adequate LMI is a prerequisite for the effective design and implementation of youth employment programmes.* Furthermore, high-quality data on the requirements of employers aids in the design of vocational training and other programmes. Accurate LMI can also help bridge the gap that sometimes exists between young people's job expectations and the opportunities actually available in the labour market. Providing young people with adequate data through vocational guidance and counselling will help them make informed choices concerning their working lives. The introduction of such services into ALMPs in many countries represents a cost-effective means of helping the labour market integration of many young people. In many cases, this might obviate the need to follow more expensive training and employment programmes and should perhaps be the first step young people take before they go in search of subsidized employment and/or training. Thus:

*Policy recommendation 5: Youth employment programmes should include a preliminary guidance and counselling stage.* At the same time, it is important to recognize that vocational guidance and counselling, as well as other forms of job search assistance, are complementary, and should not be seen as substitutes for other forms of policy intervention for young people.

#### (f) *Disadvantaged young people*

Not all young people are alike in the employment opportunities open to them, and, according to the prevailing economic situation, some young people face particular difficulties in integrating themselves into the labour market. All too often, policies tend – whether by design or accident – to concentrate on those who are already in a position to help themselves. Therefore, there is a strong case to be made for concentrating attention on particularly disadvantaged groups of young people. Thus:

*Policy recommendation 6: Policies promoting youth employment should be targeted towards disadvantaged young people.* The arguments underlying this recommendation are based on considerations of efficiency and equity. First, from an efficiency point of view, there is a general finding that the more closely targeted programmes are, the more effective they will be. Although findings on programmes aimed at disadvantaged young people are often

discouraging, there are indications that the fault lies, at least partially, with the design and implementation of the programmes, rather than with the fact that they are aimed at disadvantaged young people per se. Second, programmes that help those already in a position to help themselves are likely to involve more deadweight effects; policies aimed at facilitating the integration of the more advantaged are less likely to have a net impact. The beneficiaries of the programmes would, in any case, very probably have succeeded on their own.

From the point of view of social justice, it is clear that more attention should be paid to the less fortunate young people in society. Indeed, policies that do not explicitly target these groups are likely to end up widening the gap between disadvantaged young people and those who are better off.

### (g) *An integrated approach*

Educational and employment policies are closely related to one another; youth employment policies and programmes are likely to be more effective if they are integrated with educational policies. Also, preventive action aimed at changing the structure and content of school curricula are likely to be more effective than post-school remedial measures. Thus:

*Policy recommendation 7: Youth employment policy needs to be closely linked with educational policy.* One way of doing this is to formulate an overall youth policy. On a more specific level, a step in this direction was taken by the United Kingdom in the 1980s, when the Department of Employment and the Department of Education and Science were merged into the new Department for Employment and Education. This can help avoid the situation developing in which education and employment policies are in competition with each other, as happened when the TVEI was developed in parallel, and partially in competition, with youth employment policy and, in particular, with the YTS.

Closer links need to be fostered between the worlds of education and work. Thus, for example, educational curricula should, at least to some extent, take into account the vocational needs of young people. Particularly in developing countries, for example, Zimbabwe, it has been suggested that educational policies are too theoretical. School curricula need to reflect the requirements of young people once they enter the labour market.

In some countries, the integration of education and employment policies has been taken a step further. The dual system common in German-speaking countries has demonstrated that, although the system cannot entirely resolve the problem of youth unemployment, particularly when aggregate demand is low, it can, nevertheless, go a long way towards easing the integration of young people into employment, thereby reducing the youth relative to adult unemployment rates. While it may be neither feasible nor desirable to transpose the whole system to other countries, certain key elements could be incorporated

into other countries' educational and training systems. Two such elements are: (i) establishing a nationally regulated and universally accepted system of skills certification; and (ii) involving the social partners in the design, implementation and monitoring of the system. In addition to providing general support to the system and in guaranteeing the quality and, therefore, the acceptance of certification, the involvement of the social partners also plays an important role in resolving the problem of financing training. This can be partly achieved through imposing sanctions by sectoral or national employers' organizations on enterprises not undertaking training. It can also be supported by a negotiated settlement of the division of the costs of training between firms and the individual, through the latter accepting a relatively low level of remuneration in return for training.

A further way in which policy should be integrated is through the coordination of different programmes aimed at promoting youth employment. Thus:

*Policy recommendation 8: Youth employment programmes should be developed in the context of an overall strategy for the promotion of youth employment. Within the realm of youth employment policy itself, efficiency can be enhanced by ensuring that different programmes are integrated. In many developing countries, such as Zimbabwe, there are numerous small-scale schemes and programmes for promoting youth employment but no effective means of coordination between them. The experiences of other countries, such as Jamaica, have shown the advantages of integrating policies and there does appear to be a desire to go further along this road and link vocational training measures to programmes providing basic (prevocational) education. This would ensure the effective use of resources and encourage greater complementarity between programmes.*

#### (h) *Voluntary versus obligatory programmes*

Policies and programmes in industrialized countries are increasingly obligatory in nature – failure to attend interviews or to participate in programmes can result in state benefits being taken away. This is justified on the grounds that young people then maintain a link with the labour market. However, as noted in Chapter 8, compulsory programmes tend to be less effective than voluntary ones. Employers often perceive participants of compulsory programmes as having low levels of motivation, and a kind of stigma can become attached to them. Indeed, since taking part is mandatory, for many participants, this claim of poor motivation is justified. Thus:

*Policy recommendation 9: Voluntary programmes are preferable to compulsory schemes. There is a need to balance the roles of building or maintaining attachment to the labour market with the desirability of promoting individual choice. One way of doing this would be to move towards a compromise between the two positions and enlarge the definition of what are considered "acceptable*

activities” in programmes, and include more than the traditional, mainstream educational and employment options.

