

# The challenge of promoting youth employment in the G20 countries

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Giving youth a better start in the world of work remains at the top of the political agenda in most G20 countries. Unfortunately, the youth labour market took a substantial hit during the recent global financial and economic crisis. Youth unemployment increased sharply and, in many countries, the subsequent economic recovery has been too weak so far to have reversed this increase. In addition, prior to the crisis, many youth faced substantial difficulties in getting a firm foothold into the labour market.

This note sets out the key facts concerning the youth labour market and why it is urgent for policy makers to take action. It then puts forward a number of measures that should be taken to improve youth job prospects. The note draws on the extensive analysis that the OECD has carried out in the area of youth employment. This includes two series of in-depth OECD country reviews on school-to-work transitions – *Jobs for Youth* – and on vocational education and training – *Learning for Jobs* – as well as background reports on youth employment that the OECD has prepared in collaboration with the ILO for the 2011 and 2012 G20 meetings of Labour and Employment Ministers in Paris and in Guadalajara, respectively.

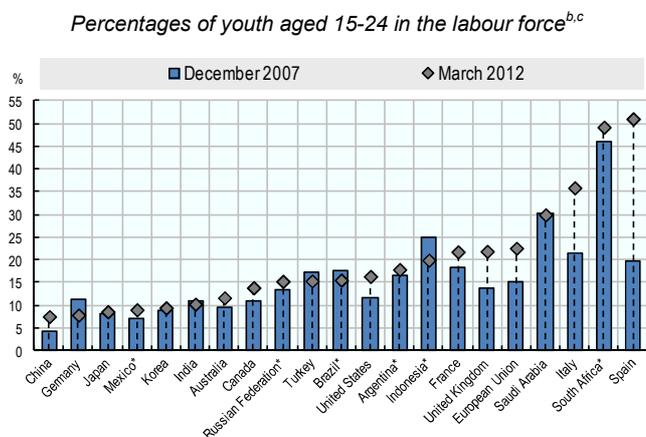
## THE NEED TO IMPROVE LABOUR MARKET OUTCOMES FOR YOUTH

Compared with prime-age workers, labour markets outcomes for youth are much weaker on average. They face a much higher probability of being unemployed when in the labour force and they are more often employed in precarious jobs.

### Youth unemployment is a serious problem in several G20 countries

As a result of the global financial and economic crisis, the unemployment rate for youth (aged 15/16 to 24) rose substantially in most G20 countries – notably, France, Italy, Spain, the United Kingdom and the United States – and still has not returned to pre-crisis levels even as the recovery enters its third year (Figure 1). About half of young labour force participants were unemployed in South Africa and Spain in Q4 2011. Youth unemployment rates also exceeded 20% in six other G20 countries.

**Figure 1. Youth unemployment rates in the recent global economic crisis, December 2007-March 2012<sup>a</sup>**



\* Not seasonally-adjusted data.

Countries shown in ascending order of the youth unemployment rates in 2011 Q4.

a) December 2007 to December 2011 for Turkey; December 2007 to January 2012 for the United Kingdom; 2007 Q4 to 2011 Q4 for Mexico; 2007 Q4-2011 Q2 for Argentina; 2007 Q3-2011 Q3 for Indonesia; 2007 Q4-2011 Q4 for the Russian Federation and South Africa; and 2007-09 for China, India and Saudi Arabia.

b) Selected urban areas for Argentina and Brazil; registered unemployment in urban areas only for China.

