

# Meeting of the OECD Council at Ministerial Level

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## THE OECD ACTION PLAN FOR YOUTH – GIVING YOUTH A BETTER START IN THE LABOUR MARKET

## **THE OECD ACTION PLAN FOR YOUTH: GIVING YOUTH A BETTER START IN THE LABOUR MARKET**

### **Why action is needed**

1. The global financial crisis has reinforced the message that more must be done to provide youth with the appropriate skills and help to get a better start in the labour market. Sharp increases in youth unemployment and underemployment have built upon long-standing structural obstacles that are preventing many youth in both OECD and Key Partner countries from developing the skills they need and being able to use those skills effectively through a successful transition from school to the labour market. Action is all the more urgent in the context of a hesitant economic recovery and weak job creation in many countries and at a time when governments face tight budgetary and financial constraints.

2. Tackling weak aggregate demand and promoting job creation are essential for bringing down high youth unemployment and under-employment. But while a brighter economic outlook will help, it will not solve all of the difficulties youth face in gaining access to productive and rewarding jobs; cost-effective measures addressing structural issues are also needed. Giving youth a better start in the labour market is not only vital for improving their well-being and fostering greater social cohesion but also for boosting potential growth and limiting future social expenditures, especially in the context of rapid population ageing in most countries.

3. Thus, action is needed both to bring immediate results in alleviating the current situation of high youth unemployment and underemployment and to produce to better outcomes for youth in the longer run by equipping them with relevant skills for the future and removing barriers to their employment. Particular attention should be focussed on the most disadvantaged groups of youth, such as the low-skilled or those from migrant backgrounds, who face the greatest risk of becoming permanently marginalised from the labour market along with a range of social problems. Action should be applied across a broad front to improve the provision of basic education and vocational training, and social services, and to tackle labour market barriers more generally that are preventing many youth from gaining a firm foothold in the labour market. In line with the OECD Skills Strategy, effective action requires an effort across all relevant ministerial portfolios to ensure that youth acquire the right skills, bring those skills to the labour market and are able to utilise them effectively.

4. However, there are large country differences in the labour market situation for youth and thus policy responses must be tailored to each country's circumstances. This also opens up the scope for mutual learning from successful measures and programmes that countries have taken to improve youth employment outcomes. Much has already been tried: some initiatives have delivered good results while others have been disappointingly ineffective. Yet even where successful measures have been taken, every OECD and Key Partner country could still do more to improve youth outcomes.

5. Therefore, at the latest OECD's Meeting of the Council at Ministerial Level (29-30 May 2013) countries have committed to the key elements of an OECD Action Plan for Youth (Box 1) and to taking or strengthening effective measures to improve youth outcomes. This includes actions to tackle the current youth unemployment crisis and strengthen the long-term employment prospects of youth. The OECD Action Plan for Youth draws together and builds upon extensive OECD analysis of education, skills and

youth-related employment policies as well as a number of international initiatives, including the ILO Resolution on “The youth employment crisis: a call for action”, the G20 commitments on youth employment and the EU Council's agreement on the Youth Guarantee.

6. Following its endorsement, the OECD is working with countries to implement the OECD Youth Action Plan in their national context and provide peer-learning opportunities for countries to share their implementation plans. The OECD also provides a setting to discuss what works and what does not in an international perspective based on country experience and will report on progress to the MCM 2014.

### Box 1. Key elements of the OECD Action Plan for Youth

#### Tackle the current youth unemployment crisis

- **Tackle weak aggregate demand and boost job creation.**
- **Provide adequate income support to unemployed youth** until labour market conditions improve but subject to strict mutual obligations in terms of active job search and engagement in measures to improve job readiness and employability.
- **Maintain and where possible expand cost-effective active labour market measures** including counselling, job-search assistance and entrepreneurship programmes, and provide more intensive assistance for the more disadvantaged youth, such as the low-skilled and those with a migrant background.
- **Tackle demand-side barriers to the employment of low-skilled youth**, such as high labour costs.
- **Encourage employers to continue or expand quality apprenticeship and internship programmes**, including through additional financial incentives if necessary.

