

**OECD Labour and Employment
Ministerial Meeting**

Tackling the Jobs Crisis

**The Labour Market
and Social Policy Response**

THEME 3

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**Helping Youth to Get a Firm
Foothold in the Labour Market**



OECD Labour and Employment Ministerial Meeting

**TACKLING THE JOBS CRISIS
The Labour Market and Social Policy Response**

Paris, 28-29 September 2009

**Theme 3
Helping Youth to Get a Firm Foothold
in the Labour Market**



Table of Contents

1. Introduction	5
2. Recent trends in the youth labour market.....	6
3. Main structural issues affecting youth labour markets	10
4. Key short-term challenges and policy options.....	16
5. The crisis as an opportunity to promote structural reforms	20
Bibliography	24

Boxes

Box 1. The potentially scarring effects of unemployment on youth	10
Box 2. School-to-work transition pathways of students having left secondary education	14
Box 3. The recent UK Youth Guarantee	17
Box 4. Youth programmes funded by the Recovery Act in the United States.....	18
Box 5. The Investing in Young People Act (WIJ) in the Netherlands	20
Box 6. Promote apprenticeship and combined work and training opportunities and create employment programmes for disadvantaged youth in France	21
Box 7. The economic downturn as an opportunity to improve Australia's educational attainment while fighting unemployment	22

Figures

Figure 1. Mixed performance of the youth unemployment rate in 2005-07 compared with the previous decade	6
Figure 2. Youth face a much higher risk of unemployment rates than adults, 2008.....	8
Figure 3. Significant deterioration of the youth unemployment rate in 2008-09.....	8
Figure 4. Youth unemployment is more responsive to the cycle than adult unemployment	9
Figure 5. High disparity of employment rates of youth aged 15-29 having left education by educational attainment and country, 2006	11
Figure 6. The precariousness of youth jobs has increased in most OECD countries, 1998 and 2008	11
Figure 7. Towards stable youth employment: impact of youth unemployment and the stepping-stone effect of temporary youth jobs	12
Figure 8. NEET youth at risk of losing contact with the labour market, 2006	14

Tables

Table 1. Scoreboard for youth, 1998 and 2008	7
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HELPING YOUTH TO GET A FIRM FOOTHOLD IN THE LABOUR MARKET

1. Introduction

The current severe economic downturn is posing daunting challenges to young individuals in the OECD labour markets. The transition from school to work is going to be particularly difficult for the new generation of entrants in the labour market, as they will have to compete with a growing number of jobseekers for fewer job vacancies, at least in the short-run, and employers are becoming very selective in their hiring of new staff. But even for those youth already in the labour market but holding temporary jobs, the short-term outlook is grim: they tend to be the first to lose their job and may find it particularly difficult to get another one (OECD, 2009b). Even more importantly, low-skilled youth who, even before the crisis erupted, already experienced multiple barriers in fully integrating the labour market, are now at high risk of inactivity and potentially of exclusion.

In response to a mandate from OECD Ministers, the OECD has undertaken over the past three years a thematic review of *Jobs for Youth* in 16 countries.¹ The review process has highlighted a number of structural problems that affect the transition from school to work and the initial labour market experiences of youth with different levels of education. The current economic crisis is exacerbating some of these underlying problems. Not only have governments to push forward with the necessary structural reforms, but they also have to devise suitable short-term measures to cushion the impacts of the crisis on youth – in a way which, as much as possible, aligns with the longer-term reform agenda of promoting more and better jobs for them.

The short-term priority should be to introduce measures that target youth most at risk of losing contact with the labour market. But it is equally important to tackle the more structural labour market problems that were affecting the transition from school to work for many youth, even before the crisis. Both for the short-term response to the crisis as well as for the longer-term agenda of improving access to jobs and career progressions, there is a strong need of co-ordinated actions on multiple fronts, involving the education system, the labour market and the welfare system.

1. The nine countries reviewed in 2006-08 (Belgium, Canada, Korea, Netherlands, New Zealand, Norway, Slovak Republic, Spain and United Kingdom) took place in a rather favourable economic context (OECD, 2007a, b, c, d; OECD, 2008a, b, c, d, f). The more recently released country reports (Japan in December 2008, Australia in April 2009 and France in May 2009, see OECD, 2008g and 2009a, c) contain detailed recommendations on how to tackle youth unemployment problems in the context of the current crisis. The last four country reports (Denmark, Greece, Poland and United States), to be released later this year, will also focus on the impact of the crisis on youth employment prospects.

This document is organised as follows. Section 2 provides an overview of recent trends in the youth labour market of OECD countries. Section 3 highlights the main structural issues affecting school-to-work transition and early career experiences of youth with different levels of education. Section 4 discusses the key short-term policy challenges to cushion the impact of the crisis on at-risk youth, while Section 5 highlights policy reforms that would be required to put youth on a better footing in the labour market on a more permanent basis.

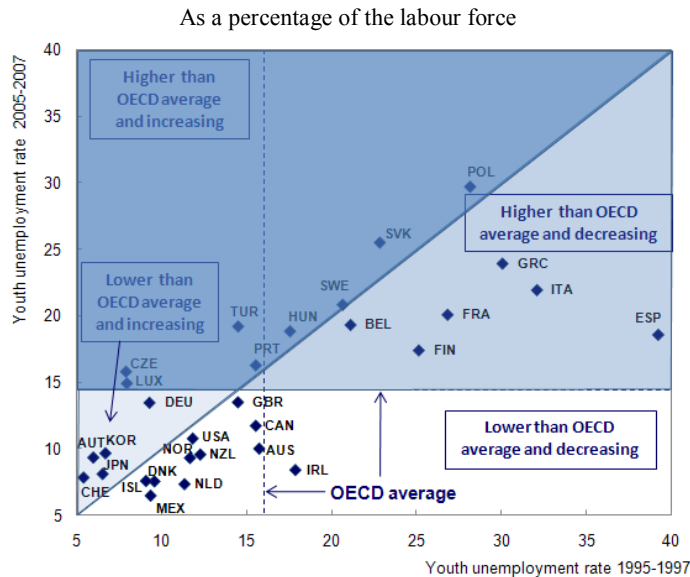
2. Recent trends in the youth labour market

Conditions before the economic crisis and the current impact of the crisis

Before the onset of the economic crisis, youth labour market conditions had shown some improvement in most OECD countries ...

Following the generalised improvements in labour market conditions observed in many OECD countries over the decade to 2007, the youth unemployment rate declined slightly, from 15% in the mid-1990s to 13% in the mid-2000s.² Most countries experienced this decreasing trend in youth unemployment (Figure 1), but there are significant cross-country differences, both in the level of youth unemployment at the onset of the crisis, as well as in the evolution of unemployment in the preceding decade. The countries better placed at the onset of the crisis were those with a relatively low youth unemployment rate or at least with clear signs of a decreasing rate over the previous decade (Figure 1).

Figure 1. **Mixed performance of the youth unemployment rate in 2005-07 compared with the previous decade**



Source: National labour force surveys.

2. In this document, the youth population comprises the 15-24 age group (16-24 for Iceland, Norway, Spain, Sweden, the United Kingdom and the United States) and the adult population the 25-54 age group, except otherwise specified.