**(i) *Monitoring and evaluation***

Monitoring and evaluation are fundamental requirements for the effective implementation of policies and programmes for promoting youth employment. Thus:

*Policy recommendation 10: Programmes need to incorporate both monitoring and evaluation functions at the design stage.* While monitoring and evaluation are fairly common in industrialized countries, they are still relatively rare in transition and especially developing economies. Monitoring ensures that programmes are implemented as planned. For monitoring to function effectively, policy and programme goals must be clearly and measurably specified before their implementation, and up-to-date and accurate LMI needs to be collected. The introduction of “benchmarking” in the EU represents an initiative along these lines. Benchmarking provides a means by which a series of indicators can be used to compare the performance of countries across time and space. Once introduced, monitoring acts as a short-term feedback mechanism whereby programmes can be adjusted relatively quickly as failures, or successes in reaching short-term targets are registered.

Evaluation, together with monitoring, can refine programmes in the longer term by identifying where and why programmes succeed or fail. Essentially, it involves looking at the impact of programmes, usually over a longer time span than monitoring. Some attempt needs to be made to compare the outcome(s) of the programme with some measure of what would have happened had the programme not taken place. There are different levels at which this can be undertaken, but at the very least a comparison between the experiences of programme participants and a “control” group with similar characteristics is necessary. This can best be achieved through tracer or follow-up studies, but the necessary data can also be recovered from regular household or labour force surveys by the inclusion of pertinent questions on past training experiences.

**(j) *The social partners***

Policies promoting youth employment will, given certain conditions, be more effective if workers’ and employers’ organizations are involved in their design and implementation. This leads to the final recommendation:

*Policy recommendation 11: Workers’ and employers’ organizations should be involved in both the design and the implementation of youth employment policy.* Employers’ and workers’ organizations can help identify the most appropriate forms of training and employment programmes for the job opportunities available. It also means that these organizations are stakeholders in the whole

## Conclusions and recommendations

process and are, therefore, committed to its success, as, for example, in Germany. Workers' and employers' organizations can help foster both formal and informal school/industry linkages. They can also play a central role in encouraging the introduction of training, as well as guaranteeing its quality. Several countries have combined the decentralization of policy with the increased involvement of the social partners. At the international level, workers' and employers' organizations also have an important informational role to play in fostering and encouraging action at the national level in improving the quality and quantity of training for young people, and more generally raising awareness of the importance of the youth employment problem and providing examples of ways in which the social partners can and do intervene to ease the integration of young people into high-quality employment.

The problem of youth unemployment, and more generally the integration of young people into high-quality jobs, is an important as well as a difficult challenge. If it is to be resolved, long-term comprehensive strategies are required, involving action at both the macro- and microeconomic levels. Although certainly complex, the youth unemployment problem is not insurmountable, and can and should be tackled at all levels of society and on a global scale.



## APPENDICES

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## APPENDIX 1

# ILO INSTRUMENTS CONTAINING STANDARDS REGARDING YOUTH

### *Minimum age*

- Minimum Age (Industry) Convention, 1919 (No. 5).
- Minimum Age (Sea) Convention, 1920 (No. 7).
- Minimum Age (Agriculture) Convention, 1921 (No. 10).
- Minimum Age (Trimmers and Stokers) Convention, 1921 (No. 15).
- Minimum Age (Non-Industrial Employment) Convention, 1932 (No. 33).
- Minimum Age (Sea) Convention (Revised), 1936 (No. 58).
- Minimum Age (Industry) Convention (Revised), 1937 (No. 59).
- Minimum Age (Non-Industrial Employment) Convention (Revised), 1937 (No. 60).
- Minimum Age (Fishermen) Convention, 1959 (No. 112).
- Minimum Age (Underground Work) Convention, 1965 (No. 123).
- Minimum Age Convention, 1973 (No. 138).
- Minimum Age (Non-Industrial Employment) Recommendation, 1932 (No. 41).
- Minimum Age (Family Undertakings) Recommendation, 1937 (No. 52).
- Minimum Age (Coal Mines) Recommendation, 1953 (No. 96).
- Minimum Age (Underground Work) Recommendation, 1965 (No. 124).
- Minimum Age Recommendation, 1973 (No. 146).

### *Medical examination*

- Medical Examination of Young Persons (Sea) Convention, 1921 (No. 16).
- Medical Examination of Young Persons (Industry) Convention, 1946 (No. 77).
- Medical Examination of Young Persons (Non-Industrial Occupations) Convention, 1946 (No. 78).
- Medical Examination (Fishermen) Convention, 1959 (No. 113).
- Radiation Protection Convention, 1960 (No. 115).
- Medical Examination of Young Persons (Underground Work) Convention, 1965 (No. 124).
- Maximum Weight Convention, 1967 (No. 127).
- Benzene Convention, 1971 (No. 136).
- Occupational Safety and Health Convention, 1981 (No. 155).
- Medical Examination of Young Persons Recommendation, 1946 (No. 79).
- Radiation Protection Recommendation, 1960 (No. 114).
- Maximum Weight Recommendation, 1967 (No. 128).
- Benzene Recommendation, 1971 (No. 144).

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### *Night work*

- Night Work of Young Persons (Industry) Convention, 1919 (No. 6).
- Night Work of Young Persons (Non-Industrial Occupations) Convention, 1946 (No. 79).
- Night Work of Young Persons (Industry) Convention (Revised), 1948 (No. 90).
- Night Work of Children and Young Persons (Agriculture) Recommendation, 1921 (No. 14).
- Night Work of Young Persons (Non-Industrial Occupations) Recommendation, 1946 (No. 80).