#### Strengthen the long-term employment prospects of youth

- **Strengthen the education system and prepare all young people for the world of work**
  - Tackle and reduce school dropout and provide second-chance opportunities for those who have not completed upper secondary education level or equivalent.
  - Ensure that all youth achieve a good level of foundation and transversal skills.
  - Equip all young people with skills that are relevant for the labour market.
- **Strengthen the role and effectiveness of Vocational Education and Training**
  - Ensure that vocational education and training programmes provide a good level of foundation skills and provide additional assistance where necessary.
  - Ensure that VET programmes are more responsive to the needs of the labour market and provide young people with skills for which there are jobs.
  - Ensure that VET programmes have strong elements of work-based learning, adopt blends of work-based and classroom learning that provide the most effective environments for learning relevant skills and enhance the quality of apprenticeships, where necessary
  - Ensure that the social partners are actively involved in developing VET programmes that are not only relevant to current labour market requirements but also promote broader employability skills.
- **Assist the transition to the world of work**
  - Provide appropriate work experience opportunities for all young people before they leave education.
  - Provide good quality career guidance services, backed up with high quality information about careers and labour market prospects, to help young people make better career choices.
  - Obtain the commitment of the social partners to support the effective transition of youth into work, including through the development of career pathways in specific sectors and occupations.
- **Reshape labour market policy and institutions to facilitate access to employment and tackle social exclusion**
  - Ensure more equal treatment in employment protection of permanent and temporary workers, and provide for reasonably long trial periods to enable employers to give youth who lack work experience a chance to prove themselves and encourage transition to regular employment
  - Combat informal employment through a comprehensive approach.
  - For the most disadvantaged youth, intensive programmes may be required with a strong focus on remedial education, work experience and adult mentoring.

## **Where action should be taken**

### ***Youth have long faced challenges in the transition from education to work but now need urgent attention***

7. Labour market outcomes for youth have been much poorer than for prime-age workers for most of the past two decades. Youth are more likely to be unemployed when in the labour force and when employed, they are more likely to be working in precarious jobs. Some youth who are neither working nor studying – the so-called NEETs – are effectively cut-off from improving their skills and risk becoming marginalised from the labour market and may turn to anti-social behaviour. These youth often suffer multiple disadvantages, they are typically very-low skilled, from low-income households and often from disadvantaged backgrounds, including being migrants or the children of migrants. Addressing this challenge requires a comprehensive set of policies, including actions on the labour market front as well as initiatives to provide training and remedial education.

8. Even when youth do manage to find jobs, they are also more likely than prime-age workers to have jobs that offer limited labour market stability, social protection and opportunities for training and career progression. In fact, as new entrants to the labour market, youth are frequently hired in temporary jobs in many countries. These can be stepping stones to more stable jobs but, when employment protection regulations and social security coverage differ substantially between permanent and temporary workers, they can create a two-tier or segmented labour market. Similar issues also apply in the Key Partner countries where a substantial proportion of youth are employed in informal jobs lacking social protection.

9. A higher level of education generally leads to better labour market outcomes. Nevertheless, some young university graduates face difficulties moving into paid employment or find themselves in jobs where they are under-employed (and may, in turn, crowd out lower-skilled youth). Their disappointment and frustration, having been told that higher education is the path to success, is magnified by the cost of their additional years in education and the burden of student debt. The co-existence of young unemployed or under-employed graduates, with employers who say they cannot find the people with the skills they need, suggests that there is scope to better link education systems with the world of work.

10. For some employed youth, mismatches between the skills they have and the skills that are required at work may be significant, especially for youth from a migrant background. Indeed, while skills mismatch can affect workers of all age groups, it can represent a daunting challenge when it traps youth in jobs that are not well-matched to their skills and aspirations, resulting in a depreciation and permanent loss of their competences.