...but even in good times, youth tend to be more vulnerable to unemployment than adults...

The observed improvements in youth labour markets over this period cannot, however, hide the relatively higher vulnerability of youth to unemployment and inactivity (Table 1). At the onset of the economic downturn in 2008, the youth/adult unemployment ratio was 2.8 on average in the OECD area, with large differences across countries (Figure 2). While in Germany the ratio was 1.5, largely because of a rather successful apprenticeship system that ensures a smooth transition from school-to-work for most youth,³ the ratio was close to 3 in some of the Continental and Southern European countries – where about one in five youth in the labour market were unemployed – and even above 4 in Sweden, where the “Last-in First-Out” rule is strictly enforced in case of lay-offs and young workers are disproportionately affected by labour mobility (OECD, 2008h).⁴

Table 1. Scoreboard for youth, 1998 and 2008

	Australia		Canada		Japan		United States		EU15 ^a		OECD ^b	
	1998	2008	1998	2008	1998	2008	1998	2008	1998	2008	1998	2008
Employment rate (% of the age group)	59.9	64.3	52.5	59.6	44.6	41.4	59.0	51.2	41.5	43.0	44.5	43.9
Unemployment rate (UR) (% of the labour force)	14.6	8.9	15.2	11.6	7.7	7.2	10.4	12.8	16.7	14.6	14.8	13.2
Relative UR youth/adult (15-24)/(25-54)	2.4	2.6	2.1	2.3	2.3	1.9	3.0	2.7	2.3	2.8	2.4	2.8
Unemployment to population ratio (% of the age group)	10.3	6.3	9.4	7.8	3.7	3.2	6.9	7.5	7.6	6.8	7.1	6.1
Incidence of long-term unemployment (% of unemployment)	19.0	8.6	5.8	2.1	13.3	23.8	4.9	7.1	28.1	21.4	21.8	18.8
Incidence of temporary work (% of employment)	-	-	27.5	27.2	20.5	26.0	-	-	35.0	39.9	30.2	35.4
Incidence of part-time work (% of employment)	42.0	40.5	45.3	44.9	23.5	25.8	34.7	34.1	20.5	25.4	20.5	24.8
NEET rate (% of the age group) ^c	12.9	9.3	11.4	10.0	7.7	8.9	10.8	10.9	11.8	10.5	13.4	11.8
School drop-outs (% of the age group) ^d	19.4	13.6	9.6	9.2	4.1	4.5	9.9	8.4	16.7	13.1	17.8	14.2
Relative UR low skills/high skills (ISCED<3/ISCED>3) ^c	3.0	3.4	2.6	3.0	3.6	-	5.8	4.2	2.0	2.0	2.4	2.1

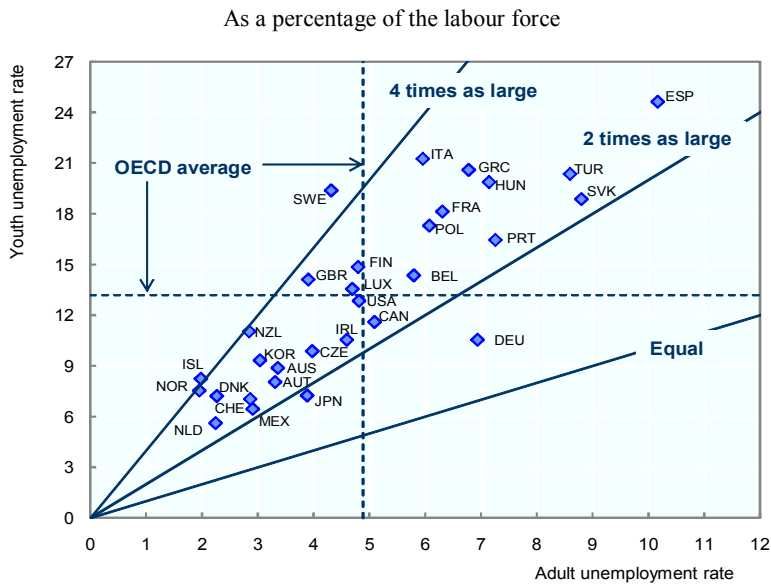
ISCED 3: International standard of education referring to upper secondary education; NEET: neither in education nor in employment or training; UR: unemployment rate.

- a) Unweighted average for the following 15 European Union countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom.
- b) Unweighted average for the 30 OECD member countries.
- c) 1997 and 2006.
- d) Share of youth not in education and without an ISCED 3 educational attainment; 1997 and 2006; 2003 instead of 2006 for Japan.

Source: National labour force surveys; and *OECD Education database*.

3. See the report on Germany prepared by Duell (2008) for the European Commission.
4. See the OECD report on “Learning for Jobs in Sweden” which stresses that upper secondary vocational education and training (VET) in Sweden does not attempt to make students “job-ready” – creating a potential mismatch in a labour market governed by collective agreements in which employers may be reluctant to take on such young people (Kuczera *et al.*, 2008).

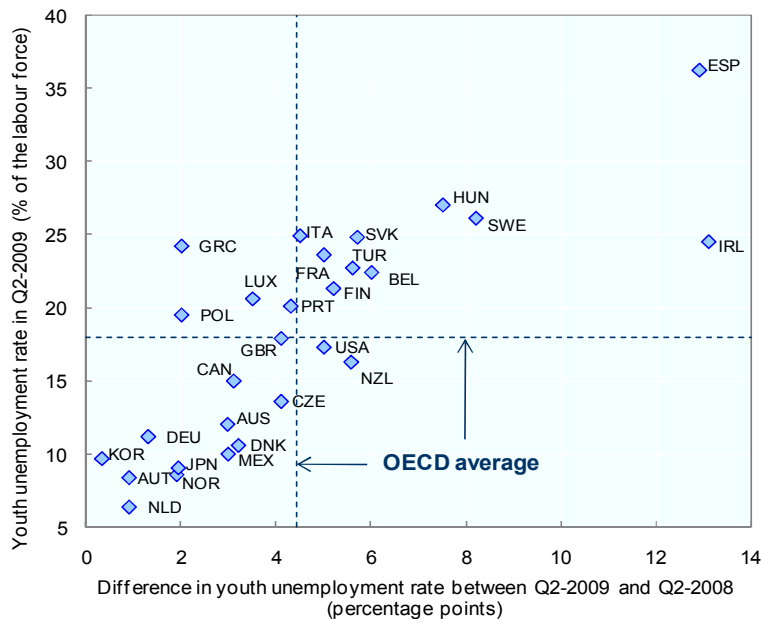
Figure 2. Youth face a much higher risk of unemployment rates than adults, 2008



How to read the figure? All countries above the “Equal” line have a higher youth unemployment rate than that of adults. For example in Sweden, youth have an unemployment rate that is more than four times that of adults.

Source: National labour force surveys.

Figure 3. Significant deterioration of the youth unemployment rate in 2008-09^a



a) Seasonally adjusted data referring to the second quarter for all countries, except Greece, Italy, Norway, Turkey and the United Kingdom for which data refer to the first quarter.

Source: National labour force surveys.

