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Rising Youth Unemployment During The Crisis: How to Prevent Negative Long-term Consequences on a Generation?

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Stefano Scarpetta is the Head of the Employment Analysis and Policy Division at the OECD's Directorate for Employment, Labour and Social Affairs. Anne Sonnet is the Youth Project Leader and Thomas Manfredi is a statistician at the same directorate and division. Comments, suggestions and advice from Martine Durand, Chang-Hun Han, John P. Martin, Glenda Quintini, Vincent Vandenberghe, other OECD colleagues and the participants to the OECD Ministerial are gratefully acknowledged. The views expressed in this paper are those of the authors and do not necessarily reflect those of the OECD or of its member countries.

SUMMARY

The global economic crisis has hit youth very hard. In the OECD area, the youth (15-24) unemployment rate rose by 6 percentage points in the two years to the end of 2009, to reach almost 19%. There are currently nearly 15 million youth unemployed in the OECD area, about four million more than at the end of 2007. And in countries like France and Italy, about one active youth in four is unemployed, while in Spain more than 40% of them are jobless.

An economic recovery is already ongoing in a number of OECD countries, but the short-term prospects for youth unemployment in the OECD countries remain rather gloomy. The recovery is expected to be rather shallow in 2010 and to strengthen only in 2011. And given the large spare capacity accumulated by many firms during the recession, job creation is likely to lag significantly behind this modest recovery. In this context, the youth unemployment rate is expected to stay at a high level over the next two years and many unemployed youth are likely to experience a prolonged period of joblessness.

Coping with a job loss in a weak labour market – when job offers are scarce and competition among jobseekers is fierce – is difficult for anyone. But for disadvantaged youth lacking basic education, failure to find a first job or keep it for long can have negative long-term consequences on their career prospects that some experts refer to as "scarring". Beyond the negative effects on future wages and employability, long spells of unemployment while young often create permanent scars through the harmful effects on a number of other outcomes, including happiness, job satisfaction and health, many years later.

After a review of youth labour market developments in the OECD countries and the identification of key underlying structural issues, this paper discusses what governments could do to minimise the possible scarring effects of the crisis on youth and thus avoid a lost generation. About 30-40% of school-leavers in the OECD are estimated as being at risk, either because they cumulate multiple disadvantages (the group of so-called "left behind youth") or because they face barriers to find stable employment (the group of so-called "poorly integrated new entrants").

In the short term, a key policy priority is to provide adequate support especially to youth most at risk of losing contact with the labour market. In two-thirds of OECD countries school-leavers are not eligible to unemployment benefits unless they have worked a certain period of time (from four months in France to one year more generally). They can however receive social assistance in case of social distress as from the age of 18 (25 in France, Luxembourg and Spain). The first line of defence is to provide income support to the unemployed youth to help them sustain their job search. And in exchange for income support, following the "mutual obligations" principle, young jobseekers should be required to search actively for jobs and be given opportunities to participate in job-placement activities and in training programmes. The latter are especially suitable for low-skilled youth jobseekers so as to consolidate their skills and enhance their chances of finding a job when the economic recovery strengthens. That said, governments should not underestimate the difficulties of implementing a labour market policy based on *acquiring skills first, work later*, particularly for disadvantaged youth. The international evidence from evaluations of training programmes for disadvantaged youth is not encouraging, and when unemployment levels rise suddenly, it may be difficult to meet both quantity and quality objectives for training programmes.

A promising avenue is to promote more extensively apprenticeship contracts for low-skilled youth where they can acquire at the same time skills and work experience. In fact, apprenticeships could pay a

"double dividend": securing the transition towards employment and lowering labour costs compensated by a training commitment from the employer. In a downturn when employers are more reluctant to offer places and some apprentices lose their job before completing training, governments could provide subsidies to promote apprenticeship for unskilled young people and support measures to help apprentices made redundant to complete their training. To enhance the potential stepping-stone effect of any apprenticeship contract, employers should also be financially encouraged to hire their former apprentices on a more permanent basis at the end of the apprenticeship.

The jobs crisis may also be an opportunity to tackle underlying factors affecting the school-to-work transition. Further efforts should be made in many countries to ensure that no youth enters the labour market without a recognised and valued qualification. This may imply that teenagers should be encouraged to stay longer in education, provided that this is accompanied by measures to diversify educational choices and focuses on the acquisition of a qualification that is valued by employers. School drop-outs also need 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. Moreover, factors that tend to penalise youth even in good times should be reconsidered. Youth are over-represented among workers on temporary contracts. And while for many these contracts are stepping stones into permanent jobs, for others they tend to be dead ends. 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 good career prospect. Securing the school-to-work transition should go hand-in hand with lowering the cost of employing low-skilled youth in their first job.

RÉSUMÉ

Les jeunes ont été très sévèrement touchés par la crise économique globale. Dans la zone OCDE, le taux de chômage des jeunes (15-24) a progressé de 6.5 points de pourcentage entre fin 2007 et fin 2009 pour atteindre près de 20 % (niveau désaisonnalisé). Il y a actuellement environ 15 millions de jeunes au chômage dans la zone OCDE, soit environ 4 millions de plus que fin 2007. Dans des pays comme la France et l'Italie, environ un jeune actif sur quatre se retrouve au chômage, alors qu'en Espagne, c'est le cas pour plus de 40% d'entre eux.