### ***Youth employment outcomes have deteriorated significantly following the economic crisis***

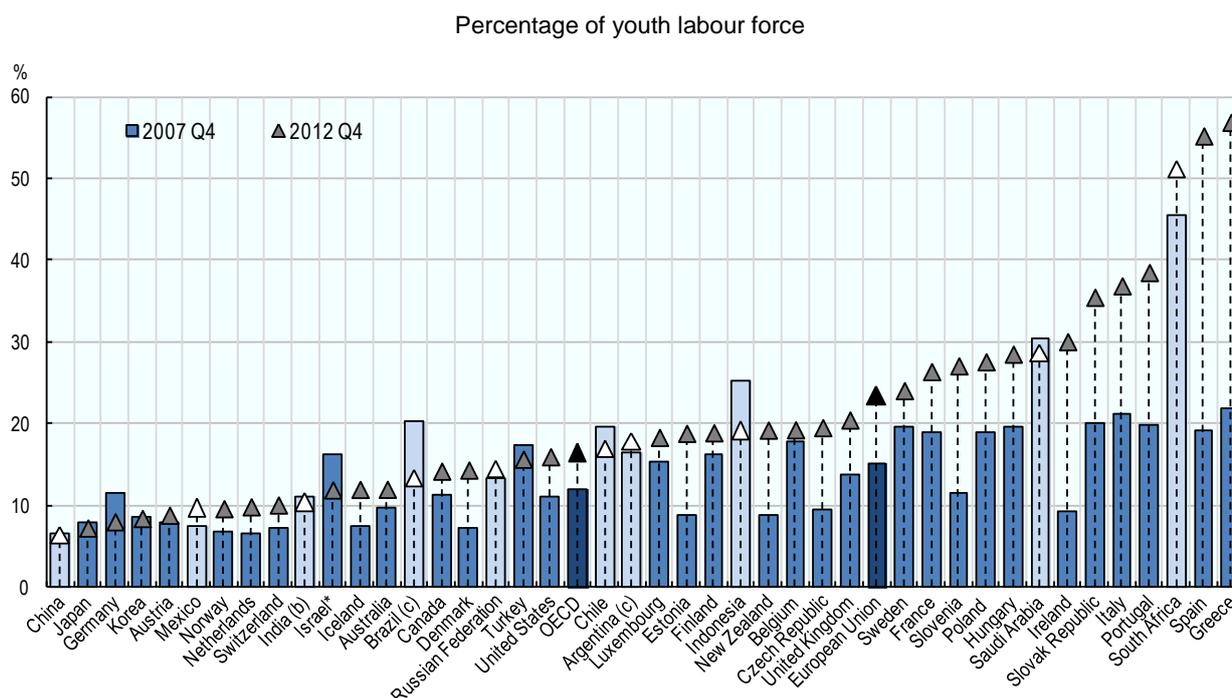
11. The economic crisis has exacerbated many of the challenges facing youth:

- The unemployment rate for youth (aged 15/16 to 24) rose substantially in most OECD countries and in a number of emerging economies and in many cases remains stuck at a higher rate even five years after the start of the crisis (Figure 1). At the end of 2012, over half of the youth labour force was unemployed in Greece and Spain but also in South Africa. Youth unemployment rates exceeded 20% in ten other OECD countries.
- The share of youth not in employment, education or training has also risen in almost all OECD countries, with the exception of the Czech Republic, Germany and Norway (Figure 2).
- The important role that skill levels play in employment outcomes can be seen in the sharp rise in the unemployment rate for youth who have not completed upper secondary school (or

equivalent), although even university graduates face tougher challenges to secure employment than before the crisis in most countries (Figure 3).

- The crisis has exacerbated issues of labour market segmentation in some countries. In many countries, there has been an increase in the proportion of employed youth (15/16-24 years) taking temporary work because they are unable to find a permanent job (Figure 4). In countries where the employment effect of the crisis varied across regions, territorial differences in youth labour market outcomes were intensified requiring differentiated policy responses.