...and they have already been hard hit by the recession

Available statistics up to the second quarter of 2009 suggest a marked increase in youth unemployment in the OECD area in line with the steep hike in total unemployment since the recession began in 2008 – up to 18% of the labour force on average compared with 14% one year earlier. The most significant increases have been recorded in those countries most affected by the crisis already in 2008 and early 2009, namely Spain and Ireland with 13 percentage points increase in youth unemployment rates (Figure 3). In Spain, most of the job losses were recorded among workers on temporary jobs, many of whom are youth; as a result more than one in three youth in the labour force was jobless already in the first quarter of 2009.

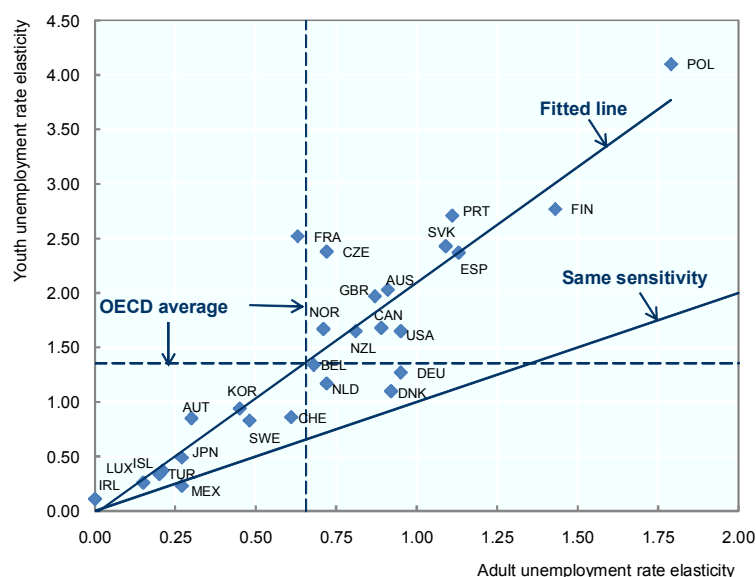
A number of factors make youth particularly exposed to a major downturn

Youth unemployment is more responsive to the business cycle ...

Across the OECD area, youth unemployment is more responsive to the business cycle than adult unemployment, particularly in some of the continental European countries and the transition economies of Eastern Europe (Figure 4). A number of factors contribute to explain the higher business-cycle sensitivity for youth in the labour market, but the dominant interrelated factors are their disproportionate presence among those holding temporary jobs and their disproportionate concentration in certain cyclically-sensitive industries (OECD, 2009b).

Figure 4. **Youth unemployment is more responsive to the cycle than adult unemployment^a**

% point change response to 1 % point deviation from the growth rate of potential GDP, 1996-2007



- a) Across the OECD, a one percentage point deviation from the growth rate of potential GDP in the period 1996-2007 has led to a 0.65 percentage point change in the adult unemployment rate. But the youth unemployment rate has changed by almost 1.4 percentage points. The “same sensitivity” line represents the locus of points where the youth unemployment elasticity to the business cycle is the same as that of the adult unemployment. Countries above this line have a higher sensitivity of the youth unemployment rate than that of adults and *vice versa*.

Source: Estimations based on National Labour Force Surveys and *OECD National Accounts database*.

...and with a risk of scarring effects for the most disadvantaged youth

Coping with a job loss in a recession and the likely protracted period of unemployment is difficult to handle for all workers. For most youth, the substantial effects of early unemployment on subsequent labour market and social outcomes have been found to be temporary, *i.e.* they diminish with time. But for disadvantaged youth lacking basic education, a failure in their first experience on the labour market is often difficult to make up and may expose them to long-lasting “scarring” effects (Box 1).

Box 1. The potentially scarring effects of unemployment on youth

“Scarring” means that the mere experience of unemployment will increase future unemployment risks and/or reduce future earnings, mainly through effects associated with human capital (*i.e.* deterioration of skills and foregone work experience) or signalling (*i.e.* periods of unemployment as signalling low productivity). The longer the unemployment spell the more individual productivity will be affected and the lower the level of initial qualification the more the scarring effects is likely to last.

Most studies find that, on average, early youth unemployment has serious negative effects on incomes, but not as strong effects on future risk of unemployment (Ellwood, 1982; Arulampalam, 2001). In particular, unemployment immediately upon graduation from college is associated with substantial and permanent future earnings losses (Oreopoulos *et al.*, 2008; Gartell, 2009). The potentially long-lasting effects of unemployment among youth also depend on the overall labour market conditions in which it takes place. Experiencing unemployment in good time when overall unemployment is low is likely to signal poor performance and is associated with relatively more substantial future earnings losses compared to experiencing unemployment at times of high aggregate unemployment.

More generally, Bell and Blanchflower (2009) find evidence that spells of unemployment while young often create permanent scars through its harmful effects on a number of outcomes – happiness, job satisfaction, wages and health – many years later. Moreover, spells of unemployment tend to be particularly harmful to the individual – and to society – when the most disadvantaged youth become unemployed. This involves significant social as well as economic costs.

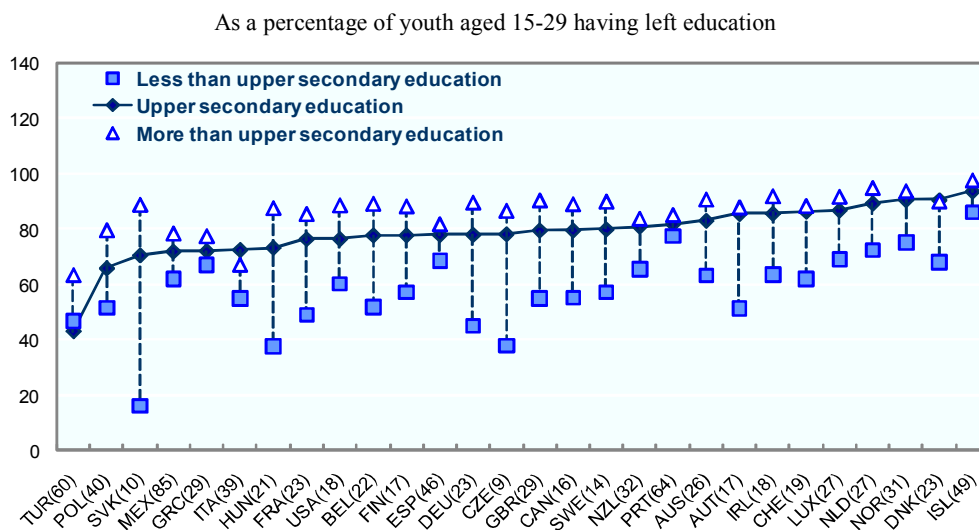
3. Main structural issues affecting youth labour markets

Education achievement matters a lot when it comes to employment

Access to employment is closely associated with education achievements ...

There is a high disparity in employment among youth having left education in OECD countries. In general, education pays: the employment rate of youth aged 15-29 having left education with a tertiary diploma is higher than the employment rate of those with no diploma, except in Turkey, Greece, Italy, Portugal, Switzerland and Denmark (Figure 5). Unskilled school leavers are ill-prepared for to-day’s labour market. Most of the time, they left school without an upper secondary education qualification, generally regarded as the minimum credential required for successful labour market entry and a basis for further participation in lifelong learning.