La reprise économique est déjà manifeste dans un certain nombre de pays. Pourtant à court terme, les perspectives sont plutôt sombres pour le chômage des jeunes dans les pays de l'OCDE. En effet la reprise resterait hésitante en 2010 et ne deviendrait plus solide qu'en 2011. De plus, étant donné les capacités importantes inutilisées accumulées par les entreprises pendant la récession, on s'attend à ce que les créations d'emploi soient sensiblement retardées face à une trop faible reprise. Dans ce contexte, le taux de chômage des jeunes devrait rester à un niveau élevé durant les deux années qui viennent et de nombreux jeunes chômeurs sont susceptibles de connaître une période prolongée sans emploi

Perdre son emploi dans un marché du travail sans vigueur, alors que les offres d'emploi sont rares et que la compétition est intense entre demandeurs d'emploi, est une situation difficile à gérer pour tous les travailleurs. Mais pour les jeunes défavorisés qui n'ont pas acquis les savoirs de base, ne pas arriver à trouver ou garder un premier emploi peut avoir des conséquences négatives à long terme sur leurs perspectives de carrière ce que certains experts appellent des « stigmates ». Au-delà des effets négatifs sur leurs futurs salaires et leur employabilité, de longues périodes sans emploi pendant la jeunesse créent souvent des stigmates permanents de par leurs effets négatifs plusieurs années après sur différents aspects de la vie comme le bonheur, la satisfaction au travail ou la santé.

Après avoir présenté l'évolution du marché des jeunes dans les pays de l'OCDE et identifié les questions importantes qui se posent sur le plan structurel, ce document discute de ce que les gouvernements devraient faire pour minimiser les stigmates que la crise pourrait laisser aux jeunes ainsi que le risque d'une génération sacrifiée. Environ 30-40 % des sortants de l'école sont estimés comme plus particulièrement à risque parce qu'ils cumulent de multiples désavantages (le groupe des « laissés pour compte »), ou qu'ils sont confrontés à des barrières récurrentes pour trouver un emploi stable (le groupe des « débutants en mal d'insertion »).

A court terme, l'urgence est de fournir une assistance appropriée, particulièrement aux jeunes qui ont le plus de risque de perdre le contact avec le marché du travail. Dans les deux-tiers des pays de l'OCDE, les jeunes à la sortie de l'école n'ont pas droit à des allocations de chômage sauf s'ils ont travaillé une certaine période de temps (de quatre mois en France à un an plus généralement). Ils peuvent cependant avoir recours à l'aide sociale s'ils sont démunis socialement à partir de l'âge de 18 ans (25 ans en France, au Luxembourg et en Espagne). La principale ligne d'intervention est d'assurer une garantie de revenu aux jeunes chômeurs pour les aider à continuer à rechercher un emploi. En échange de cette garantie de revenu et selon le principe des « engagements réciproques », les jeunes demandeurs d'emploi devraient s'engager à chercher activement un emploi et se voir offrir des possibilités de participer à des dispositifs leur apportant de l'expérience professionnelle et à des programmes de formation. Ces derniers sont particulièrement indiqués pour les jeunes demandeurs d'emploi peu qualifiés de manière à consolider leurs qualifications et améliorer leurs chances de trouver un emploi quand la reprise économique sera

vigoureuse. Cela dit, les gouvernements ne devraient pas sous-estimer les difficultés de mettre en œuvre une politique du marché du travail basée sur *acquérir des compétences d'abord, travailler après*, particulièrement pour les jeunes défavorisés. Les évaluations au niveau international des programmes de formation pour les jeunes défavorisés produisent des résultats peu encourageants. De plus, quand les niveaux de chômage augmentent soudainement, il peut s'avérer difficile de mettre en place des programmes de formation en nombre et en qualité suffisants.

Une voie prometteuse est d'augmenter de façon nette les possibilités de contrats d'apprentissage offertes aux jeunes peu qualifiés dans lesquels ils peuvent acquérir à la fois des qualifications et une expérience professionnelle. En fait, l'apprentissage pourrait apporter un « double dividende": sécuriser la transition vers un emploi qualifié et baisser les coûts du travail compensés par un engagement de formation de la part des employeurs. Quand l'économie ralentit, les employeurs sont plus réticents à offrir des places d'apprentissage et certains apprentis peuvent perdre leur emploi sans avoir terminé leur formation. Les gouvernements devraient alors offrir des subventions pour promouvoir l'apprentissage pour les jeunes non qualifiés et mettre en place des mesures pour aider les apprentis qui ont perdu leur emploi à terminer leur formation. Pour accentuer l'effet potentiellement de tremplin de tout contrat d'apprentissage, les employeurs devraient aussi être financièrement incités à embaucher leurs anciens apprentis dans un contrat plus permanent à la fin de leur apprentissage.