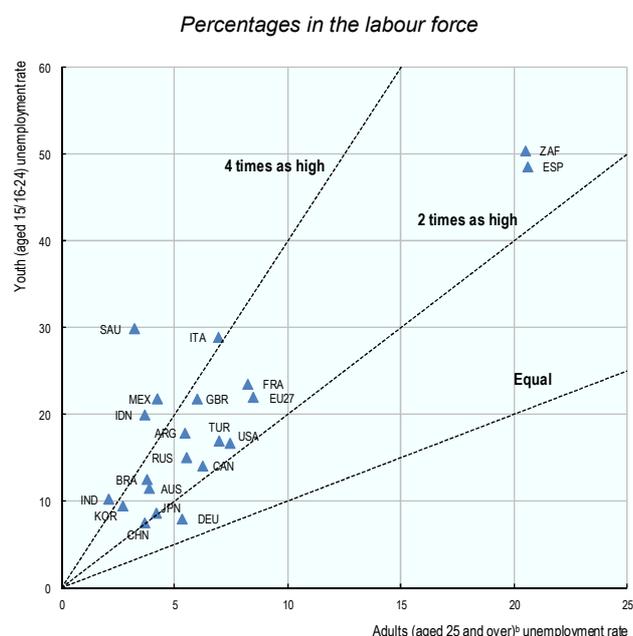
c) Unemployment data refer to registered unemployment in urban areas only for China; estimated persons/person-days (in million) based on the current weekly activity status for India.

Source: ILO Short-Term Indicators Database, OECD Main Economic Indicators Database and national labour force surveys.

## Youth are more affected than adults by unemployment

In all G20 countries, the youth unemployment rate is higher than that of adults (aged 25 and over). On average, youth who are in the labour force are two to three times more likely than their adult counterparts to be unemployed, and this ratio is even higher in Indonesia, Italy and Saudi Arabia (Figure 2).<sup>1</sup> Germany is the one major exception to this pattern as its youth unemployment rate is only 50% higher than its adult rate, reflecting the success of its long-standing dual system of vocational education and training in securing a relatively smooth transition from school to work.

**Figure 2. Youth and adult unemployment rates, 2011 Q4<sup>a</sup>**



Note: Harmonised quarterly unemployment rates (seasonally adjusted) for Australia, Canada, the European Union, France, Germany, Italy, Japan, Korea, Mexico, Spain, Turkey, the United Kingdom and the United States; LFS-based unemployment rates (not seasonally adjusted) for Brazil, Indonesia, the Russian Federation and South Africa; annual unemployment rates for China, India and Saudi Arabia.

Argentina, Brazil: selected urban areas.

China: annual unemployment data refer to registered unemployment in urban areas only.

India: annual estimated persons/person-days (in million) based on the current weekly activity status.

a) 2011 Q2 for Argentina; 2011 Q3 for Indonesia and the Russian Federation; 2009 for China and Saudi Arabia; and 2009-10 for India.

b) Data refer to the unemployment rate of persons aged 25-72 for the Russian Federation.

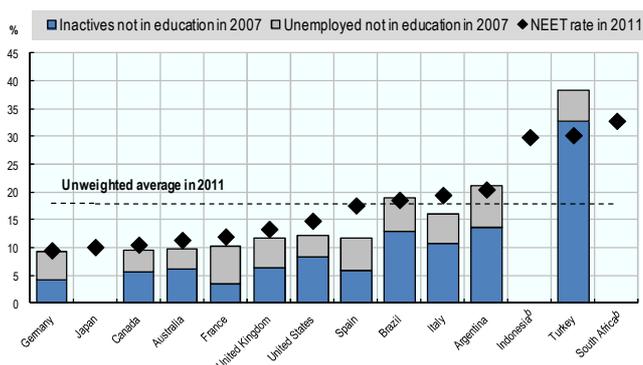
Source: OECD calculations based on OECD Main Economic Indicators Database; and ILO, Short-term Indicators of the Labour Market.

## Among out-of-school youth, inactivity is a bigger problem than unemployment

While the unemployment rate is a good measure of the difficulties faced by young people in the labour market, it does not capture the situation of inactive young people who are not engaged in education or training – some of whom face a high risk of social and economic exclusion. A measure that captures both the risk of unemployment and inactivity is the share of youth neither in employment nor in education and training – the so-called NEET rate (Figure 3). This share ranges from under 10% in Germany to 30% or more in Indonesia, South Africa and Turkey. Unemployment accounts for a significant share of NEET youth in several G20 countries. However, inactive youth not engaged in learning make up an even larger share in most countries for which the NEET rate can be split into its key components. Some inactive youth may have chosen to withdraw from the labour market – notably, young women engaged in child bearing and rearing. But for many young people inactivity is the result of discouragement and marginalisation, which may reflect the accumulation of multiple disadvantages such as the lack of qualifications, health issues and poverty and other forms of social exclusion.