Figure 5. **High disparity of employment rates of youth aged 15-29 having left education by educational attainment^a and country, 2006**

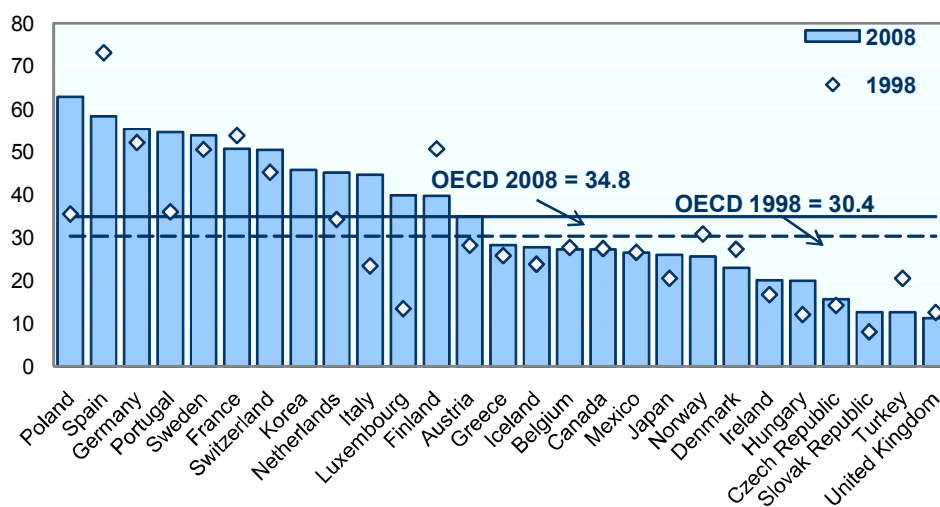


a) The share of youth in employment with less than upper secondary education is indicated in parenthesis for each country.

Source: OECD Education database.

Figure 6. **The precariousness of youth jobs has increased in most OECD countries, 1998 and 2008^a**

Temporary employment as a percentage of youth employment



a) Data for Greece refer to 2001 instead of 2008; for Mexico to 2004 instead of 2008; for Poland to 2001 instead of 1998.

Source: National labour force surveys.

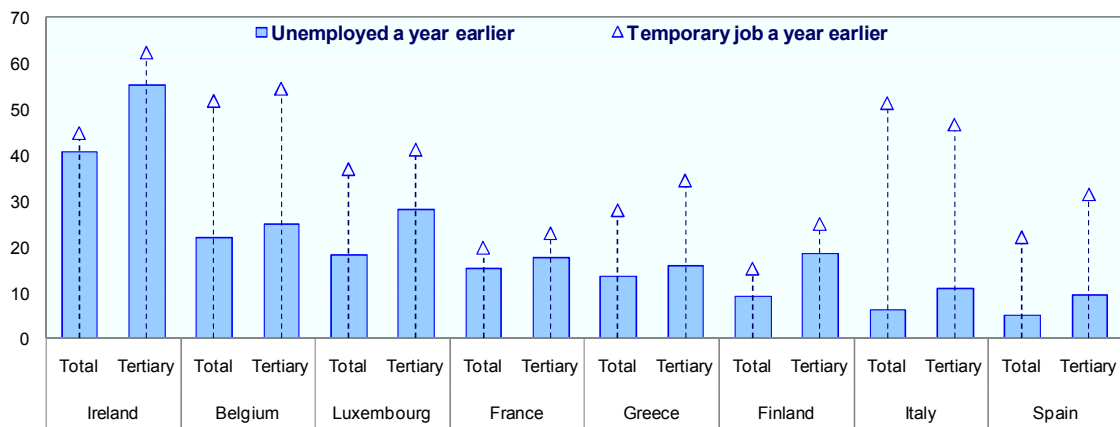
...but education achievements also influence the quality of jobs youth have access to

Many youth jobs are temporary. The incidence of temporary employment among young workers aged 15-24 was 35% in 2008 on average in the OECD area, and had increased by just over 5 percentage points between 1998 and 2008. The incidence of temporary contracts differs a lot across countries. Having a temporary contract is the situation experienced by at least half of all young workers in Poland, Spain, Sweden, Portugal, France, Germany and Switzerland,⁵ but this proportion falls to 20% or less in Hungary, the Czech Republic, the Slovak Republic, Turkey and the United Kingdom.

However, the increase in the incidence of temporary jobs should not necessarily be regarded as negative in terms of the career prospects of those youth holding these jobs. Temporary contracts are more often a stepping stone to a permanent contract than a dead end for youth.⁶ Among eight European countries where longitudinal data are available, the probability for youth of getting a permanent job one year after being on a temporary job is higher than after being unemployed (Figure 7). This probability is higher for youth with a tertiary education.

Figure 7. Towards stable youth employment: impact of youth unemployment and the stepping-stone effect of temporary youth jobs

Estimated probability of being on a permanent contract in 2006 conditional on the status in 2005, by educational level



How to read the figure? In France, the probability of being on a permanent contract for a young person in 2006 was 15% if s/he was unemployed in 2005 and 20% if s/he was on a temporary contract in 2005. The probability is higher for a young person with a tertiary education (respectively 17 and 25%).

Source: Survey on Income and Living Conditions (EU-SILC) 2005-2006.

5. In Germany and Switzerland, temporary contracts are mainly apprenticeship contracts.
6. See Cockx and Picchio (2009) who find that short-lived jobs (lasting less than one quarter and involuntarily ending in unemployment) tend to be stepping stones to long-lasting jobs (lasting more than one year) for Belgian long-term unemployed school-leavers.

Employment outcomes are strongly influenced by the length and quality of the transition from school to work

Two groups of youth are particularly at risk of poor employment outcomes

Only a small fraction of youth settles into career employment or persistent inactivity shortly after leaving education. Many youth move between different labour force states, often in and out of the labour market, before finding a job that offers them career prospects and some stability, withdrawing from the labour market for a prolonged period of time or returning to education. And even among those who quickly move from school to employment, the labour contract may only be of short duration and/or with limited career prospects. While some of those on these precarious and/or temporary jobs swiftly move to more stable and promising jobs, others cycle between precarious jobs and unemployment or inactivity.