La crise de l'emploi devrait également être l'occasion de s'attaquer aux facteurs sous-jacents de la transition de l'école à l'emploi. Des actions supplémentaires pourraient être menées dans de nombreux pays pour s'assurer qu'aucun jeune n'entre dans la vie active sans être doté d'une qualification reconnue et valorisée. Atteindre cet objectif impliquerait que les moins de 20 ans soient encouragés à rester plus longtemps dans le système éducatif, du moment qu'ils puissent choisir entre une diversité de dispositifs d'apprentissage et que l'accent soit mis sur l'acquisition d'une qualification valorisée par les employeurs. Ceux qui abandonnent l'école ont également besoin de l'attention particulière des autorités de l'éducation pour assurer qu'ils ne perdent pas le contact ou renouent avec l'éducation en préparant un diplôme du deuxième cycle du secondaire ou un équivalent, avec de préférence une dimension de formation en entreprise. Il faudrait de plus se pencher sur les facteurs qui ont tendance à pénaliser les jeunes même dans les périodes de bonne conjoncture Les jeunes sont surreprésentés parmi les travailleurs en contrat temporaire. Même si pour beaucoup d'entre eux, ces contrats leur permettent de rebondir vers des emplois permanents, pour d'autres ils les font entrer dans la précarité. Réduire l'écart entre les règlementations des contrats temporaires et permanents pourrait contribuer à rendre plus fluide la transition des débutants, particulièrement des plus jeunes, de premiers emplois de courte durée vers des emplois plus stables qui offrent de réelles perspectives de carrière. Sécuriser la transition de l'école à l'emploi devrait s'accompagner d'une baisse du coût associé à l'embauche des jeunes peu qualifiés dans leur premier emploi.

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RISING YOUTH UNEMPLOYMENT DURING THE CRISIS: HOW TO PREVENT NEGATIVE LONG-TERM CONSEQUENCES ON A GENERATION?

1. Introduction

1. The financial and economic crisis is posing daunting challenges to young people in every country. School-leavers are competing with more jobseekers for fewer vacancies, and employers have become very selective in their hiring of new staff. Even for those youth already in the labour market but with temporary jobs, the short-term outlook is grim: they have been among the first to lose their jobs and are finding it particularly difficult to get another one (OECD, 2009a). More importantly, low-skilled youth, who even before the crisis faced multiple barriers in finding work, are now at high risk of long-term inactivity and exclusion.

2. The current crisis is exacerbating 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.[1] While governments must push forward with the necessary structural reforms, they are also struggling 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.

3. The short-term priority should be targeting youth most at risk of losing contact with the labour market and tackling the key underlining labour market problems that were affecting the transition from school to work for many young people 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.

4. This paper is organised as follows. Section 2 provides an overview of recent developments in the youth labour market of OECD countries. Section 3 highlights the main structural issues affecting the 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 discusses policy reforms that would be required to put youth on a better footing in the labour market on a more permanent basis.

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1. 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. The nine reviews undertaken in 2006-08 (Belgium, Canada, Korea, Netherlands, New Zealand, Norway, Slovak Republic, Spain and United Kingdom) took place against the background of a buoyant economy (OECD, 2007a, b, c, d; 2008a, b, c, d, f). The more recently released country reports (Japan in December 2008; Australia in April 2009; France in May 2009; Poland in November 2009; United States in December 2009 and Denmark in February 2010, see OECD, 2008g, 2009b, c, d, e and 2010) contain detailed recommendations on how to tackle youth unemployment problems in the context of the current crisis. The last country report on Greece will be released end-March 2010. A synthesis report highlighting the main issues and policy recommendations will be presented at a High-Level Policy Forum on *Jobs for Youth: Addressing Policy Challenges in OECD Countries*. This Forum jointly organised by the Norwegian Ministry of Labour and the OECD will take place on 20/21 September 2010 in Oslo, Norway.

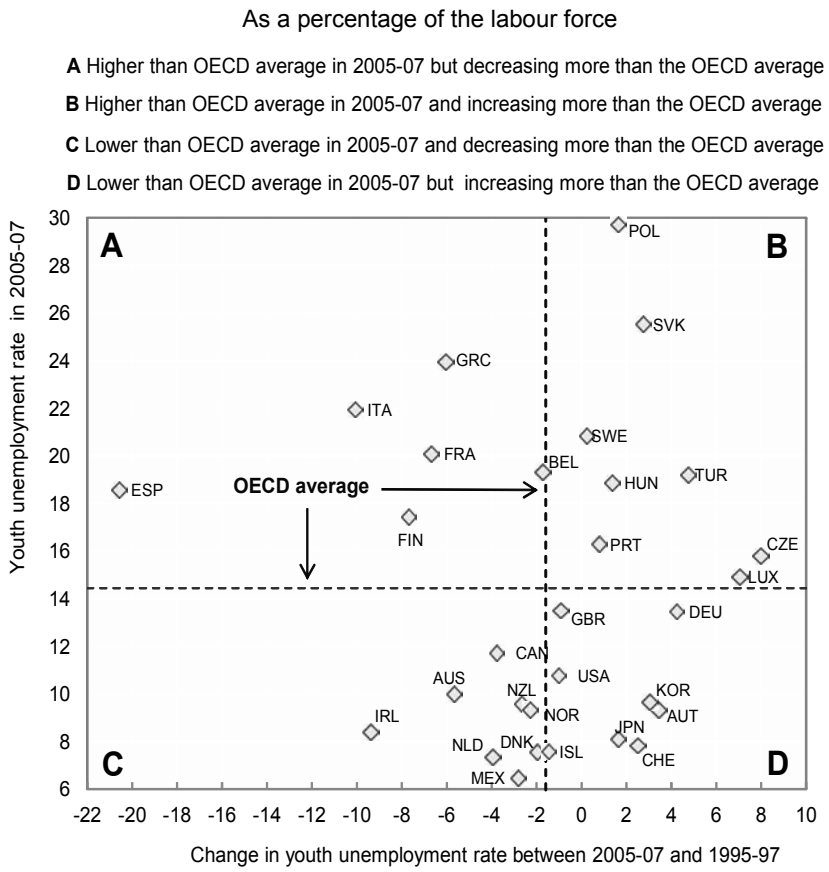
2. Recent trends in the youth labour market