### *Other conditions of work*

- Night Work (Women) Convention, 1919 (No. 4).
- White Lead (Painting) Convention, 1921 (No. 13).
- Holidays with Pay Convention, 1936 (No. 52).
- Safety Provisions (Building) Convention, 1937 (No. 62).
- Holidays with Pay (Agriculture) Convention, 1952 (No. 101).
- Lead Poisoning (Women and Children) Recommendation, 1919 (No. 4).
- Holidays with Pay Recommendation, 1936 (No. 47).
- Safety Provisions (Building) Recommendation, 1937 (No. 53).
- Holidays with Pay (Agriculture) Recommendation, 1952 (No. 93).
- Conditions of Employment of Young Persons (Underground Work) Recommendation 1965 (No. 125).
- Protection of Young Seafarers Recommendation, 1976 (No. 153).
- Asbestos Recommendation, 1986 (No. 172).

### *Employment and training*

- Unemployment Provision Convention, 1934 (No. 44).
- Employment Service Convention, 1948 (No. 88).
- Human Resources Development Convention, 1975 (No. 142).
- Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168).
- Unemployment (Young Persons) Recommendation, 1935 (No. 45).
- Employment Service Recommendation, 1948 (No. 83).
- Special Youth Schemes Recommendation, 1970 (No. 136).
- Human Resources Development Recommendation, 1975 (No. 150).
- Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169).

### *Migrant workers*

- Migration for Employment Convention (Revised), 1949 (No. 97).
- Migration (Protection of Females at Sea) Recommendation, 1926 (No. 26).
- Migration for Employment Recommendation (Revised), 1949 (No. 86).

## APPENDIX 2

# RESOLUTION CONCERNING YOUTH EMPLOYMENT

**(adopted by the International Labour Conferences at its 86th Session, 1998)**

The General Conference of the International Labour Organization,

Noting the terms of the Employment Policy Convention, 1964 (No. 122), the Minimum Age Convention, 1973 (No. 138), and the Human Resources Development Convention, 1975, (No. 142),

Noting that the Declaration and Programme of Action adopted by the World Summit for Social Development in Copenhagen in March 1995 reaffirmed, inter alia, the ILO's leadership role in the promotion of full, freely-chosen and productive employment,

Reaffirming the importance and relevance of ILO standards for the successful promotion of youth employment and the need to ensure that young workers fully enjoy the right to freedom of association and collective bargaining and protection against forced labour and discrimination, as defined in the Discrimination (Employment and Occupation) Convention, 1958 (No. 111), and any other form of discrimination covered by national law and practice,

Recalling the ILO's Action Programmes on Youth Unemployment,

Noting the difficulties caused for many countries by structural adjustment programmes for economic growth and their potential to provide education, training and employment opportunities for young people,

Noting that employment opportunities for young people are often part time, casual, temporary and insecure,

Aware that in many countries young people, particularly between the ages of 15 and 24, are finding it increasingly difficult to enter the labour market and that this constitutes not only a threat to social peace but also an obstacle to the development of the individual and to that of society as a whole,

Recognizing that youth unemployment is one dimension of the general and widespread problem of unemployment and underemployment and a reflection of an unfavourable economic situation which cannot be resolved without a global increase in economic growth and employment,

Recognizing for every country the importance of ready access to education and training for young people,

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Considering that the creation of sustainable employment opportunities depends upon governments, involving the social partners as appropriate, creating the right conditions for a competitive and viable private sector, an efficient and effective public sector and active labour market policies,

Recognizing that social progress and economic growth should go hand in hand and that globalization, such as international trade and foreign direct investment, has the potential to create high quality jobs and training opportunities for young people,

Considering that employment cannot be directly created by legislation or regulations alone and considering that they are necessary to provide employment protection, particularly for young people,

Considering further that education, be it public or private, as well as vocational training and apprenticeships, play an important role in enabling young people to enter the labour market and embark upon their adult life.

1. Calls upon member States and, where appropriate, employers, workers and their respective organizations to:

- (a) implement a balanced economic growth strategy;
- (b) consider new and innovative policies and programmes to create employment opportunities for young people;
- (c) increase investment in basic education targeted at improving the quality of education and access to further and higher education for disadvantaged categories of young people;
- (d) take measures with the aim that, when young people leave school, they possess a general education and a balanced range of qualifications and skills which would enable them to realize their full potential and contribute to the well-being of society and the needs of the economy and enterprises;
- (e) take measures with the goal that vocational training and counselling are adapted to the requirements of the labour market in order to facilitate the transition of young people from school into work and the acquisition of the generic and transferable skills required as a basis for employment and lifelong learning;
- (f) encourage greater participation by employers, workers and their respective organizations in:
  - (i) determining the programme and content of education and vocational training;
  - (ii) the implementation of such programmes;
  - (iii) the design, monitoring and assessment of systems to recognize qualifications and skills;
  - (iv) fostering closer cooperation with education providers.
- (g) promote and support a policy on youth that recognizes the role of education and youth organizations in developing a sense of social responsibility, initiative and cooperation;
- (h) promote flexible working arrangements so that young people can avail themselves of on-and-off-the-job education and training opportunities in the context of agreed workplace arrangements;
- (i) identify the obstacles to hiring young people and take measures, as far as possible and desirable, to remove them while maintaining the individual's employment protection;