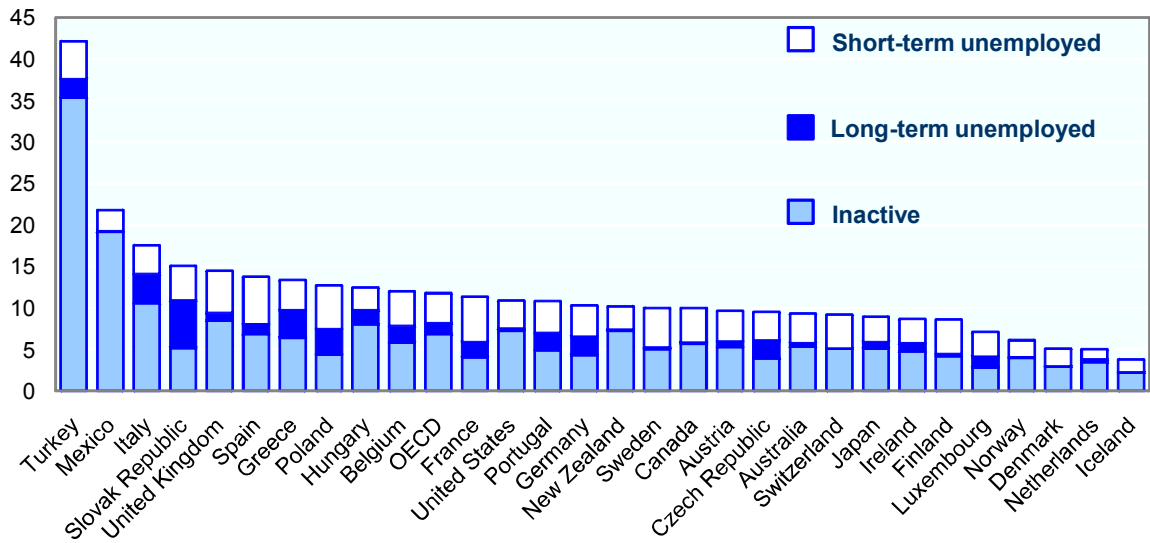
In a detailed examination of the duration and outcomes of the school-to-work transition in a wide range of OECD countries, the OECD *Jobs for Youth* review identified two groups that face particular difficulties in getting a stable job after leaving school: the group of so-called “youth left behind” and the group of so-called “poorly-integrated new entrants”.

In all OECD countries, there is a group of “youth left behind”. While the characteristics of these young people differ from one country to another, they share the common fact of accumulating disadvantages. These are mainly youth who do not have a diploma, who come from an immigrant/minority background and/or who live in disadvantaged/rural/remote neighbourhoods. The size of this group can be proxied by the number of young people who are neither in employment, nor in education or training (NEET). This group represented 12% of 15-24-year-olds on average in the OECD in 2006. Among them, three in four were already far removed from the labour market, either because they had been unemployed for more than a year or were inactive and did not seek a job (Figure 8). It is crucial that these youth left behind are helped to find a job as soon as possible after they have left school or be offered the possibility to participate in a programme to obtain a recognised qualification or diploma. Otherwise, they risk being trapped in long-term unemployment and inactivity, which implies considerable individual distress and a lasting social cost for society.

The second group of youth facing difficulties is the group of “poorly integrated new entrants”. While these young people often have diplomas, it can take a long time for them to find stable employment, even during periods of strong economic growth, and they frequently go back-and-forth between temporary jobs, unemployment and/or inactivity. This second group accounts for about 20-30% of all youth on average in the OECD and tends to be larger in many Continental European countries and Japan than in the United States and other English-speaking countries (Box 2). Adjustments to the way the labour market functions in general are necessary to ensure that this second group rapidly accesses stable jobs that offer better prospects for a career progression.

Figure 8. NEET^a youth at risk of losing contact with the labour market, 2006

As a percentage of the youth population



a) NEET youth refer to youth neither in employment, nor in education or training.

Source: National labour force surveys.

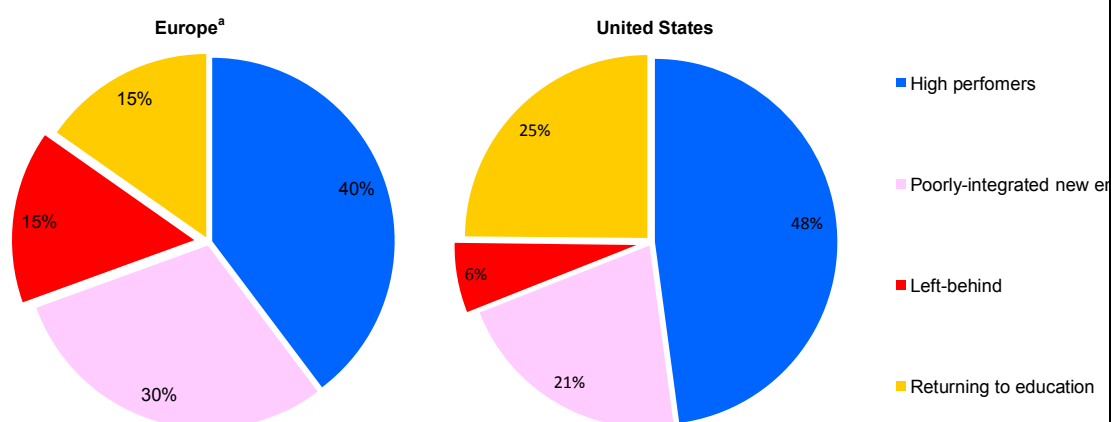
Box 2. School-to-work transition pathways of students having left secondary education

To account for the *dynamic* nature of youth labour market situations and identify the different pathways that youth can take after leaving secondary education, Quintini and Manfredi (2009) exploit monthly observations in the National Longitudinal Survey of Youth (NLSY) for the United States and the European Community Household Panel (ECHP) survey for Europe.

Figure A shows the share of youth in one of four key pathways identified by Quintini and Manfredi (2009). Over a five-year period after leaving education: *High Performers* spend most of their time – 70% or more – in employment and take less than six months to find their first job after leaving school; *Poorly-Integrated New Entrants* move in and out of employment, unemployment, inactivity and sometimes education, signalling difficulties in settling on a promising career path; *Left-behind* youth spend most of the five years in unemployment or inactivity; youth *Returning to Education* leave education for a spell on the labour market of varying length but ultimately return to complete high school – if they have dropped out before completion – or to attend tertiary education.

The United States has a significantly larger share of High Performers than Europe and many more youth Return to Education after a spell out of work and studying.* As a result, the share of youth facing serious difficulties on the labour market – Left Behind and Poorly-Integrated New Entrants – is almost 20 percentage points smaller in the United States than in Europe. In Europe, 30% of youth face difficulties settling into the labour market and another 15% are trapped in long-term unemployment or inactivity. On the other hand, in the United States, poor integration affects 21% of youth and the fact that long-term unemployment is uncommon reduces the share of youth Left Behind to just 6% of youth facing long-term inactivity.

Figure A. Key School-to-work transition pathways in the United States and Europe



a) The European countries included are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Spain, Portugal and the United Kingdom.

Source: OECD Secretariat calculations based on the National Longitudinal Survey of Youth 1997 and European Community Household Panel survey, waves 1 to 8 (1994 to 2001). Adapted from Quintini and Manfredi (2009).

Unsurprisingly, significant variation in the size of the at-risk groups can be observed across European countries. Quintini and Manfredi (2009) show that countries with strong apprenticeship systems and/or low-regulated labour markets – notably, Germany and the United Kingdom – have the largest shares of High Performers. Indeed, with highly regulated labour markets it is very important to have strong vocational education and training systems to compensate for these rigidities (e.g. Germany, Austria). On the other hand, southern European countries with a high incidence of temporary work – notably, Italy and Spain – have the largest share of youth *Left Behind*.

* It should be kept in mind, however, that the criterion of success here is employment, not wages or fringe benefits. If the latter was used, the United States might look somewhat less “successful” compared with Europe.