**Figure 3. Youth neither in employment nor in education or training, 2007-11<sup>a</sup>**

Percentage of youth aged 15-24



a) 2007 Q1-2011 Q1 for all countries except 2007 Q2-2011 Q2 for Argentina and Australia, 2007 and 2008 for Indonesia and South Africa, respectively; and 2007-09 for Brazil.

b) Data refer to the total NEET rate.

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.

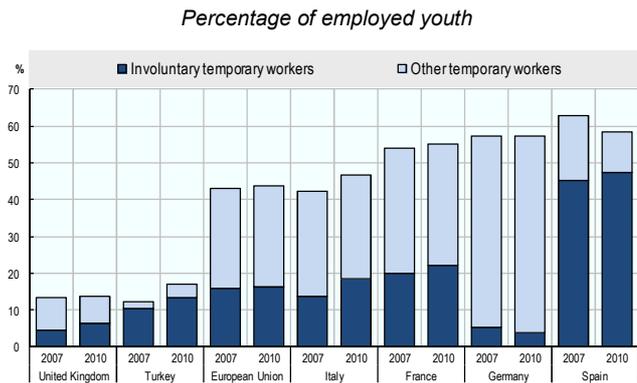
## Youth are often found in jobs of poor quality, compromising their future career prospects

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 on temporary jobs (Figure 4) or in the informal economy (Figure 5). In addition, in some G20 countries, child labour is still a major concern, with its deleterious effects on children's health and investment in education, which can undermine the quality of their employment throughout their working lives.

Before the recent financial crisis, the incidence of temporary work among employed youth was high in France, Italy and especially Spain where it exceeded 50% in 2007. It should be stressed, however, that temporary contracts can be stepping stones to more stable jobs that offer career prospects. However, 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. This affects youth disproportionately, making it harder for them to make the transition from precarious temporary jobs to permanent ones. Conversions from one to the other are often very slow, and many youth find themselves circling between temporary jobs and unemployment/inactivity and unable to settle into longer-term, more stable, employment pathways. Involuntary temporary employment is particularly high in countries with a high incidence of this form of employment – Spain (70%) and France and Italy (around 40%) – but also in some countries with a relatively low share of employed youth in temporary jobs (the UK and Turkey).<sup>2</sup>

In many G20 countries, youth tend to be more involved than their adult counterparts in situations of unprotected work in the informal economy. The gap between youth and adults is most striking in Argentina, with young people almost twice as likely as adults to engage in informal employment, but it is also sizeable in Mexico and Turkey.

**Figure 4. Incidence of temporary work<sup>a</sup> among youth by reasons in selected G20 countries, 2007 and 2010**

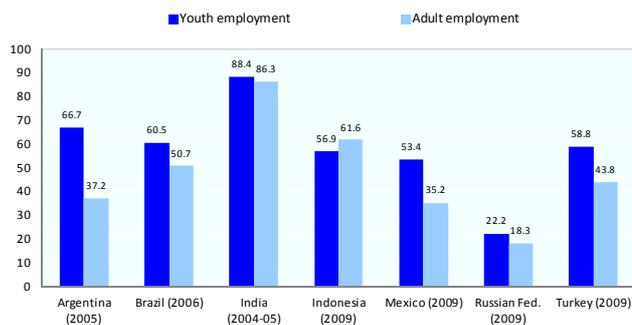


a) Involuntary temporary work refers to youth who reported being in temporary jobs because they could not find a permanent job.

Source: Eurostat.

**Figure 5. Informal employment by age group, selected G20 countries<sup>a</sup>**

Percentage of total youth (15-24) and adult employment (25-64)<sup>b</sup>



a) The figures refer to both unprotected work in the formal sector or informal employment in the informal sector. Data refer to various years as indicated in parenthesis besides each country name.

b) For Turkey and India, the adult rate refers to the total population; for Mexico, the adult rate refers to 30-59 year-olds and the youth rate refers to 15-29 year-olds.