Conditions before the economic crisis and its current impact

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

5. Following the generalised improvements in labour market conditions observed in many OECD countries over the decade to 2005-07, the youth unemployment rate declined slightly, from 16% in 1995-97 to 14.4% in 2005-07.[2] Many countries experienced a decreasing trend in youth unemployment (particularly Spain, Italy and Ireland and Finland in Quadrants A and C, 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 (Netherlands and Denmark in Quadrant C, Figure 1).

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



How to read the figure? Denmark located in Quadrant C had a youth unemployment rate of 7.8% in 2005-07 and experienced a decrease of 1.9 percentage points of its rate compared with 1995-97.

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 when otherwise specified.

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

6. 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).

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	8.7	11.4	9.7	7.7	7.6	10.8	11.2	11.8	10.2	13.4	11.2
School drop-outs (% of the age group)[d]	19.4	12.8	9.6	8.6	4.1	4.5	9.9	7.9	16.7	13.3	17.0	14.4
Relative UR low skills/high skills (ISCED<3/ISCED>3)[c]	3.0	3.5	2.6	2.6	3.6	-	5.8	4.5	2.0	2.0	2.4	2.2

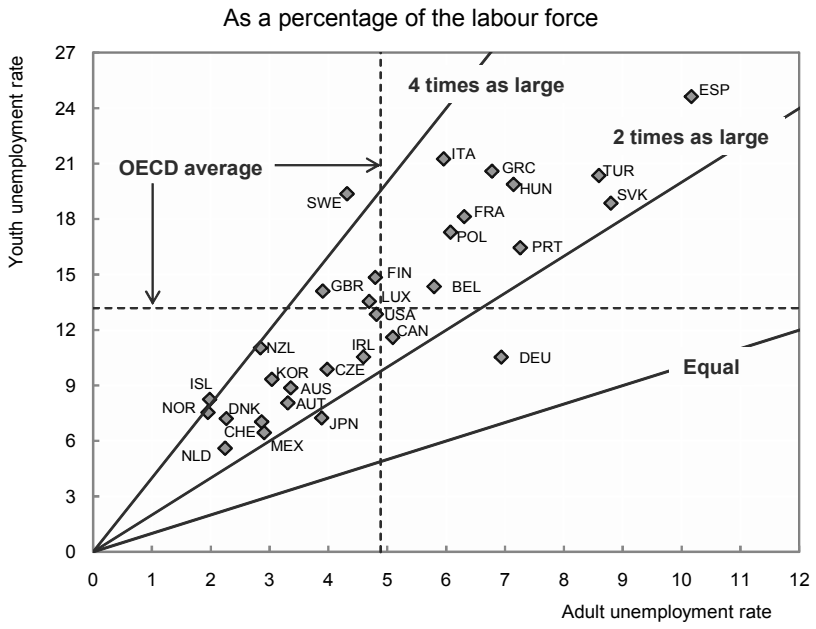
ISCED 3: International standard classification of education referring to upper secondary education; NEET: neither in employment, nor in education or training; UR: unemployment rate.

a) Un-weighted 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) Un-weighted average for the 30 OECD countries.
c) 1997 and 2007.
d) Share of youth not in education and without an ISCED 3 educational attainment; 1997 and 2007; 2003 instead of 2007 for Japan.
Source: National labour force surveys; and *OECD Education database*.

7. In 2008, the youth/adult unemployment ratio was 2.8 on average in the OECD area, with large differences across countries (Figure 2). In fact, all the countries are located above the line where youth face the same risk of unemployment than adults. Germany has the lowest ratio (1.5), largely because of a rather successful apprenticeship system that ensures a relatively smooth transition from school-to-work for most youth (Duell, 2008).The ratio was between 2 and 3 in most OECD countries, between 3 and 4 in seven countries (Denmark, Finland, Italy, Korea, New Zealand, Norway and United Kingdom) and above 4 only in Iceland and Sweden. Young workers are disproportionately affected by labour mobility in Sweden because the majority of young workers are on temporary contracts and the "Last-in First-Out" rule is strictly enforced in case of lay-offs (OECD, 2008h).[3]

3. See also the OECD report on "Learning for Jobs in Sweden" which stresses that upper secondary vocational education and training (VET) in Sweden does not succeed in making 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 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 compared with three times in Greece and twice in Japan.