**Figure 1. Youth unemployment rates, 2007 and 2012<sup>a</sup>**

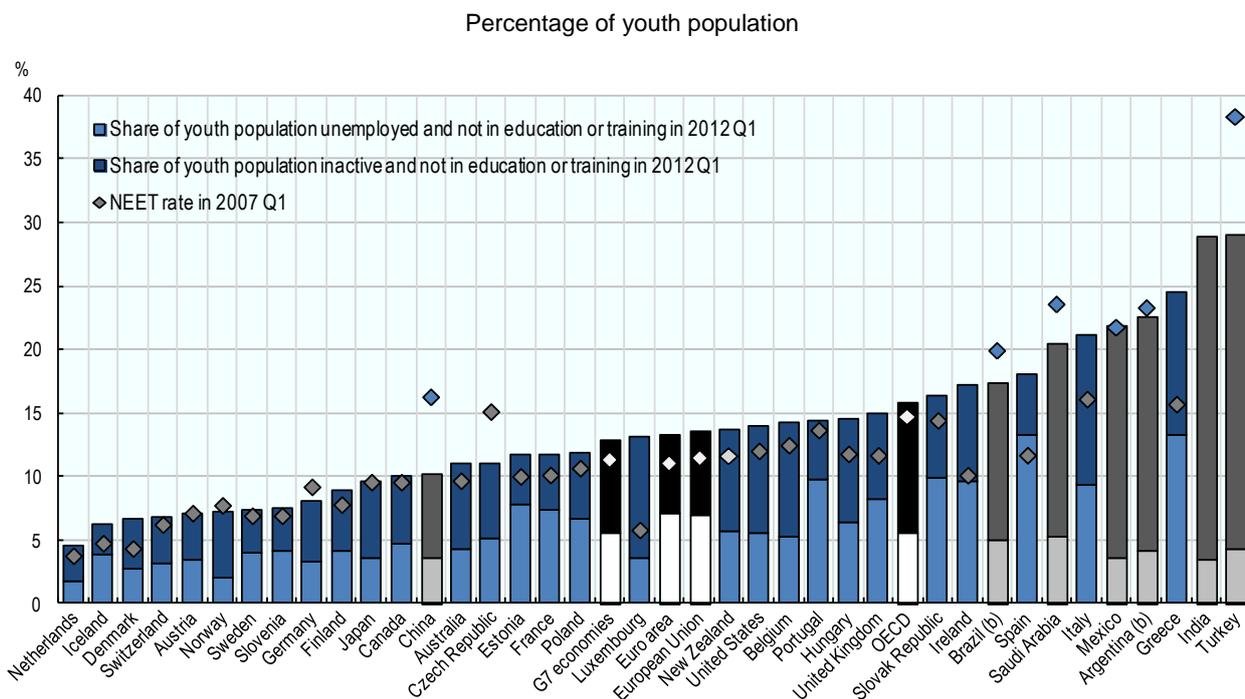


- a) Or nearest year. Harmonised quarterly unemployment rates (seasonally adjusted) for all OECD countries, Brazil and South Africa; labour force survey estimates (not seasonally adjusted) for Indonesia and the Russian Federation; census estimates for China; and annual household survey estimates for India. Youth refer to persons aged 16-24 for China, Spain and the United States and to persons aged 15-24 in all other countries.
- b) Annual estimated persons/person-days (in million) based on the current weekly activity status.
- c) Selected urban areas.

\*: Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

Source: OECD calculations based on OECD Short-Term Labour Market Statistics Database; ILO, Short-term Indicators of the labour Market; Census data for China and National Sample Survey for India.

**Figure 2. Youth neither in employment nor in education or training (NEET), 2007 and 2012<sup>a</sup>**

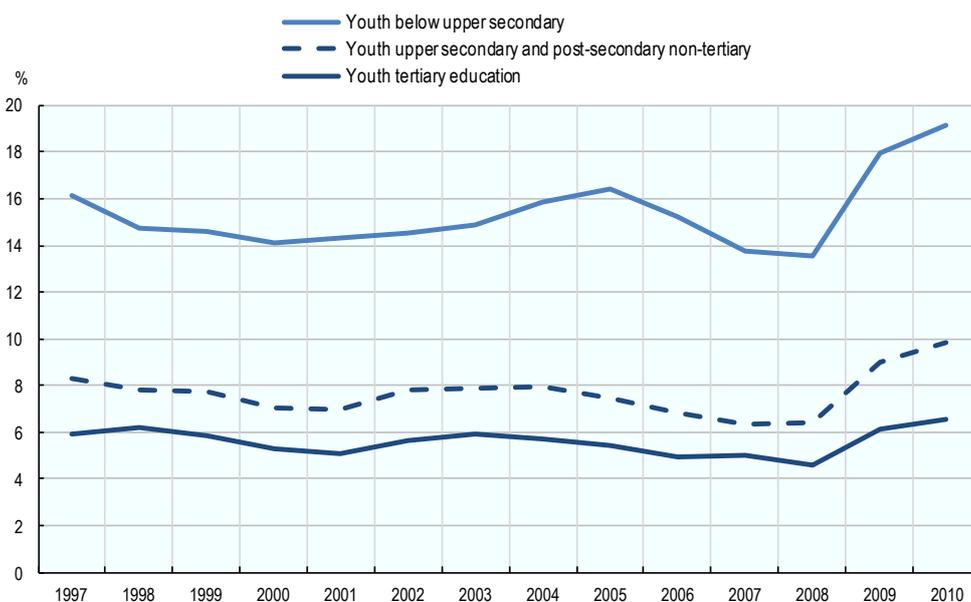


a) Or nearest year.

b) Selected urban areas.