The current economic downturn is putting these disadvantaged youth under even greater stress

The economic downturn is pushing more and more youth, even those who would have performed well in good times, into the group of “poorly integrated new entrants” and possibly even into the group of “youth left behind”.

The OECD *Jobs for Youth* review clearly shows that the school-to-work transition is smoother in low-regulated labour markets where “first jobs”, even non-standard ones, act rapidly as a stepping stone to a career. The transition appears also easier for youth having obtained at least an upper secondary qualification. Finally, apprenticeship training and other vocational education programmes appear to be efficient school-to-work pathways, particularly for secondary students, provided that the skills obtained are relevant to labour market needs. Indeed, one might argue that a dual system is a vital complement in a regulated labour market (e.g. in Germany, Austria, etc.) in order to secure a successful school-to-work transition for most youth.

4. Key short-term challenges and policy options

The current economic downturn reinforces the pressure for governments to intervene vigorously in the youth labour market. In the short term, the main objective is to ensure that both new entrants and those who already encountered difficulties in getting a job remain connected to the labour market. In this context, it is of paramount importance that governments act quickly to provide more job-search assistance and guidance for all youth experiencing difficulties in finding a job in the current labour market, and target well-designed active labour market programmes to the most disadvantaged of them.

The current economic downturn can also be an opportunity to tackle some of the underlying problems that many youth face in their transition from school to work and early career progression. In particular, governments should prevent youth from dropping out of education and address some of the asymmetries in the labour markets present in many OECD countries that put youth at a disadvantage. In a number of countries, the main demand-side barriers faced by youth that need to be tackled include high labour costs, partly due to relatively high minimum wages, unbalanced employment protection legislation between temporary and permanent contracts and, for youth from visible minorities, persisting discrimination practices.

Prevent the current generation of school-leavers becoming a “lost generation”

There is vast evidence suggesting that failure in the transition from school to work could have long-lasting scarring effects. It is thus very important to help the new entrants in the labour market in their transition to a job or, if that proves to be difficult, to help them strengthen their skills so as to enhance their chances of finding a job when the economy starts recovering.

The experience of Japan during the so-called “lost decade of the 1990s” is instructive of the long-lasting effects for the generation of youth entering the labour market during the crisis.⁷ There is a risk that the Japanese experience could be replicated in some OECD countries during the current downturn as employers may be tempted to hire “fresh” graduates rather than graduates trapped in long-term unemployment or persistent inactivity when the economy recovers. School-to-work programmes could help the current generation of school-leavers to get off to a good start.⁸ For example, the United Kingdom has recently set up measures in order to “not write off a generation of young people, or allow their talents to be wasted” (Box 3).

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7. With the declining importance of lifetime employment and school-firm linkages in the transition process, youth unemployment rose significantly in Japan between the mid-1990s and the early 2000s, and the incidence of long-term unemployment for youth also more than doubled during this period. Furthermore, with the rise of labour market dualism, more and more young people in Japan were pushed into non-regular (temporary and part-time) jobs, for which firms are less likely to provide on-the-job training or fringe benefits (OECD, 2008g).
 8. Neumark (2009) indicates that a newer but growing literature on school-to-work transitions provides some evidence that school-to-work programmes (*i.e.* job shadowing, mentoring, school enterprise, tech prep, internships and apprenticeships) boost labour market attachment, skill formation, wages, and earnings.

Box 3. The recent UK Youth Guarantee

In April 2009, the UK government gave a guarantee in the 2009 budget that from January 2010 all young people under the age of 25 who have been unemployed for over a year will have a job offer, training or a paid work-experience place. It is expected that the proposal will benefit 250 000 young people and focus on job creation for young people in areas that have been significantly affected by the recession. Other proposals to help young people who are unemployed include a scheme called CareFirst offering 50 000 traineeships in social care to young people who have been out of work for a year or longer. The government will fund the creation of 150 000 jobs through a new Future Jobs Fund. The jobs will start to be available from the autumn of 2009 and will primarily be targeted at 18-24 year olds and other disadvantaged groups and areas with high unemployment. Through the fund, local authorities and third-sector groups will be able to submit bids for jobs to improve their local community. A further 100 000 jobs will also be funded by the government in growing sectors of the future and will be targeted at long-term unemployed young people. The government also made a commitment to ensure that all 16 and 17 year olds who want can stay on in further education for the next two years through the announcement of an extra GBP 250 million funding for schools and further education colleges to fund student places from September 2009.

The increase in the number of youth at risk of losing effective contact with labour market and permanently compromising their employment prospects and earnings capacity should be minimised. Outreach programmes are necessary because only the most motivated young people voluntarily come forward to participate in labour market programmes. These programmes should be promoted, preferably as soon as possible while at-risk youth are still in education, with the aim of ensuring that, when they eventually enter the labour market and show difficulties in integrating into employment, they could be offered support and effective safety nets are in place.

Countries could consider a number policy measures to support the new entrants in the labour market, including:

- *Ensure better co-operation between employment services and the education system to reach youth as soon as possible when risk of disengagement is detected.* Referrals from schools to the Public Employment Services (PES) are essential if youth disengagement is to be addressed at the earliest opportunity when success is most likely.
- *Provide early guidance to school-leavers in search of a job.* Youth outreach programmes should identify school-leavers who do not manage to find a job. They should be oriented to register with the PES, where a profiling process should be implemented quickly to determine who is job-ready and who should be activated early.
- *Extend job-search assistance measures for those who are job-ready.* It is essential that access to appropriate job-search assistance, training and similar measures is provided by the PES in the first weeks of unemployment.
- *Maintain those who are hard-to-place connected to the labour market.* A shift from a so-called “Work-First” approach to a “Learn/Train-First” approach could be considered for those who have shown major difficulties in finding a job. While it would be important to include an on-the-job component to learning and training programmes, public-sector jobs could also be offered temporarily to disadvantaged youth to acquire skills transferable to private-sector jobs (see *emplois passerelles* in France, Box 6).

Secure the safety net and the employment and training pathways of young workers

In a number of OECD countries, many of the youth laid off from non-standard jobs (temporary, on-call, seasonal, interim, short-part-time jobs) do not qualify for unemployment benefits and during the downturn, when the demand for temporary workers is limited, face a significant risk of moving into poverty. To address this problem, more than half of OECD countries have already moved to increase the income of job losers by increasing the generosity of unemployment benefits or extending coverage to those previously excluded. For instance, the United States has recently decided to increase federal funding to states to expand unemployment benefits to many more jobless people, including youth (Box 4). Similarly, the Japanese government has expanded the coverage of unemployment insurance by reducing from twelve to six the number of months of work required to be eligible and as a result increased the coverage of young workers.

