

Editorial

Unfinished Business: Investing in Youth

The recovery is stalling which is not good news for employment and unemployment prospects

There are clear signs that the recovery is stalling and this is not good news for short-term employment and unemployment prospects. Even prior to the recent economic slowdown, job creation during the recovery was anaemic in some major OECD countries, notably the United States and Japan. As a result, the OECD unemployment rate had by July 2011 only fallen by 0.6 of a percentage point from its Great Recession high of 8.8% in October 2009. Thus, there were still 44.5 million unemployed people in the OECD area in July 2011, some 13.4 million more than prior to the crisis.

Many countries have managed to maintain low unemployment rates but others have been hard hit

At the same time, a striking feature of the Great Recession and subsequent recovery has been the large diversity in terms of labour market performance. At one extreme, seven OECD countries (Australia, Austria, Japan, Korea, Luxembourg, Norway, Switzerland) have all maintained unemployment rates in the 3½-5½% range; at the other end of the scale, six countries still had double-digit unemployment rates in July 2011 (Estonia, Greece, Ireland, Portugal, the Slovak Republic, Spain), and the US unemployment rate remained stubbornly high at over 9%. The stalling recovery is a major concern for the latter group of countries.

Where unemployment has risen sharply, the main burdens have fallen on youth, temporary workers and the long-term unemployed

In those countries where unemployment has increased significantly, the main losers have been youth (see below), temporary workers and the long-term unemployed (out of work for a year or more). Prolonged spells of unemployment are particularly damaging as they increase the risk of permanent labour market marginalisation as a result of skill depreciation and a loss of self-worth and motivation. Long-term unemployment is also associated with elevated risks of poverty, ill health and school failure for the children of the affected workers.

*Promoting stronger job growth is essential
but broader measures to tackle structural labour
market problems are also required*

Promoting job-rich economic growth must be the key response to dealing with long-term unemployment. However, it may not be sufficient alone to tackle the legacy of lost opportunities that occurred prior to the crisis when stronger economic conditions failed to durably reduce inequalities in both income and access to well-paid and productive jobs. Indeed, as documented in the OECD's forthcoming sequel to its 2008 report on *Growing Unequal?*, some of these inequalities even deepened further.

*Some young people are at high risk of becoming
disconnected from the labour market and this risk
was accentuated by the crisis*

In particular, more needs to be done to durably improve labour market outcomes for youth who were hit disproportionately hard by the recession (as documented in Chapter 1 of this volume). In the first quarter of 2011, the unemployment rate for young people (aged 15 to 24) was 17.3% in the OECD area compared with 7% for adults (aged 25 and over).

But these data on youth unemployment paint only part of the picture of the difficulties young people are facing in the labour market. More generally, youth who are neither in employment nor in education or training (the so-called NEET group) are a group at high risk of marginalisation and exclusion from the labour market, especially the longer they remain outside the world of work. In the 4th quarter of 2010, this group accounted for 12.6% of all youth aged 15-24 in the 30 OECD countries for which data are available, up from 10.6% in 2008. This represents 22.3 million young people, 14.6 million of whom were inactive and not studying, and 7.7 million of whom were unemployed.

In the context of a weak jobs recovery, a significant and growing proportion of youth, even among those who would have found jobs in good times, are at risk of prolonged unemployment or inactivity, with potentially long-term negative consequences for their careers, or so-called "scarring effects". These risks include long-term difficulty finding employment and persistent pay differentials with their peers. Young people leaving school in the coming years are more likely to struggle to find work than previous generations.

*Tackling youth exclusion from the labour market
is a well-studied problem but with
no easy solutions*

The problem of poor labour market outcomes for some groups of young people is nothing new and has been a preoccupation of governments for many years. Indeed, youth issues have been a recurring theme of the OECD's reflections on employment policy over the past 50 years.

What has become clear from this work is that there are no quick fixes to ensuring that all young people can get off to a good start in the labour market. Some countries are doing a better job than others but they all face the challenge of dealing with a hard-core of youth who risk being excluded from the labour market. Stronger job creation is a key part of the

solution but will not help all youth unless accompanied by other measures. The OECD's report in 2010, *Off to a Good Start? Jobs for Youth*, which summarised the key lessons from 16 country reviews, has highlighted a wealth of good practices to help youth to get a first foothold on the career ladder.

Essentially, a two-pronged approach is required to tackle, on the one hand, the underlying structural barriers to a better insertion of youth in the labour market and, on the other hand, the crisis-driven rise in the number of youth who are not in work or in school.

Measures dealing with structural problems must be taken...

First, policies must be put in place to overcome the long-term failure to give all youth a better start in the labour market. To start with, "preventative" measures must be taken to improve early childhood education and care, particularly for children from low-income families and disadvantaged backgrounds. To be fully effective, these measures need to be sustained through the period of compulsory schooling. This, in turn, will help minimise school drop outs.

These measures need to be complemented by efforts to achieve a better match between the skills youth acquire at school and those needed in the labour market. As documented in Chapter 4 in this volume, a considerable proportion of young workers are over-qualified for their jobs, although this proportion tends to decline with age. Reducing skills mismatch requires greater responsiveness of education systems to changing skill needs and a strengthening of educational choice through, for example, better opportunities for vocational education and training.

Finally, barriers to employment of youth also need to be removed. In particular, highly segmented labour markets, resulting from overly strict regulations on permanent employment contracts, can mean that short-term entry jobs fail to act as a stepping stone to more stable jobs and become instead dead-ends. If set too high relative to average wages, minimum wages may also act as a disincentive for employers to hiring low-skilled and inexperienced young people. Therefore, some countries have adopted lower sub-minimum wage rates for youth.

... and despite fiscal pressures, it is crucial to maintain adequate resources for cost-effective measures to tackle the large rise in youth unemployment

The second line of policy action needs to be directed at tackling the rise in youth joblessness that took place during the recent economic and financial crisis. As many countries are facing mounting pressures for fiscal consolidation, it is important that governments give priority to cost-effective interventions to improve youth labour market outcomes. Thus, policies should focus on the most disadvantaged, including the long-term unemployed and those at high risk of exclusion.

Job-search assistance programmes have been found to be the most cost-effective early intervention for young people who are assessed as ready to work. Temporary extensions of the social safety net can also be vital to prevent poverty among unemployed youth. As

documented in Chapter 3 in this volume, earnings volatility is particularly high among younger workers. Some countries have also introduced wage subsidies to encourage employers to hire low-skilled unemployed youth. However, in order to avoid the well-known deadweight effects entrenched in these subsidies (i.e. hirings that would have taken place without subsidies), these subsidies should be adequately targeted, for example on small and medium-size enterprises or on apprenticeship contracts. There may also be a need in many countries to expand opportunities for “study and work” programmes such as apprenticeships and other dual vocational education and training programmes.

Finally, more intensive, remedial, assistance should be targeted on those youth at greatest risk of social exclusion. While back-to-the-classroom strategies might prove counterproductive for them, training programmes taught outside traditional schools, combined with regular exposure to work experience and adult mentoring, are often better strategies for these disconnected young people.

*Investing in youth must be a key policy objective
for achieving better long-term economic and social
outcomes for all*

Investing in youth and giving them a better start in the world of work should be a key policy objective. Otherwise, there is a high risk of persistence or growth in the hard-core group of youth who are left behind, facing poor employment and earnings prospects. In a context of ageing populations, OECD economies and societies simply cannot afford the large economic and social costs that such an outcome would entail.



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