- (j) develop a legislative and administrative framework which provides young people with employment protection;
  - (k) encourage enterprises to play an active role in the provision of continuous training to young employees;
  - (l) encourage young people and enterprises to develop more flexible attitudes towards the acquisition of new skills to meet changing needs;
  - (m) urge employment agencies, public and private, to assist young people more efficiently in finding employment;
  - (n) promote enterprise, entrepreneurship and self-employment among young people and the creation and viability of small and medium-sized enterprises as one of the major sources of employment opportunities for young people;
  - (o) adopt and implement policies which improve competitiveness through investment, including investment in technology, human resources development, education and skills, in order to promote economic growth, social development and employment;
  - (p) increase development assistance and technical cooperation for the poorer countries in order to provide education and training for young people.
2. Calls on the Governing Body of the International Labour Office to:
- (a) accord high priority to youth employment when considering the Programme and Budget for 2000-01 and subsequent biennia commensurate with the importance of the issue;
  - (b) consider including, as soon as possible, an item for general discussion on the issue of youth employment in the agenda of the International Labour Conference;
  - (c) ensure that the issue of youth employment be included in discussions at regional or sub-regional level meetings, including tripartite meetings, where appropriate;
  - (d) ensure that ILO regional structures and multidisciplinary teams assist governments and the social partners to implement ILO policy on youth employment;
  - (e) instruct the Director-General, when preparing programme and budget proposals, to make provision for follow-up of the present action programme on strategies to combat youth marginalization and unemployment with a view to:
    - (i) drawing up an international strategy for youth employment;
    - (ii) creating a database on youth employment;
    - (iii) disseminating best practice information and research on employment initiatives for youth;
  - (f) instruct the Director-General to cooperate with other international bodies to promote international action on youth employment.

## APPENDIX 3

# SELECTED ACTIVE LABOUR MARKET PROGRAMMES FOR YOUNG PEOPLE

## CHILE

### CHILE JOVEN

#### Objectives

- *Chile Joven* aims to integrate young people from low-income families into the workplace. The programme does this by offering training schemes that help young people obtain basic skills to enable them to find work.
- The programme was originally designed to run from 1991–95, but after the 1993 employment crisis, it was extended until 1999.

#### Target groups

The original target was to train 100,000 young people. The following conditions applied: (a) they had to be between 15 and 24 years old; (b) they had to belong to low-income sectors of society; (c) they had to have left the education system; and (e) they had to be unemployed, underemployed or inactive but willing to work.

#### Subprogrammes

*Chile Joven* included four subprogrammes:

- *Training and work experience with a private company*: This subprogramme offered a large variety of courses dealing with most economic sectors. The agencies defined the content of the courses according to the demand of the market. The courses consisted of 250 hours of lectures and three months' work experience in an enterprise. The theoretical part of the course centred on the technical aspects of the job as well as on work regulations and practices, the purpose being to familiarize young people with methods of job search, give them the skills to carry out a variety of functions, to stimulate initiative and to improve communication skills.
- *Training for self-employment*: The aim of this subprogramme was to facilitate the entrance into the labour market of young people willing to work in family firms or in self-employment. The courses were designed to help young people obtain basic

entrepreneurial and administrative skills. The theoretical courses lasted 350 hours, followed by a period of traineeship with a firm. The training agency controlled the traineeship and provided technical assistance.

- *Alternate apprenticeships*: The courses consisted of two parts that had to be alternated during the whole programme. The first part comprised general and technological training plus basic skills; the second gave training inside a company as an apprentice. The firms that offered apprenticeship contracts (for a minimum of six months and a maximum of two years) received a subsidy for the total duration of the apprenticeship.
- *Training of young people*: This subprogramme was targeted at maladjusted young people from low-income families, and aimed to improve self-esteem and develop good work habits. The courses consisted of 420 hours of lectures and a training programme in a simulated company or factory.

The programme also included three additional action plans to help the above-mentioned subprogrammes fulfil their tasks:

- (a) Training agency support: Subsidies were given to help the agencies buy equipment and train staff. Assistance was given in preparing the course proposals.
- (b) Institutional strengthening: Training and advice were offered to public agencies and civil servants participating in the programme to help them improve their management of the information and administrative processes.
- (c) Support for women: This course of action dealt with the specific difficulties that women face to join programmes and the labour market by presenting a diverse range of activities, such as projects promoting the access of women to jobs traditionally considered a male preserve.

## Source of financing

- The programme was entirely financed by the Government, which, during the first phase, received partial financial support from the Inter-American Development Bank. Trainees usually received no form of payment, although some firms voluntarily gave trainees a small subsidy (usually enough to cover transport costs and lunch).

## Institutional base

- The Labour Ministry was responsible for the execution of the programme. The Programme Coordinating Unit (*Unidad Coordinadora del Programa* [UCP]) was created to ensure that the programme worked efficiently, and was in charge of the design, coordination, financial and technical control plus the strategic evaluation of the programme. The UCP comprised 23 professionals and administrative personnel from NGOs and the private sector.
- At the local level, the UCP coordinated with local employment offices (*Oficinas Municipales de Colocación* [OMC]), which promoted the programme and gave advice to participants about the courses offered. The OMCs acted as coordinators for the participants, firms and qualified institutions, kept a register and updated information on the participants. However, the efficiency of the OMCs was initially undermined by the lack of qualified personnel and low resources in terms of equipment. In order to overcome this situation, the personnel of 58 of these OMCs were trained and equipped with computers to improve data management.

## Youth unemployment and employment policy

- The programme relied heavily on the private sector. All the courses were executed and designed by the private training institutes (profit and non-profit) participating in the programme. These institutes ensured that a certain number of firms received a certain number of trainees. However, collaboration with the private sector was sometimes difficult owing to cultural and logistic difficulties.
- SENCE, a technical organization run by the Labour Ministry, took control of the first three subprogrammes, while FOSIS, a financial intermediary responsible to the President, administered the fourth subprogramme, selecting the executing agencies. Both FOSIS and SENCE are decentrally organized, with a national directorate in Santiago and offices in the other regions in Chile.