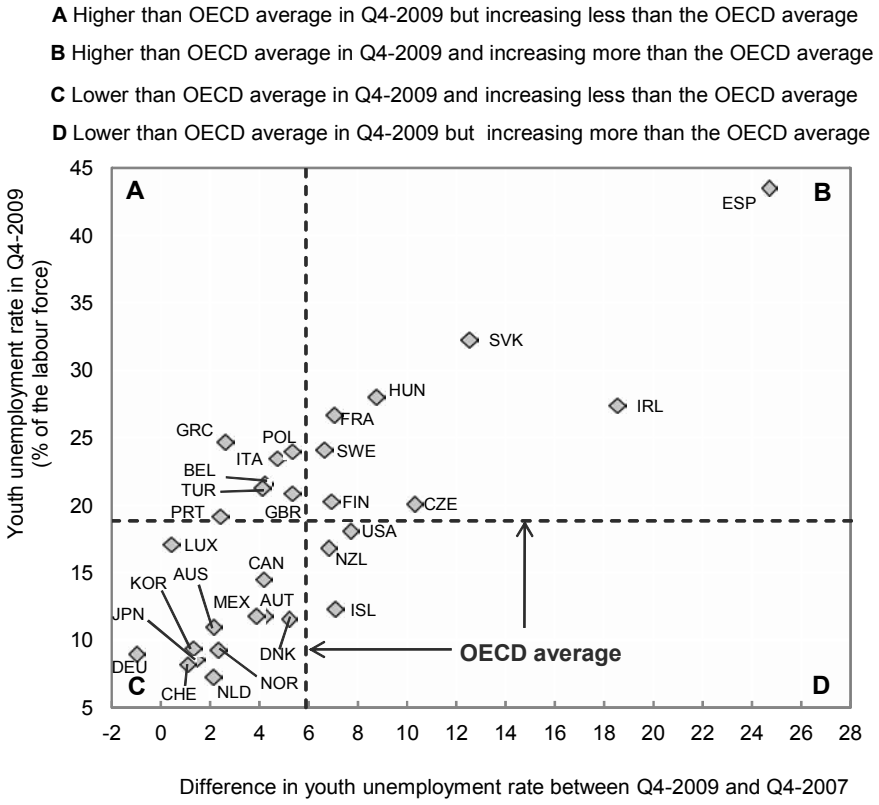
Source: National labour force surveys.

…and they have already been hard hit by the recession

8. Available statistics up to the fourth quarter of 2009 for most countries suggest a marked increase in youth unemployment since the recession began, up 18.8% in the OECD area (Figure 3).[41] This average rise of 5.9 percentage points over the past two years is well above the comparative hike in total unemployment (2.5 percentage points). It implies that nearly 4 million youth have joined the ranks of the unemployed during the crisis. 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 respectively 24.7 and 18.5 percentage points increase in youth unemployment rates compared with the fourth quarter of 2007 (Quadrant B, Figure 3). In Spain, most of the job losses were recorded among workers on temporary jobs, many of whom are youth.

4. The figures are non-seasonally adjusted. The corresponding seasonally-adjusted youth unemployment rate is 19.7%. The estimated change in youth unemployment refers to the period from the third quarters of 2007 and of 2009 for Australia, Greece, Iceland, Italy, Mexico, New Zealand, Norway, Turkey and United Kingdom and between the fourth quarters of 2007 and of 2009 for all other OECD countries.

Figure 3. **Significant deterioration of the youth unemployment rate in 2007-09**[a]



How to read the figure? The youth unemployment rate reached 43.5% in Spain (located in Quadrant B) in the fourth quarter of 2009, an increase of 24.7 percentage points since the fourth quarter of 2007.

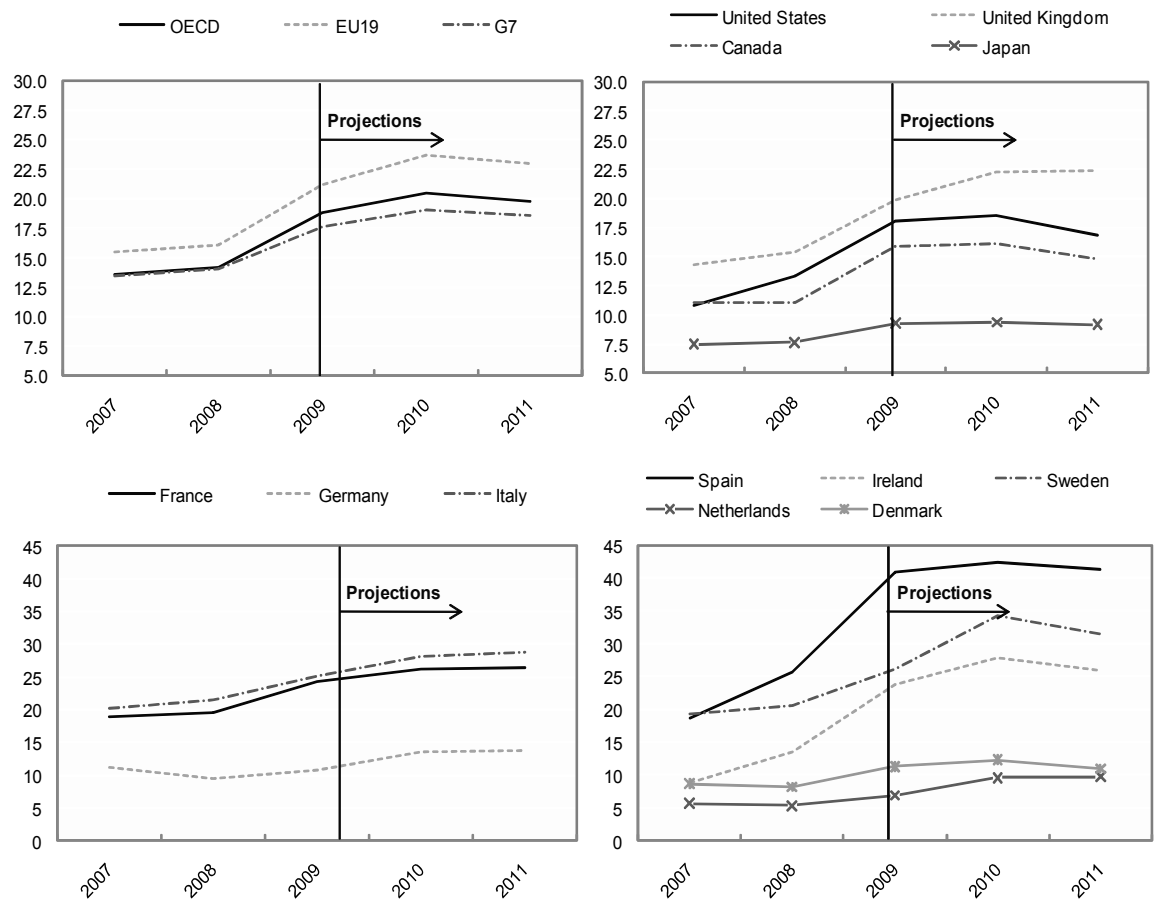
a) Non-seasonally adjusted rates referring to the fourth quarter for all countries, except for Australia, Greece, Iceland, Italy, Norway, Turkey and United Kingdom for which data refer to the third quarter.
Source: National labour force surveys.