Source: Gasparini and Tornaroli (2009) for Argentina, ILO (2009) for Brazil, National Commission for Enterprises in the Unorganised Sector (2010) for India, National Labour Force Survey for Indonesia, ILO (2010a) for Mexico, Federal State Statistics Service for Russia and Turkish Statistical Institute for Turkey.

## POLICIES FOR BETTER SCHOOL-TO-WORK TRANSITIONS

A range of policies are required to tackle the multiple barriers hindering youth from gaining a durable foothold in the labour market. These include: strengthening initial investments in education and training; improving the access to schemes that combine work and study; and putting in place labour market measures which help younger workers to gain access to more permanent and rewarding jobs.

## The role of initial education in ensuring a smooth transition to work

Investment in human capital is a key factor in facilitating transitions from school to work and putting youth on promising career tracks. Indeed, access to productive and rewarding jobs improves as the level of educational attainment increases. Unfortunately, several G20 countries face challenges concerning educational attainment, participation in good-quality vocational education and, in some cases, access to schooling. To address these issues, the following policies have proven effective in a number of countries:

- In many countries, **completion of high school** (i.e. usually between the age of 15 and 18) is becoming a key policy goal due to its importance for a smooth transition to work, for participation in life-long learning and for career progression. Failure to attain this level of qualification exposes youth to the risk of economic and social marginalisation and makes re-engaging them very difficult. In countries where enrolment in education through lower secondary education (i.e. up to age 15 or 16) is almost universal, the focus has been on improving retention in upper secondary education, in some cases by **raising the age of compulsory participation in learning**. In the most recent reforms – notably in the United Kingdom and the Netherlands – attendance obligations have been linked to the age of 18 or to achieving an upper-secondary qualification, whichever comes earlier (OECD, 2010a);
- In some countries where educational enrolment is low, particularly among children from disadvantaged socio-economic backgrounds, school attendance has been added as a condition to the receipt of cash transfers through so-called **Conditional Cash Transfer schemes**. Many of these schemes have proven successful at improving school enrolment and attendance as well as child nutrition and health;
- High-quality vocational education pathways in upper secondary education can help engage youth who have become disaffected with academic education, improve graduation

rates and ensure smooth transitions from school to work (Quintini and Manfredi, 2009). In light of this evidence, several G20 countries have recently undertaken reforms **to strengthen their vocational education routes**. In this respect, dual schooling systems combining class-based learning with work-based apprenticeships have received significant attention. Germany is the leading example among G20 countries of a long-standing dual system which clearly yields successful school-to-work transitions for most youth. Spurred by the German example, a number of G20 countries have introduced **specific measures to support apprentices in the context of the recent economic slowdown**,<sup>3</sup>

- Many youth leave the education system unprepared for the labour market, even in G20 countries with low school drop-out rates, high expenditure on education and high PISA scores. In some cases, it is youth themselves – particularly those from disadvantaged backgrounds – who make unwise educational decisions and embark in courses for which there is only limited labour market demand. This can result in high youth unemployment rates but also in large shares of youth working in fields unrelated to what they have studied. The latter is a major source of over-qualification – *i.e.* workers are found in jobs that normally require lower qualifications than those they possess – and, as such, implies wage penalties for the workers involved as well as a waste of human capital and of the private and public resources invested in its accumulation. **High-quality career guidance** can help youth make better informed decisions about their future but requires: i) early action in lower secondary education; ii) highly qualified guidance personnel; and iii) timely and high-quality data on local labour market needs and employment prospects by occupation. The **combination of part-time work and study** can also help youth acquire some of the skills required in the labour market before they leave the education system.