## Numbers enrolled

- Between 1991 and 1995, the estimated target population was 100,000 young people. Quotas were assigned for 128,000 young people. However, the total number of young people effectively enrolled in the scheme was 95,888. By December 1995, 67,000 people had completed a course, meaning that 52.3 per cent of the target group was covered.

## Scope of the courses

- The courses offered by the programme covered a large variety of sectors and branches of activities. They were divided into two broad areas: those that offered training for administrative posts, representing 31 per cent of the courses; and those related to "productive" activities, representing 66.2 per cent.
- During 1991 and 1995, the number of courses in the administrative sector increased to about 48 per cent. Within the goods/services sector, the specializations in industrial technology farming and construction represented 43.7 per cent, 9.6 per cent and 9.6 per cent of all the courses respectively. The specializations that suffered a drop in the number of courses were agriculture (falling from 16 per cent to 6.6 per cent) and services (from 4 per cent to 0.6 per cent).
- Regarding the firms participating in the programme (about 15,000), 26.8 per cent belonged to the industrial sector, 24.4 per cent to the sector of communal, social and personal services and 17 per cent to the commerce, hotel and restaurant sector. Except for the industrial sector, which between 1990 and 1995 employed a yearly average of 16.5 per cent of the population, the distribution of the traineeships by firm reflected the distribution of employment at national level. The service sector absorbed a yearly average of 25.5 per cent of the population, while commerce employed 18 per cent. The participation of the firms in the most dynamic sectors (construction and transport) was about 27 per cent, which reflects the difficulty the programme had in adjusting to intersectoral changes of employment.
- Many of the traineeships were concentrated in micro and small enterprises: 58 per cent of participants undertook their traineeships in these sorts of firms, with 23 per cent of traineeships being taken in medium-sized enterprises and 18 per cent in large firms.

## Indicators of success

Several academic institutions in Chile have undertaken evaluations of the *Chile Joven* scheme using different methodological approaches.

- *Company participation:* In 1993-94, 55 per cent of the participants who had completed a traineeship got a contract in the firm in which they had undertaken training. Participation was positive and active: 91 per cent of the firms were willing to continue enrolling more candidates. Most of the managers felt that the programme had been a positive experience: 46 per cent thought that the needs of the firms had been covered, 35 per cent said that the programme had contributed to training purposes and 32 per cent stressed that it had helped open up opportunities to young people.
- *Coverage:* The programme enrolled more than 110,000 young people during its first five years, which is higher than the 100,000 target established at the start of the scheme. It covered all 13 regions of the country, largely through allocating 5,693 courses in more than 300 training institutions. The results show high levels of efficiency.
- *Quality of the traineeships:* The indicators of the quality of the traineeships, such as whether the traineeship corresponded to what was agreed in the Letter of Intention, show that 91 per cent of the time that was the case. On the other hand, in only 87 per cent of the cases was there a close link between the job description and the work undertaken.
- *Impact on the training institutions:* All the studies concur that *Chile Joven* had a significant effect on the training institutions, which were forced to improve the quality and cost-effectiveness of their courses, with universities, professional institutes and other training institutions also being compelled to work more closely with the business world. A study undertaken by the *Universidad Pontificia de Comillas* shows that the quality of the training given by the training institutions was generally good and that the objectives in terms of practical skills were achieved. A high percentage of the participants achieved about 75 per cent of their objectives.
- *Social integration of the trainees:* The programme achieved positive results regarding the social integration of the trainees. Several surveys of firms show that during the traineeship, participants learned more in terms of good behaviour and work practices than in terms of technical skills. Most of the firms considered that the trainees had been of use: 60.5 per cent of firms and 71 per cent of the institutions valued their cooperation; 37 per cent of firms and 29 per cent of the institutions considered the trainees as "any other new recruitment", and only 1.6 per cent of firms and none of the training institutions were unhappy with the idea of taking on trainees. Most of the trainees interviewed thought that the programme was beneficial to their careers. However, some noted that sometimes the traineeships had been too long and that working conditions were not particularly good.
- *Economic impact:* Between 1991 and 1995, 37 million pesos (US\$82,000) were invested in *Chile Joven*. From this amount, 73 per cent was assigned to the training programmes administered by SENCE:
  - *training and work experience with a private company*, used 83 per cent of the SENCE budget;
  - *training for self-employment*, used 12 per cent of the SENCE budget;
  - *alternate apprenticeship*, used 4.6 per cent of the SENCE budget.
- 27 per cent of the investment in *Chile Joven* was used by FOSIS for the training of young people.
- 13 per cent of the resources invested in *Chile Joven* was used for administrative expenses, reports and promotion activities, and 87 per cent to pay the training

## Youth unemployment and employment policy

agencies. The administrative costs of the programme were high, because the agencies included part of their administrative expenses for preparing and executing the courses in the budget.

- The cost of a course such as training and work experience with a private company was about Ps4.3 million; the cost of a student about Ps225,000 per course and Ps1,128 per hour. If the number of drop-outs in this particular subprogramme are taken into consideration, the cost of a student per course rose to Ps300,000, and the cost per hour increased to Ps1,500.
- A cost-benefit analysis of *Chile Joven* has not yet been possible, since there is not enough information available on the economic impact of the programme. However, the investment per student is expected to take five years to be recovered. Some authors maintain that expenses were too high compared with the quality of training and believe that there is a need for a body to regulate this situation.
- An evaluation undertaken by SENCE in 1991 of the subprogramme, training and work experience with a private company, showed that, at the time of the study, 58 per cent of those who had participated in the course had found employment. However, there was an important gender difference: 65 per cent of men found work compared with only 49 per cent of women. The evaluation also showed an important rise in real wages for those that were employed before taking part in the course. Again, gender differences are important – the increase was 41 per cent for men but only 14.4 per cent for women.
- Although data are not yet available on the job placement of the young people who completed the scheme, an Instituto Latinoamericano de Estudios Transnacionales (ILET) study shows that the main objective of *Chile Joven* – improving the access of young people to the labour market – was achieved. Around 55 per cent of participants got a contract in the company in which they undertook their traineeship and about 3 to 4 per cent decided to return to academic study.