Youth unemployment is expected to remain high in 2010 and 2011…

9. Figure 4 presents estimates of the likely evolution of youth unemployment rates in 2010 and 2011. These estimates are based on the latest OECD economic projections in November 2009 (OECD, 2009f) and on the assumption that the youth to overall unemployment rate remains constant at its level on the third quarter of 2009 throughout the projection period. Youth unemployment rates could reach in 2010 on average 19% for G7 countries, 20.5% for OECD countries and about 24% for EU countries (Figure 4). It represents a hike respectively of 6, 7 and 8 percentage points since the onset of the crisis in 2007. Among G7 countries, Japan is expected to experience a rather stable youth unemployment rate in 2010 and 2011, while some easing is expected in the United States and Canada, but only from the second-half of 2010. In the other four G7 countries (France, Germany, Italy and United Kingdom), a slight further increase in the youth unemployment rate is expected over the next two years. The main message is that in OECD countries, in the early 2010s, youth unemployment rates should be everywhere much higher than their pre-crisis levels, in particular three times higher in Ireland and twice higher in Spain. Even the best performing countries such as Denmark and the Netherlands should experience in 2010 a significant increase in their youth unemployment rates before they stabilise at a two-digit level (around 10-11%) in 2011.

Figure 4. **Persistence of high youth unemployment rates in 2010 and 2011a**

Youth unemployment as a percentage of youth labour force



a) Projections of youth unemployment rates by country for 2010 and 2011 are based on the seasonally-adjusted youth unemployment rates for the third quarter of 2009 projected following the latest OECD projections by country of the total unemployment rate and holding constant the ratio of youth to total unemployment rate of the third quarter of 2009.
Source: National labour force surveys and OECD (2009f), OECD Economic Outlook, No. 86.

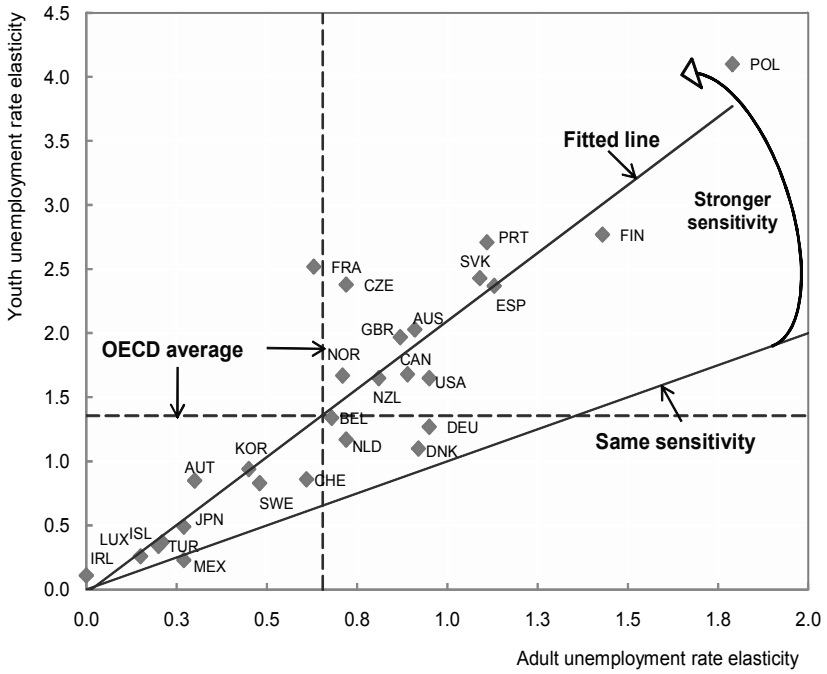
A number of factors make youth particularly exposed to a major downturn

Youth unemployment is more responsive to the business cycle …

10. 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 5). 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 high concentration in certain cyclically-sensitive industries such as construction (OECD, 2009b).