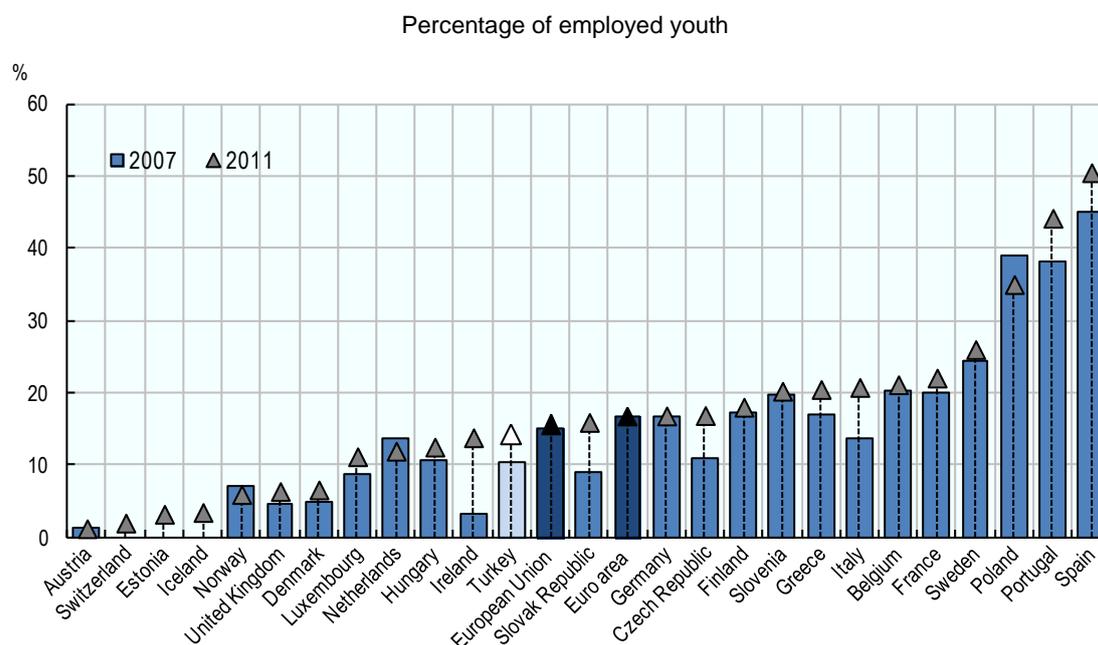
Source: OECD estimates based on national labour force survey, Education database for Brazil; Encuesta Permanente de Hogares (EPH) for Argentina; Indonesia Family Life Survey, fourth wave for Indonesia; General Household Survey for South Africa.

**Figure 3. Unemployment rates for 25-34 year olds**



Source: Education at a Glance, 2012

**Figure 4. Incidence of involuntary temporary work<sup>a</sup> among youth, 2007<sup>b</sup> and 2011**



a. The figures refer to the share of employees aged 15/16-24 who reported being in temporary jobs because they could not find a permanent job.

b. Data not available in 2007 for Estonia, Iceland and Switzerland.

Source: Eurostat.

### What actions are needed

12. In the first instance, action must be taken to address the youth jobs crisis and which will have an impact on improving the situation of youth in the short term. Therefore, tackling weak aggregate demand and promoting job creation through appropriate macroeconomic policies should be a priority for action. However, this must be accompanied by action on the side of employment policy that will also bear immediate fruits, such as providing adequate income support, combined with effective employment services, and other active labour market measures or ensuring that conditional-cash transfer programmes in emerging economies reach youth most in need.

13. These immediate measures must be buttressed by action which addresses structural barriers to youth entering productive and rewarding jobs and which will have a durable impact over the medium- to long-term on improving the labour market prospects of youth. In this regard, concerted action across policy domains, as suggested by the *OECD Skills Strategy*, is crucial and must include: more effective investment in education and training to equip all young people with relevant skills; better connecting the worlds of education and work; and putting in place labour market measures which help younger workers to gain access to more permanent and rewarding jobs.

### *Labour market policies need to help tackle the current youth unemployment crisis*

14. In the current context of weak economic growth and job creation in many countries, job seekers – and the young among them – need additional support. Even if public resources are constrained, especially in countries where fiscal consolidation is required, it is important to guarantee that youth, including those with little or no work experience, have access to unemployment and social assistance systems. At the same

time, cost-effective and well-targeted active labour market programmes should be stepped up to ensure that youth do not become discouraged and leave the labour force or move to the informal sector.

15. In addition, to strengthen employers' incentives to hire new workers, social security contribution rates need to be lowered or explicit wage subsidies introduced, particularly in countries where non-wage labour costs are high. In terms of implementation, across-the-board reductions in social security contributions risk incurring significant dead-weight losses and substitution effects, generating relatively little net employment gains at a significant fiscal cost. To ensure cost-effectiveness, reductions in labour costs could be narrowly targeted on low-skilled or other disadvantaged youth and could require that no workforce reduction occurs around the time of hiring.

16. Youth who have completed their education during the recent crisis or in its aftermath risk missing out on opportunities to acquire the work experience needed to get a permanent foothold in the labour market, particularly as crisis-stricken employers attempt to terminate ongoing work-based learning arrangements. Countries need to encourage employers to maintain or expand apprenticeship and internship programmes, including through additional financial incentives if necessary. For example, Australia has done so for both youth and employers in occupations facing skills shortages. Pre-apprenticeship programmes, such as in Germany, are also required to help early school leavers gain the minimum foundation skills required to gain access to apprenticeships or internships.