## INDIA

### APPRENTICESHIP

#### Objectives

- The programme was created in 1993 to give young jobseekers formal training with the country's industrial units.

#### Target groups

- Young people looking for work.

#### Institutional base

- An Apprenticeship Act was enacted in 1961 to make it compulsory for employers in specific industries to engage apprentices for between six months and four years. The Act came into force on 1 March 1963.

## Scope of the programme

- The training includes both basic skills and on-the-job or shop-floor training, according to the standards prescribed by the Government in consultation with the Central Apprenticeship Council.
- Following amendments in 1973 and 1986, the scheme now covers the training of graduates and diploma holders in engineering and technology as well as technician (vocational) apprentices, the latter including vocational higher secondary school graduates.

## Numbers enrolled

- So far, 132 trades in 218 industries with about 25,000 enterprises have been included in the scheme. The number of apprentices rose from just 1,200 initially to 129,000 in 1991 and 150,000 during the period 1995-96.

## Indicators of success

- There has been widespread doubt as to the extent to which employers are willing to train apprentices whom they are required to support through stipends; many of them do not really offer adequate training. A thorough evaluation of the scheme is needed.

## INDIA

### *PRIME MINISTER'S SCHEME FOR UNEMPLOYED YOUTH*

## Objectives

- This programme was designed to assist educated but unemployed young people in both rural and urban areas with low family incomes to set up micro-enterprises, covering manufacturing, services and business ventures.

## Target groups

- The programme is targeted at one million educated unemployed young people aged 18 to 35, from families with an annual income of less than 24,000 rupees (US\$545).

## Institutional base

- Financed and managed by the Government.

## Scope of the programme

- The participants are expected to propose schemes for setting up small enterprises with a bank loan of up to Rs100,000, without any collateral guarantee. If two or more eligible people join forces to work together, more costly projects can also be assisted under the scheme.

### **Youth unemployment and employment policy**

- The entrepreneurs are given a subsidy of 15 per cent, subject to a ceiling of Rs7,500, and they are required to bring in 5 per cent of the project cost as margin money. The eligible entrepreneurs include: young people who have passed or failed their matriculation examination; graduates from industrial training institutes; and those who have undergone training in government-sponsored technical courses for a minimum of six months.
- The applicants are expected to have been permanent residents of an urban area for at least three years and are to be assisted by the District Industries Centres and/or NGOs. The scheme envisages compulsory training of the would-be entrepreneurs for four weeks after they have been granted a loan; a stipend of Rs300 is paid during the four weeks of training.
- The Prime Minister's Office and the Reserve Bank of India monitor the progress of the scheme on a monthly basis and advise all India's scheduled commercial banks to meet the targets prescribed at the start of the year.

### **Numbers enrolled**

- During 1993-94, the first year of the scheme, about 32,000 young people were granted loans. The 1994-95 target was 220,000 people.

### **Indicators of success**

- No studies seem to have been conducted as yet to assess the extent to which these schemes have achieved their goals in terms of the viability of the new enterprises set up.

## **INDIA**

### ***TRAINING OF RURAL YOUTH FOR SELF-EMPLOYMENT (TRYSEM)***

#### **Objectives**

- TRYSEM was launched in 1979 to provide basic technical and managerial skills to young people from rural families living below the poverty line. It seeks to help them take up self-employment and wage employment in the broad fields of agricultural and allied sectors, namely industries, services and business services.

#### **Target groups**

- Rural youth aged 18-35 are eligible; the age limit is lowered to 16 for orphans in rural areas and raised to 45 years of age for widows, former bonded labourers, former convicts, persons displaced from large development projects and former leprosy patients.
- The programme is expected to cover at least 50 per cent of young people from the scheduled caste and tribal communities and a minimum of 3 per cent of disabled people.

## Institutional base

- Centrally sponsored scheme. Training is provided by formal institutions, including industrial and servicing units, commercial and business establishments as well as master craftspeople.

## Scope of the programme

- The syllabus for each trade is approved by the District Rural Development Agency, and it is expected to teach not only job skills but also managerial and entrepreneurial capabilities. Subject to the approval by the State Level Coordination Committee, the duration of a course does not exceed six months.
- The trainees are supplied free tool kits (costing up to Rs2,000 (US\$45)) since 1994–95, and up to Rs600 (until 31 March 1994) during their training. The tool kits are supplied to help the trainees gain practical experience in the use of their tools.
- The trainees are eligible for loans from banks under the Integrated Rural Development Programme, implemented in all the districts of the country.
- The total cost of training was Rs1,210 per person (almost 79 per cent of the recurring costs and balance of the training infrastructure).

## Numbers enrolled

- From 1979–93, nearly 3.9 million rural youth were trained. Except during the period 1990–92 (when the eighth plan was being drafted), the training targets have almost been reached. However, only about 53 per cent of those trained found employment, almost a quarter of whom found work in firms rather than in self-employment.
- According to the available data, 42 per cent of the people trained were women, and 39 per cent were from scheduled caste or tribal communities.

## Source of funding

- Individual states bear 50 per cent of the expenditure, with the central Government covering the rest. In the union territories, the central Government bears the entire expenditure.
- The Government covers the recurring costs toward the stipend paid to trainees, the honoraria for the trainers, etc., and also assists the training institutions in developing the requisite infrastructure in the form of buildings, equipment and training aids.