Figure 5. **Youth unemployment is more responsive to the cycle than adult unemployment**[a]

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



How to read the figure? Across the OECD, a 1 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.

a) 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

11. 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 signaling effects (*i.e.* periods of unemployment convey a signal of low productivity to potential employers). The longer the unemployment spell lasts, the more individual productivity will be affected and the lower the level of initial qualification, the longer the scarring effects are 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, and Mroz and Savage, 2006, using the US National Longitudinal Survey of Youth; Gregg, 2001, Gregg and Tominey, 2005, and Arulampalam, 2001, using the UK National Child Development Study). While the reduced employment effects are estimated to be short-lived by Ellwood (1982) and Mroz and Savage (2006) in the United States. Gregg (2001) suggests that youth unemployment does impose a long-lasting unemployment scar in the United Kingdom: an extra three months unemployment before age 23 led to another extra two months out of work (inactive or unemployed) between ages 28 and 33. But most studies agree that what appear to persist are the effects of lost work experience on wages. Mroz and Savage (2006) found that a six-month spell of unemployment at age 22 would result in an 8 percent lower wage at 23 and even at ages 30 and 31 wages were 2-3% lower than they would have been otherwise. And Gregg and Tominey (2005), controlling for education, region, wealth of the family and personal characteristics, found a scar from one year of youth unemployment at the age of 22 in the range of 13-21% twenty years later in the United Kingdom. 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.

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

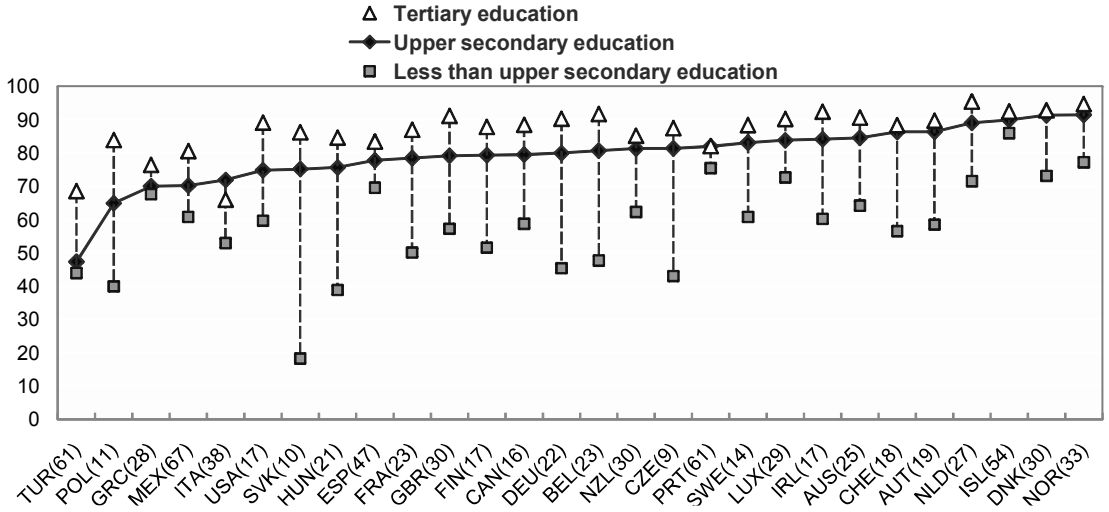
Education matters

Access to employment is closely associated with education achievements …

12. 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 an upper secondary diploma, which is in turn higher than that of those with no diploma, except in Italy (Figure 6). Many unskilled school-leavers are ill-prepared for to-day's labour market: the lack of 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, puts them at a disadvantage in the labour market.

Figure 6. **High disparity of employment rates of youth aged 15-29 having left education by educational attainment[a] and country, 2007**

As a percentage of youth aged 15-29 having left education



How to read the figure? In Italy, the employment rate of 15-29 out-of-school in 2007 was 66% for tertiary graduates, 72% for upper secondary graduates and 53% of youth without qualification.

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

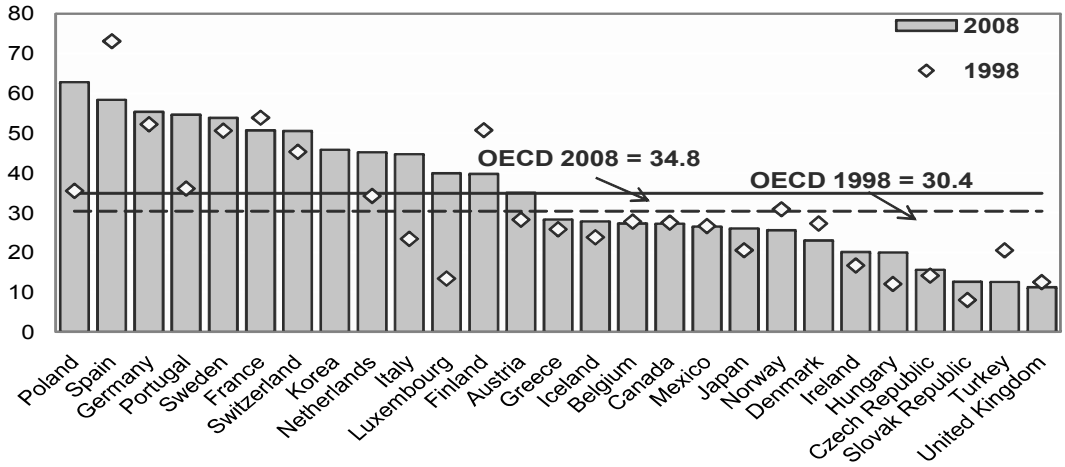
...but education also influences the quality of jobs youth have access to