## **The role of labour market policy and institutions in facilitating access to employment**

While leaving education with the skills required in the labour market is important to facilitate transitions to work, labour market policies and institutions can play a major role in supporting youth in their job search and in promoting labour demand. Labour market policies can assist job search by providing adequate income support combined with effective employment services, both of which are crucial in the context of economic downturns. At the same time, institutional features affecting labour demand have a more structural role to play to improve the job prospects of young people and the quality of the jobs they hold. Some countries have enacted, or are considering enacting, the following policy changes to facilitate young people's access to the labour market and to good-quality jobs more specifically:

- To better support job seekers – and youth among them – in the context of severe economic crisis, unemployment and social assistance systems need to be designed in a way that **financial support is expanded during downturn** and run down quickly once hiring picks up. Active labour market programmes should also be, to the extent possible, scalable so that they can involve more participants when unemployment rises. In this regard, **automatic links of benefit duration and/or eligibility rules to labour market conditions** – as they exist in Canada and the United States – have the advantage of being easily reversed as unemployment rates fall, avoiding the difficulty of discretionary withdrawals as labour market conditions improve (OECD, 2011). On the other hand, because temporary adjustments, particularly automatic ones, can lead to excessive public spending, the scope of flexibility should be limited between pre-defined bands. Although youth are not the only target of these measures, they are one of the groups that benefit the most from extensions in the maximum duration of unemployment benefits enacted in the wake of major economic downturns.

- Too-high non-wage labour costs risk dampening labour demand, particularly for the low-skilled. To counter this negative effect, some countries have chosen to encourage employers to hire young people by **lowering social security contribution rates or by introducing explicit wage subsidies for young workers**. In some cases, new or reinforced measures along these lines were introduced to stimulate employment in the aftermath of the recent economic crisis, although most were not specifically targeted on young people (OECD, 2010b). 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;
- Cross-country evidence suggests that overly-strict employment protection regulations tend to be associated with higher youth unemployment, even when controlling for a host of other factors that could affect youth employment (see e.g. Bassanini and Duval, 2006; and OECD, 2006). In particular, 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. At the same time, the combination of strictly-regulated permanent contracts with easy-to-use temporary ones can lead to inexperienced young people being hired mostly on short-term contractual arrangements, notably fixed-term and temporary work agency contracts. As stressed above, these temporary contracts may 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.

In light of these considerations, **balanced employment protection for permanent and temporary workers**, as well as **reasonably long trial periods** can enable employers to judge the vocational aptitudes and abilities of youth who lack work experience and encourage transition to regular employment.

- Similarly to non-wage labour costs, too-high minimum wages could discourage employers from hiring low-skilled youth or encourage them to hire youth informally. Although the primary objective of minimum wages is to reduce in-work poverty, **lower minimum wage for younger workers** can make it easier for young people to get their first job and may discourage early school leaving by lowering the opportunity cost of staying on at school. The application of lower minimum wages to young workers may be justified when young people in their first job require a significant investment in on-the-job training.
- **Combating informal employment requires a comprehensive approach** in order to reduce the costs and increase the benefits to businesses and workers of operating formally and to ensure that regulations are adequately enforced. OECD (2008) looks at informality in some OECD countries and suggests that, along with more effective enforcement of labour, tax and social security regulations, the following may help reduce it: lower wage floors; more transparent and simpler tax systems; less strict rules governing the use of temporary contracts; and better workers' perceptions of the value of the benefits that they are likely to receive from social protection schemes.

## Notes

- 1 It is noteworthy that youth and adult unemployment are highly correlated, as they both vary along the business cycle. However, youth unemployment is more sensitive than adult unemployment to GDP fluctuations – *i.e.* it rises more rapidly during a downturn and falls more quickly during an upturn (see OECD, 2010a; and Scarpetta *et al.*, 2010).
- 2 Outside the European countries where they are markedly different from permanent contracts, temporary contracts often take on a different significance. In Australia, so-called casual workers more often choose this flexible form of employment of their own will. In the United States, the widespread use of the so-called employment-at-will norm, by which either employer or employee can terminate a work relationship at any time, makes the distinction between permanent and temporary workers meaningless.

3. In Australia, the government awarded additional retention bonuses to avoid the dismissal of apprentices by troubled firms. In France, the government granted one-year exemptions from paying social security contributions to firms hiring apprentices and introduced an additional subsidy for SMEs. Mexico increased funding for training grants offered by the public employment services and introduced new internship programme to support students completing vocational placements or work experience for up to six months. The United Kingdom, Italy and Spain have recently announced reforms to increase the number of apprenticeships.

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