## Indicators of success

- In 1993, the Monitoring Division of the Ministry of Rural Development commissioned a “quick evaluation” of the programme by contacting and interviewing 122 beneficiaries from 122 blocks of 61 districts, drawn from 10 major states of the country (Government of India, Ministry of Rural Development, 1994).
- According to this “quick evaluation”, only 4 per cent of the TRYSEM beneficiaries had received any previous training. About one-third of the beneficiaries were trained in “mechanical and electrical trades”, another one-third in handicrafts,

## Youth unemployment and employment policy

about 18 per cent each in animal husbandry and food processing/preservation, and 11 per cent in other crafts or trades.

- Excluding those who had “just completed training”, about 48 per cent of the trained beneficiaries found employment and 52 per cent remained unemployed; among the employed, 28 per cent were self-employed and 20 per cent employees.
- Almost 63 per cent of the trainees thought that the monthly stipend was inadequate, and only 21 per cent claimed to have received a tool kit. Almost 92 per cent said that they had acquired vocational/technical knowledge; the remainder mentioned entrepreneurial knowledge.
- Over two-thirds of the trainees found the training period to be too short; others found that the training facility was “not satisfactory”, there was “not enough” practical training, or that the training infrastructure was “inadequate”.
- Overall, almost 42 per cent of those trained reported themselves to be “incapable” of taking up independent activity as a self-employed person. However, there were marked interstate differences in the percentage of trainees claiming this: the percentage was much higher (60 plus) in Kerala, Bihar and Uttar Pradesh, and much lower in Andhra Pradesh, Assam, Gujarat, Haryana, Madhya Pradesh, Maharashtra and Orissa. The main reported reason for this “incapacity” to take up self-employment was “lack of funds” (reported by two-thirds) and “inadequate training” (one-fifth).

## JAMAICA

### *NATIONAL YOUTH SERVICE (NYS)*

#### Objectives

- The NYS, a component of the Government's Youth Policy, was established primarily to effect attitudinal change among participants. Specifically, the programme is expected to “develop authority, leadership, teamwork, punctuality, work ethics and a sense of general discipline . . . to promote mutual respect and develop values of democracy, citizenship and tangible contribution to the socio-economic growth of the country”. The programme is also guided by a secondary objective of referring participants to relevant training programmes for skills acquisition, in keeping with the participants' goals and the demands of the labour market.

#### Institutional base

- The programme was established in July 1995 by the Ministry of Education, Youth and Culture.

#### Target groups

- Out-of-school, unemployed young people aged 17–24 years. There is no stipulated academic entry requirement.

#### Scope and organization

- The NYS is divided into two phases. Phase I comprises a four-week period during which participants are exposed to a core curriculum covering discipline, socialization

and guidance counselling sessions in residential centres throughout the island. Phase II involves a six-month period of service in public- or private-sector firms; during this phase, a stipend of J\$600 (US\$14) per week is given to the participants. The programme also encompasses a subcomponent, which assists those who have not completed their education to participate in community-based, income-generating projects, which would ultimately lead to their taking up self-employment. Those people who serve the full period receive a certificate of completion.

### Numbers enrolled

- For the two-year period commencing in 1995, just over 7,000 people participated in the programme: 3,051 in the first year; 3,892 in the second.

### Source of funding

- The NYS is fully funded by the national budget. For the 1995/96 financial year J\$97.194 million was allocated, while the allocation for 1996/97 was J\$241.460 million. (Amounts do not include staff salaries.)

### Linkages to other programmes

- Those who complete training and satisfy entry requirements for further academic education or vocational training are referred to institutions such as community colleges and programmes offered by HEART/National Training Agency (NTA). An informal arrangement exists with the Jamaica Movement for Adult Literacy (JAMAL), as between 10 to 15 per cent of programme applicants are illiterate.

## JAMAICA

### *SPECIAL TRAINING AND EMPLOYMENT PROGRAMME (STEP)*

#### Objectives

- STEP's objective is to foster personal development among young people who have left school, and, in particular, to encourage appropriate attitudes towards work, authority, punctuality and the use of time.

#### Institutional base

- STEP was established in 1995 by the Ministry of Education, Youth and Culture, and located within the Social Development Commission. It succeeded the Youth Empowerment Programme, which operated between 1993 and 1995.

#### Target group

- Young people aged 18 years and older, who are out of school, unskilled and unemployed. The required education level is equivalent to that of Grade 9 secondary school, based on performance in an entry examination.

## Youth unemployment and employment policy

- Island-wide coverage is encouraged, with a limit being placed on the proportion of participants from the capital Kingston and St Andrew.

## Scope and organization

- STEP is divided into two phases. The first phase emphasizes attitudinal development, and is delivered predominantly through a six-week residential programme. There is also an eight-week programme for students in the non-residential programme at Spanish Town, known as "Day-STEP", which caters primarily for students from the parish of St Catherine. In the second phase, which started in July 1997, a six- to eight-week skills training programme is offered on a residential basis, focusing on areas such as security guard training and customer service.
- Phase I includes a brief introduction to entrepreneurial management, with the expectation that some trainees may become self-employed. Trainees receive an average weekly stipend of J\$800 (US\$19), which is calculated on an hourly basis in relation to the duties performed.

## Numbers enrolled

- Between November 1995 and June 1997, 1,230 students participated in Phase I. It is expected that 960 people will be trained annually through eight cycles of the residential programme, while the non-residential programme will serve 120 students at each of the five annual intakes. The expected annual total of Phase I is, therefore 1,560 people.

## Source of funding

- STEP is funded entirely by the Government, and is estimated to cost J\$170 million annually.