***Too many young people leave the education system without an adequate level of foundation skills***

17. Across OECD countries, PISA results indicate that almost one in five students do not reach a basic minimum level of skills to function in today's societies. Students from low socio-economic background are twice as likely to be low performers, implying that personal or social circumstances are obstacles to achieving their educational potential and their capacity to participate effectively in society. This contributes to an increase in school dropout rates, with 20% of young adults on average across the OECD dropping out before completing upper secondary education level.

18. Educational failure often starts early in the education process and needs a concerted policy response. Educational disparities are often already evident in early years and a sustained investment in identifying those at risk and providing them with effective additional education assistance is a crucial element. Finland does this particularly well, providing additional help to around one-third of primary school children at any point in time.

19. OECD work shows that student failure needs to be tackled at both the system and school level. At the system level, actions could include taking steps to: eliminate grade repetition; avoid early tracking and defer student selection to upper secondary education; and improve the quality and image of vocational education and training pathways. Actions to help disadvantaged schools could include steps to attract and retain high quality teachers, ensure effective classroom learning strategies and strengthen links with parents and communities.

***While young adults who have dropped out also need a second chance option to strengthen their foundation skills***

20. Given that attaining a threshold level of foundation skills is essential for youth to have any reasonable career prospects and to participate in society, it is very important that those who have dropped out of school feel they have some ways to return. Canada has a long-standing "second chance system" that enables young people to return and complete upper secondary school, while more recently, many European countries have developed a range of pathways back into education, which may be connected to the existing

secondary system, the vocational education and training system, adult education or designed as a stand-alone: what matters is that they deliver effective results.

21. The shape and design of second-chance programmes depends on the characteristics and needs of the youth concerned. Particular attention may be needed for youth from migrant backgrounds and those facing multiple social disadvantages. Where youth have experienced school failure from an early age and face multiple disadvantages, there are major hurdles to overcome and intensive efforts required to raise their skill levels. It is also important to recognise and validate relevant competencies they have acquired outside of the education system either to assist entry into further education programmes or to demonstrate their competencies to potential employers. In some cases, programmes will need to incorporate actions to address social barriers to labour market entry and issues such as housing and health. While providing second chance options may be expensive, the economic and social cost of doing nothing may well be significantly larger still.

***Vocational education and training could play a stronger role in providing technical and general skills to promote employability***

22. In many countries, vocational education has been an undervalued part of the education system for many years and has found itself overshadowed by the higher education sector. Yet modern vocational education and training is not just about traditional activities like plumbing or hairdressing but also about state-of-the-art skills in technology, ICT, logistics, creative arts and fashion, or social and personal services and increasingly includes sophisticated and advanced-level technical skills.

23. Well-designed vocational programmes, including apprenticeships which link work-based and classroom learning, equip young people with the skills that employers need, help to match young people to jobs, and form an important part of an effective skills strategy. The fact that countries with effective apprenticeship systems tend to see much lower youth unemployment and higher levels of educational participation also suggests that hands-on workplace training helps to integrate diverse groups of young people, encouraging them to stay in or re-engage with education and smooth the transition to work. At postsecondary level, effective vocational programmes prepare young people for higher level professional, technical and managerial positions. Indeed, in some countries, an emerging trend is for university graduates unable to find a job that matches their academic qualifications to then pursue a vocational education and training pathway.

24. Unfortunately, while leading-edge vocational education and training programmes are highly sophisticated and the competition for places is fierce, vocational education and training programmes in many countries are inadequate and have too often been a second-best, low-status option providing classroom-based programmes for academically weak students and unconnected to employer needs. This is especially prone to happen when where training providers receive funding for a fixed number of places determined without reference to demand for jobs, or where funding simply follows student preferences.

25. The most successful Vocational Education and Training programmes skilfully combine work-based and classroom learning. This measure in itself provides an important “test” of relevance: employer provision of workplace training should provide a signal that a programme is of labour market value. Workplace learning also facilitates a two-way flow of information between potential employers and employees, making later recruitment much more effective and less costly. It also allows students to acquire practical skills on up-to-date equipment and under trainers familiar with the most recent working methods and technologies and develop key soft skills – such as collaboration and dealing with customers – in a real-world environment. At the same time, the classroom setting can provide more theoretical knowledge, some broader employability skills and also foundation skills, where these need to be strengthened.