Even in countries where the apprenticeship system is well established (Germany, Austria, Switzerland and Luxembourg), during an economic downturn many young people have trouble finding a firm to offer them an apprenticeship, particularly if they lack educational qualification and come from an immigrant background. Indeed there is a significant risk that firms will be even less willing to train an unskilled apprentice or could even break existing contracts. Young apprentices whose contract has been ended should receive help to complete their training, particularly when they are without qualification. Firms should be encouraged to train, hire and retain more unskilled apprentices because there is evidence that alternating study and on-the-job training is an effective pathway to enter the labour market and for low achievers to gain a qualification. Employers should have access to pedagogical and management assistance during the apprenticeship training period, particularly for apprentices without qualification. Exemptions to employer social security contributions and regional or central government subsidies for apprenticeship agreements should be given primarily to companies that take on unskilled apprentices. In addition, employers who hire an unskilled apprentice that they have trained could be given a temporary subsidy. Such a subsidy should be well designed and evaluated carefully to ensure that the expected benefits outweigh any deadweight and/or substitution effects involved when the firm takes an apprentice. One condition for an employer to be eligible for a subsidy could be, for instance, that the new apprentice contract is additional to the number of apprenticeship contracts he usually offers.

Box 4. Youth programmes funded by the Recovery Act in the United States

The US Department of Labor has recently announced a number of measures affecting youth including:

- Federal funding to states to expand unemployment benefits to many more jobless people, including youth, part-time workers and those who have cycled in and out of the work force, who are not covered in many states. As a result, the current additional funding may increase unemployment benefit coverage of youth.
- Expansion of existing programme of tax credits to apply to employers hiring disconnected youth (16-24).
- Development of youth activities. Particular emphasis is placed on creating summer employment opportunities for youth, but year-round youth activities are also envisioned. Age eligibility for youth services with these funds is raised from 21 to 24.
- More federal funding to the YouthBuild programme, *i.e.* an academic and vocational training programme for youth focusing on the construction sector.
- Additional funds for construction, rehabilitation or acquisition of Job Corps centres, *i.e.* residential training programme for 16-24 year-olds.

Countries could consider temporary measures to support young workers made redundant (or at risk) including:

- *Expand unemployment insurance (UI) eligibility conditions to better cover young workers.* It would be a welcome step, particularly in a time of economic crisis, to validate any period of youth employment, such as internships and dual programmes, in order to attain the number of months required to become eligible for UI. Any extension of coverage for UI should, however, be made conditional on active search following the “mutual obligations” principle.
- *Provide subsidies to promote apprenticeship for unskilled young people and support measures to help apprentices made redundant to complete their training.* Subsidies should be designed to minimise deadweight and/or substitution effects. Measures should be limited to youth without skills and to laid-off apprentices to help them to get a qualification. France and Australia, in particular, announced recently measures to secure the training of apprentices made redundant (Boxes 6 and 7).

Making active labour market measures for the least employable young people more effective and strengthening social protection for the most disadvantaged youth

If additional measures or spending are undertaken to help young people hit by the crisis, it will be important to emphasise the measures that work best. What seems to work well for disadvantaged youth is to implement a “mutual obligations” approach whereby, in exchange for income support, jobseekers (including youth) need to participate in training, job-search or job-placement activities.⁹ The Netherlands, for example, has decided to generalise as soon as possible this strategy at the municipal level (Box 5). In a context of weak labour demand, a shift from a Work-First to a Learn/Train-First strategy could be envisaged. Youth who do not have a diploma could be offered the possibility to participate in a training programme to obtain a recognised qualification. However, governments should not underestimate the difficulties of implementing such a skill-first welfare policy. The international evidence from evaluations of training programmes for disadvantaged youth is not very encouraging (Martin and Grubb, 2001), and it may be difficult to scale up training slots quickly while also ensuring quality and proper targeting. Pilot training programmes targeted towards low-skilled youth could be first experimented in areas facing high youth unemployment and rigorously evaluated before being more largely implemented.

9. Results from an experimental evaluation shows that in the municipality of Stockholm in Sweden, *mandatory* activation of welfare recipients reduced overall welfare participation and increased employment, in particular for young people aged 18-25 (Dahlberg *et al.*, 2009). The probability of receiving welfare is indeed largest among unemployed youths lacking eligibility for unemployment benefits. As the recession of the 1990s led to difficulties in financing the social welfare system, the right to welfare became subject to stricter means-testing, and the requirement of being available for work was extended to also include participation in internships and active labour market programmes.

Box 5. The Investing in Young People Act (WIJ) in the Netherlands

As from September 2009, all municipalities will be obliged to give young people between 18 and 27 who apply for social assistance benefits a personal offer consisting of work, training or a combination of both. The biggest cities have been implementing with success this strict activation strategy since the mid-2000s. Youth without basic vocational qualification will be incited to opt for training to get the equivalent of an upper secondary vocational diploma. In case of refusal, they will receive only a reduced benefit. The government wants to prevent dependency on social benefit but also help young people to be in a position, once the economy starts to gather pace, to play a full part in it.

A number of policy measures could be envisaged by governments to be more effective in helping the most disadvantaged youth such as:

- *Extend eligibility to social assistance for youth at high risk of marginalisation coupled with a rigorous “mutual obligations” approach.* To reconnect youth at risk of marginalisation, there should be an effective mix of so-called “carrots” (income support and effective ALMPs) and “sticks” (activation stance and moderate benefit sanctions).
- *Make sure that skill-upgrading services offered are tailored to the current profiles of jobless youth.* It is vital to avoid the back-to-the-classroom option as the latter might prove very counterproductive with disconnected youth. Keep prioritising short training programmes taught outside traditional schools combined with regular exposure to work experience.

5. The crisis as an opportunity to promote structural reforms

The crisis puts heavy pressures on governments from many fronts, while it has emphasised underlying structural problems in the youth labour market. It calls for remedial action that has been rigorously evaluated as effective and could be beneficial during the crisis but also well beyond. In many countries, actions are needed on several different areas, including education, training, employment and social policies to ensure that when their country emerges from the economic crisis, young people will be ready and equipped to work. Youth representatives could be associated in assessing the main challenges and policy options. The OECD review has identified in particular two mutually-reinforcing objectives (see below).

Ensure that everyone leaving the educational system is capable of gaining the skills needed on the labour market

An education system that helps children and youth from all backgrounds realise their full potential is vital for continued prosperity and for reducing labour market exclusion among youth. It is apparent in many countries that working while in school is becoming a more important and effective part of the school-to-work transition than the traditional model of *school first, then work*. The first policy objective ought to be to prevent young people from dropping out of school in the first place. Second, youth at risk of dropping out of school and low achievers should receive a second-chance through apprenticeship (see e.g. the French emergency plan, Box 6) to acquire skills needed on the labour market. Third, students should receive financial incentives such as performance-based scholarships conditioned on combining work and study to facilitate their school-to-work transition and obtain the skills the economy will need in the near future.