## Linkages to other programmes

- STEP seeks to channel trainees who complete the programme into skills training programmes in HEART or community colleges. Those who need remedial education are directed to the prevocational programme in HEART, or to JAMAL. In addition, the Jamaica Defence Force assists with security and training.

## Indicators of success

- No evaluation has yet been conducted of this programme, but participation levels are certainly high.

## UNITED KINGDOM YOUTH TRAINING (YT)

### Objectives

- YT is the main training programme for young people leaving school at the age of 16 or 17.

- It aims to provide young people with broadly based training that meets the skills needs of the local economy and leads to an approved qualification at NVQ level 2 or equivalent.

### Institutional base

- The scheme is managed locally by TECs and LECs. YT providers are contracted to operate training programmes in their locality, and it is their responsibility to ensure quality, payment of the training allowance, equal opportunities, and health and safety. Local providers may include local authorities, voluntary organizations, private employers, further education colleges and private training organizations. Providers may themselves subcontract to other employers and organizations.
- The YT training network has thus become a multi-layered framework of provision linked by contractual and subcontractual agreements that are based on output-related funding (a minimum of 30 per cent according to Government guidelines, although the amounts can vary between local TECs and their providers).
- Recruitment to YT is channelled through the local Careers Service, which may be run by the Local Education Authority, TECs/LECs, or a private contractor.

### Target groups

- Young people under the age of 24 are eligible if they are not in full-time education nor participating in any form of employment or training. Unemployed 16- and 17-year-olds who are registered with the Careers Service are offered a so-called guaranteed place, which effectively means replacing their right to benefit with the right to training. Eligible people with a guaranteed place can then fall into either the Guarantee Group or the extended Guarantee Group.

### Scope and organization

- "Broadly based" training is used here to refer to training that consolidates basic literacy and numeracy skills and computer awareness, and provides the participant with a portfolio of transferable skills.
- The length of training depends on the needs of the trainee but the norm is around two years.
- Young people who have completed a YT course but who are unemployed, or who have rejected without good cause two offers of training, may continue to register with TECs and are rationed to at least one training opportunity every eight weeks, until they reach the age of 18, when they are entitled to one further offer of a training place.
- Participants who fall within the extended Guarantee Group, who have reached 18 and are not employed, but who have entered YT due to disability, ill health, pregnancy, custody or a care order, are entitled to one training offer every eight weeks. Those who fall within the Guarantee Group have priority over all other eligible young people. TECs are contractually responsible to the Department of Education and Employment for those taking up a training place, through the provision of travelling expenses, child-care costs, etc.

### **Youth unemployment and employment policy**

- In order to identify realistic options and make realistic occupational decisions, participants are entitled to an initial assessment of their training needs. An Individual Training Plan is drawn up, reflecting the needs, abilities and prior learning experience of the trainee, which should specify the duration of the training and its aims in terms of achievable qualifications, as well as attendance requirements and support to be provided. The agreement is drawn up in consultation with, and signed by, the trainee, thus extending the contractual framework.

### **Source of financing**

- The programme is centrally funded by the Department of Education and Employment and the Welsh and Scottish Offices.

### **Indicators of success**

- Several problems have been identified within the YT system. Some are a legacy of the original scheme's origins as an unemployment-based measure, rather than a skills- and training-centred programme, and some are the result of the institutional framework that has been developed by the Government around the delivery of the programme.

## **UNITED KINGDOM YOUTH CREDITS**

### **Objectives**

Youth Credits were first launched in April 1991 under the name of Training Credits. Their aims are:

- to encourage and motivate more school-leavers to enter qualification-based training, through instilling a sense of "ownership" into school-leavers over what they are receiving;
- to encourage the development of local careers and guidance services;
- to contribute towards the creation of more responsive local training markets;
- to increase flexibility within existing arrangements and to encourage a broader range of employers to become actively involved in training, thereby widening the choices available for young people.

### **Institutional base**

- Credits are administered through local TECs/LECs

### **Target groups**

- All 16- and 17-year-olds leaving full-time education.

## Source of financing

- Credits are funded at governmental level.

## Scope and organization

- TECs/LECs undertake the administration of the training credit. Most arrange for the local Careers Service to issue credits on their behalf, and are based on three identifiable models of provision (YouthAid, 1996): (a) agent-based (through the existing YT infrastructure); (b) employer-based (directly contracted with employers, bypassing the YT system altogether); or (c) schemes where TECs/LECs carry out the role of agent and contract with others for specific services (such as initial careers guidance).
- The credit is activated when an **Individual Training Plan** has been drawn up and approved, after which TECs/LECs release funding at different stages linked to achievements such as training weeks, NVQ modules completed, etc. The basic rate is supplemented by a banding system determined by factors such as occupation, size of employer establishment, qualification aimed for, or the existence of local skills shortages in that particular sector. If the credit does not meet the full cost of training, TECs/LECs supplement it, not the recipient.

## Indicators of success

- A number of evaluations have been conducted since the initial schemes were first introduced. Coopers & Lybrand (1994) found that the system had not brought about a markedly more consumer-based approach to training provision, and that there were no great changes in the degree of control young people either exercised or sought to exercise over their training.
- Hodkinson and Hodkinson (1995) found that the credit system's success in establishing a market directed at young people was severely limited and that the system had tended to lower standards rather than improve choice through quality being determined by qualifications gained rather than by the training process itself.
- Brantwood Consulting (1996) identified the most difficult objectives as those influencing both the occupational choices of young people and the character of training provision within the local area. In its advice to TECs/LECs implementing the system, the company emphasized the further problem of overcoming young people's general cynicism towards training and credits, in particular by avoiding over-glossy publicity and distancing the scheme from YT, which many young people associate with poor-quality training and low-skilled manual work. Perceived bureaucracy from employers was identified as another barrier that needs to be overcome.

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