26. Workplace training, whether through apprenticeships or other models, requires a clear contractual framework that encourages employers to provide effective learning opportunities and enable trainees to make a productive contribution at work. Special contracts for apprentices or trainees exist in many countries and the apprenticeship or traineeship contract can underpin the quality of workplace training by setting out clearly the rights and obligations of both employers and trainees. More broadly, effective quality assurance mechanisms are needed to assure quality in apprenticeships and other workplace learning practices. This includes a well-functioning national system of competency-based qualifications to clearly identify both learning and labour market outcomes and to provide reliable and accessible information for both students and employers across different sectors and locations.

***Exposure to the world of work while still in the education system is beneficial for all young people across all pathways***

27. At all ages and stages, the education system could do more to help prepare young people for the world of work. While preparing students for the labour market is only one of the missions of the education system, it is nevertheless an important one. Yet student perceptions suggest scope to increase the relevance of schooling in preparing for the transition to work. PISA results show that in Japan and Korea, for example, just over one-third of 15 year olds feel that school has taught them things that could be useful in a job compared with close to 90% of students across the OECD as a whole. Almost one in four 15 year olds feel that school has done little to prepare them for adult life, and this rises to over 40% in Greece.

28. The education system can also play an important role in redressing imbalances in social capital, opening students' eyes to career possibilities that may be beyond their immediate social experience. Raising aspirations is a key element in promoting inter-generational mobility and is especially important for youth from disadvantaged backgrounds where most exposure is to low-skilled jobs. Developing the entrepreneurial skills of youth while still in education can also help to ensure a more fluid transition into the labour market.

29. Work experience can be built into the secondary experience, as in France, for example where all students are required to spend two weeks at a workplace at the end of 8<sup>th</sup> grade. At higher levels of education, internships provide another valuable opportunity to gain work experience, and are more often being built into degree structures. However, internships also need to be well-designed so as to ensure that they do provide a good learning experience and are not simply a means of cheap labour doing low-skilled work (and which in turn may crowd out a vital job opportunity for a low-skilled youth).

30. More flexible ways to combine work and study should also be developed, not least to provide young people with alternative ways of financing their studies. This can include new pathways being encouraged by professional bodies to combine employment and study towards professional qualifications. It also requires education and training providers to offer more flexible study options to accommodate part-time students.

***Youth also need access to good quality information to make well- informed choices about education and career pathways***

31. Youth need access to good quality information about career options, the skills they need to be successful in the workplace and about different educational pathways and where they lead. This includes not only information about likely labour market demand but also “reality check” information about what different jobs actually involve. Social media is already playing a role here, with a range of websites offering videos of individuals describing their jobs.

32. Many countries provide career guidance services but with rapidly evolving jobs and expanded career opportunities, choices are becoming harder making career guidance both more important and more demanding. If young people choose the wrong career or the wrong educational pathway, the costs of later changes can be high and PISA results suggest that young people lack confidence in making decisions.

33. Yet career guidance services have not always been as effective as they need to be. Weaknesses may include fragmented and under-resourced services; lack of relevant labour market information; guidance counsellors who do not understand how to use labour market information; advice that lacks objectivity; and career guidance initiatives that lack proper evaluation.

34. Good quality data analysis is needed to monitor the labour market outcomes of different education pathways. Surveys that monitor employment (and earnings) outcomes for graduates are useful information to prospective students and can help them to see which pathways are most likely to put them on a good career path. Prospective students in England can now easily find on a single website and in a common format, the graduate employment rates, along with a great deal of other information, for each programme at each higher education institution. Other countries such as France and Korea have developed similar websites.

35. Better data analysis of changing skills needs in the labour market is also needed to underpin effective choices. But although most countries in the OECD have elaborate skills forecasting systems in place, these have not always provided effective, timely and reliable indications of skills shortages and skills mismatches, or ensured that the information is easily accessible to those who need it.

***Both passive and active labour market policies to help unemployed and disadvantaged youth need to be strengthened***

36. A lack of access to unemployment benefits often means that youth are not supported by the Public Employment Services. Even when services are open to everybody, disadvantaged youth who stand to gain the most from the support provided, are hard to contact and engage. Widening unemployment benefits coverage to all youth including school leavers – even with a small payment, as it is the case in some OECD countries such as Australia, Belgium, Greece, Ireland, Luxembourg and the United Kingdom – would facilitate the provision of services. It would also allow the application of the “mutual obligation principle” whereby the benefit payment could be combined with strict job-search requirements and compulsory participation in effective re-employment programmes under the threat of moderate sanctions.