Box 6. Promote apprenticeship and combined work and training opportunities and create employment programmes for disadvantaged youth in France

The emergency plan for youth employment launched in April 2009 in France aims to:

- i. Facilitate the school-to-work transition by promoting apprenticeship and combined work and training opportunities. Any company that recruits a young apprentice before end June 2010 will be exempt from paying social security charges for that person for a period of one year. Furthermore, small enterprises (with fewer than 50 employees) will receive an additional, direct subsidy of EUR 1 800. The government will also finance 170 000 new *contrats de professionnalisation* by mid-2010, up from 145 000 in 2008. Under this type of contract, work experience is alternated with formal training. As an incentive for companies to offer these contracts, the plan proposes a direct one-off subsidy, worth EUR 1 000 for each person aged less than 26 who signs up. If the person has not achieved an educational qualification equivalent to the *baccalauréat* school certificate (academic or vocational), the subsidy is doubled to EUR 2 000.
- ii. Promote the transformation of internships into permanent employment contracts (*contrats à durée indéterminée*, or CDIs). Firms making this change before the end of September 2009 will receive a payment from the state of EUR 3 000 per head.
- iii. Provide additional training and employment opportunities for youth far removed from the labour market. The government will finance jointly with the PES 50 000 training programmes for unskilled youth to help them gain a qualification and will subsidy 50 000 additional hirings in the private sector and 30 000 additional contracts in the public sector, both targeted towards disadvantaged youth. The latter measure refers to the creation of *emplois passerelles*. These subsidised contracts in the public sector at the local level are geared to the acquisition of transferrable skills that can be put in good use in the private sector (e.g. computing skills, childcare and property management).

Experience shows that in an economic slowdown, young people are more likely to stay in education or undertake studies rather than look for work.¹⁰ Policy initiatives should seek to capitalise on this trend. In Australia, for example, the economic downturn is considered explicitly as an opportunity to improve educational attainment while fighting unemployment (Box 7). More teenagers should be encouraged to stay in education past the age of compulsory schooling in order to boost their skills and improve their long-term prospects for when the economy recovers. Compulsory longer schooling alone is however no panacea particularly for teenagers at risk of disengagement from school and having difficulties with authority and compulsion.

Provided that it is accompanied by measures to diversify educational choices, in particular through apprenticeship and focuses on the acquisition of a recognised qualification that is valued by employers, rather than simply spending more time in a classroom, measures to encourage longer stay at school have proven effective in ensuring youth leave education with a minimum skill level. Extending the schooling period could be achieved in different ways. Some countries have raised the school-leaving age. This is the case, for example, in the Netherlands, where since 2007 a law has required 18-year-olds who have not acquired a two-year diploma from the 2nd cycle of secondary vocational education to follow a work-study programme. In England also, the Education

10. Evidence from previous recessions suggests that many youth facing a high risk of unemployment tend to return to full-time education (Bell and Blanchflower, 2009).

and Skills Bill requires for young people a flexible participation in education and training until they are 18 or until an upper secondary qualification is obtained, whichever is earlier. The changes will come into force gradually, requiring youth to participate until they turn 17 from 2013 and until they turn 18 from 2015. In 2006, the Province of Ontario in Canada raised the age of compulsory learning from 16 to 18 and provided a range of positive incentives to stay on in schooling and to achieve a qualification in its Student Success Strategy.

Box 7. The economic downturn as an opportunity to improve Australia’s educational attainment while fighting unemployment

The new policy thrust in Australia emphasises education and training rather than allowing young people to languish on dole queues. States and territories agreed on April 2009 to bring forward from 2020 to 2015 the goal of having 90 % of under-25 year-olds having completed the equivalent of an ISCED 3 qualification. The government is also committed to change the participation requirements for income support for youth aged 15 to 20 by making participation in education and training the single most important precondition for receiving income support. Employers will be financially encouraged to recruit and retain new apprentices and trainees through a completion payment (Securing Apprenticeships wage subsidy). Apprentices and trainees who have lost their jobs should receive help to continue with their training by enabling them to complete the off-the-job component of their training arrangements with the PES or a private provider. These incentives will be available for two years until the end of December 2010. Tenders for new government-funded infrastructure projects will be given preference if they can demonstrate a commitment to employ new trainees and apprentices. More pre-vocational training places will be made available for vulnerable young jobseekers.

A number of policy measures could be envisaged by governments to strengthen the skills of school-leavers, including:

- *Do everything possible to avoid school drop-outs.* No youth should leave the education system without a recognised qualification. This may imply leaving school at 17 or 18 or even 19 in some countries. It would be important to make sure drop-outs receive special attention from the education authorities to ensure they remain engaged in, or re-connect with education through the completion of an upper secondary diploma or its equivalent, preferably with an on-the-job training component.
- *Promote the combination of work and study.* The experience of combining work and study through apprenticeships, internships and student jobs facilitates labour-market entry. School-based education and academic fields of study could be professionalised through the use of compulsory on-the-job internships. During the current economic downturn, governments should at least prevent such positions to decrease.
- *Offer every youth a “second chance at a qualification”.* A deferred right to training should exist for young people who have left the school system without basic skills, a qualification and/or a diploma to correct the inequalities inherited from school. Far from correcting those inequalities, the prevailing practice in continuous training usually reinforces them in OECD countries. There is a need to strengthen access to diplomas and to all professional certifications in other ways, in particular by the validation of job experience.

Tackling the demand-side barriers to youth employment

The economic downturn may also be an opportune time to reconsider some of the policy and institutional settings that, by reinforcing dualism in the labour market, tend to penalise youth. One challenge is that of reducing the cost of employing low-skilled youth. Almost half of the OECD countries with a statutory minimum wage (nine out of 21) have an age-related sub-minimum wage to facilitate access of low-skilled youth to employment. Others have reduced significantly the social security contributions paid by employers for low-paid workers. Another option would be to promote apprenticeship contracts for low-skilled youth, where the apprenticeship wage is lower than the minimum wage because it implies a training commitment for the employer.

Another challenge is how to promote a smooth transition of youth from entry jobs to more stable and rewarding ones. In those countries with large differences in the stringency of regulations for temporary (or other atypical job) contracts and the permanent ones, many youth tend to be trapped into precarious jobs that do not offer clear career prospects for a long period. While reducing the differences in the provisions associated with different types of contract would have positive effects for many low-skilled workers and those with intermittent employment spells, youth are likely to be among the main beneficiaries. There should be a rebalancing of employment protection so as to encourage that youth (as well as other workers with limited work experience) can gradually move from entry jobs that are very often atypical to career employment.

A number of policy measures could be envisaged by governments to push forward with the necessary reform to tackle demand-side barriers, including:

- *Actively encourage the mentoring of young people from immigrant backgrounds.* The programme that has proved most beneficial in the OECD countries is mentorship (OECD, 2007e, 2008i). Mentors could provide young people from immigrant backgrounds with information about the “rules of the game” and about the way to behave during interviews and on the job, and should reassure employers. Mentorship, which draws on volunteers who are familiar with the world of business or government, should be broadly extended. But it is also important to fight overt discriminatory behaviour directly.
- *Reduce the cost of employing low-skilled youth.* One option would be to introduce a youth sub-minimum wage in those countries with a relatively high and universal statutory minimum wage where such a sub-minimum wage does not exist. Alternatively, a reduction of social security contributions paid by employers for low-pay workers could be envisaged, bearing in mind the need to finance such reduction with higher revenue from other sources. Another option would be to promote low-skilled youth apprenticeship contracts that provide a wage that is lower than the minimum wage as the contracts imply a training commitment from the employer.
- *Continue efforts to reduce labour-market duality overall.* Reducing the gap between regulations for temporary and permanent contracts will likely contribute to promote the smoother transition of newcomers, including youth, from entry jobs with short duration to more stable jobs that offer a career prospect. This reduced labour-market duality should go hand in hand with the development of active labour market measures as part of a shift from protecting jobs to protecting workers following a “flexicurity” framework.

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