37. More generally, countries are confronted with the challenge of designing effective re-employment programmes for unemployed and other disadvantaged youth. This is far from easy and many programmes have yielded disappointing outcomes. Nonetheless, successful programmes appear to share some common characteristics. Job-search assistance programmes are often found to be the most cost-effective for youth, providing positive returns in the form of higher earnings and employment, while training programmes work best when they are carefully tailored to local or national labour market needs. In the United States the *YouthBuild* programme for disadvantaged youth focuses on training in the construction sector, with a focus on affordable and sustainable housing. Programmes to encourage or help youth start their own business may also play a useful role as well as measures to encourage greater geographical mobility.

38. Good targeting of the programmes is important and, to the extent possible given administrative capacity, it would be important to make participation in programmes compulsory for youth after a period of job search (e.g. six months). Programmes that integrate and combine services and offer a comprehensive package adapted to individual needs seem to be the most successful (e.g. Jobs Services Australia). For the most disadvantaged youth at high risk of social and labour market exclusion, residential programmes with

a strong focus on remedial education, work experience and adult mentoring – e.g. the Job Corps programme in the United States – have shown some positive outcomes, particularly for young adults.

***Rebalancing employment protection for permanent and temporary workers and longer trial periods would help youth***

39. More balanced employment protection for permanent and temporary workers is needed to enable employers to judge the vocational aptitudes and abilities of youth who lack work experience and encourage transition to regular employment. Strict and uncertain procedures concerning the firing of permanent workers along with high severance payments tend to make employers reluctant to hire youth on an open-ended contract. When this is combined with easy-to-use temporary contracts, inexperienced young people are hired mostly on short-term contractual arrangements, notably fixed-term contracts. These temporary contracts often represent a stepping stone into the labour market, opening the door to more stable employment later on, but there is a real risk that they may become traps when the gap in the degree of employment protection and non-wage costs between temporary and permanent contracts is wide.

40. Re-balancing the protection offered by different types of contracts would have positive effects for many low-skilled workers and those with intermittent employment spells, and hence youth are likely to be among the main beneficiaries. This would help youth (as well as other workers with limited work experience) to move gradually from entry jobs, which are often atypical, to more stable career jobs. In this context, some countries have either introduced (Chile) or are considering (Spain) a system of individual unemployment savings accounts that complement or substitute severance pay schemes. Distinct from the severance pay, the benefits are paid regardless of the reason or the initiator of the separation, and thus tend to reduce firms' defaults on severance payments. Moreover, since payments are prepaid, they do not hinder employment adjustment and simplify separation procedures. Less radical options include the possibility of limiting the use of temporary contracts more narrowly to jobs/projects of a temporary nature. However, this is already the case in some countries with a very high incidence of temporary work which suggests that moving further in this direction would require a significant increase in labour inspections and much stronger sanctions for non-compliance.

41. Finally, youth may benefit from trial periods of moderate length – approximately six months. This would encourage employers to hire young people on permanent contracts, as it would allow sufficient time for the skills of new hires to be tested.

***Reductions in high labour costs can help low-skilled young people find a job***

42. High labour costs can be a barrier to employment for youth, especially for those who are low-skilled and lack work experience. This can result from a mandatory minimum wage that is set at a high rate relative to average earnings and/or from high employer social-security contributions that add to wage costs.

43. While the minimum wage can play a useful role to ensure fair wages are paid and to help prevent poverty among workers, if set too high it could discourage employers from hiring low-skilled youth or encourage them to hire youth informally. To counter the potentially negative employment impact of the minimum wage on youth employment, minimum wage rates for teenagers (generally less than 20 year olds) are set at a lower level than the “adult” rate in several countries, including Australia, Belgium, Chile, India, Ireland, Greece (introduced in 2012), Luxembourg, the Netherlands, New Zealand and the United Kingdom. In France, lower rates also apply to youth (up to 17 years of age) with limited work experience and, more generally, labour costs for low-wage workers are reduced through lower employer social-security contributions.

44. The application of lower wages to young workers may be justified when the job offered includes a substantial training component. Examples of this include apprenticeship programmes in Germany and the United Kingdom, where starting salaries are lower in recognition of the lower productivity expected during the training period and subsequently increased as the training programme progresses.

***Better incentives are required to encourage formal employment of youth***

45. Combating informal employment requires a comprehensive approach in order to encourage firms to register their activity and their workers and strengthen the incentives for workers to seek formal sector jobs. The most important action is to improve the business environment for formal-sector firms, while at the same time strengthening the enforcement of the rules of law. On the labour market side, measures that may help promote the formalisation of employment include more transparent, simpler tax systems; less strict rules governing the use of temporary contracts; and enhancing the effective benefits that workers are likely to receive from social protection schemes. Effective enforcement of labour, tax and social security regulations is also essential to combat informal employment.

# OECD WEEK 2013

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