13. 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, an increase of almost 5 percentage points since 1998 (Figure 7). The incidence of temporary contracts differs a lot across countries. At least half of all young workers have a temporary contract 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.

5. In Germany and Switzerland, temporary contracts are mainly apprenticeship contracts.

Figure 7. **The precariousness of youth jobs has increased in most OECD countries, 1998 and 2008[a]**

Temporary employment as a percentage of youth employment



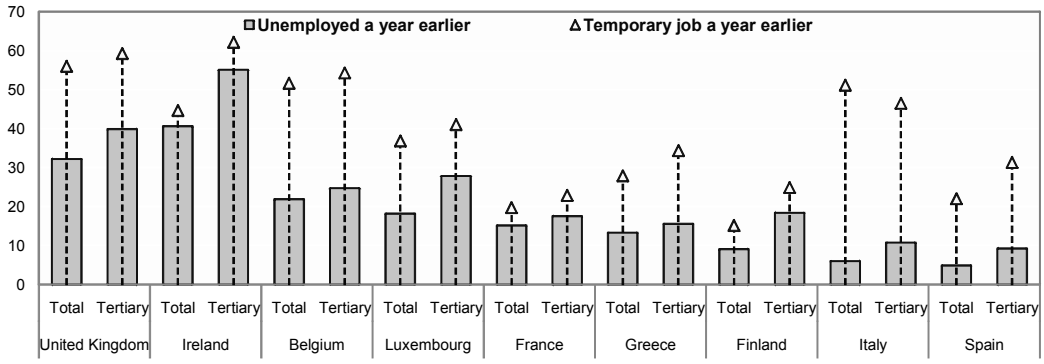
How to read the figure? The proportion of temporary employment in youth employment was 63% in 2008 in Poland and increased of 30.4 percentage points during the last decade.

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.

14. 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. For many youth, temporary contracts are more often a stepping stone to a permanent contract than a dead end.[6] Among the nine European countries where 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 8). This probability is generally higher for youth with tertiary education than for those with lower levels of education.

Figure 8. **Towards stable youth employment: impact of unemployment and the stepping-stone effect of temporary 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: European Survey on Income and Living Conditions (EU-SILC) 2005-2006 and the British Household Panel Survey for the United Kingdom.

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

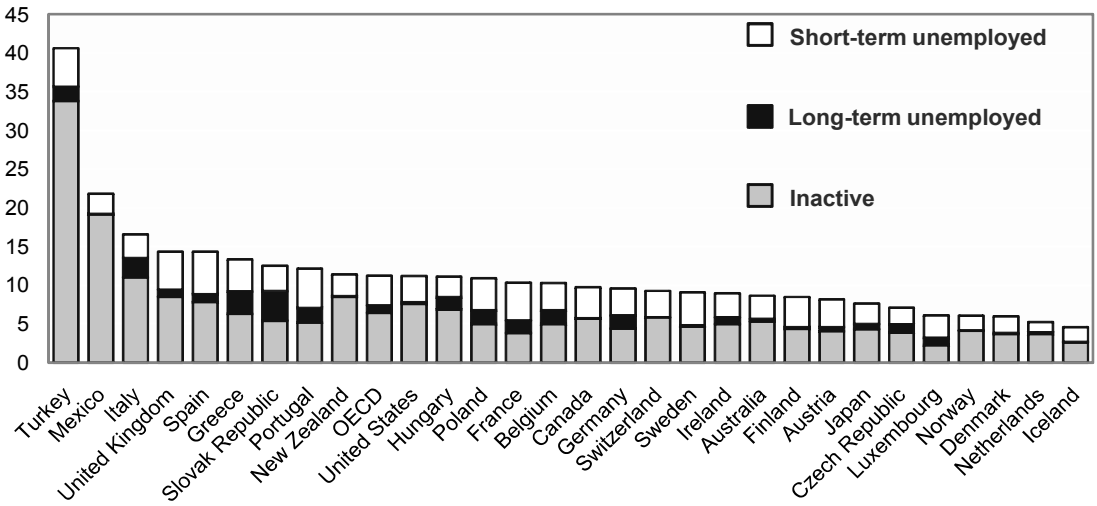
15. Only a small fraction of youth settles into career employment or persistent inactivity shortly after leaving education. Many youth move in and out of the labour market before finding a job that offers them career prospects and some stability. Others withdraw from the labour market for a prolonged period of time or return 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.

16. 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". There is a group of "youth left behind" in all the OECD countries but the group of "poorly-integrated new entrants" is particularly large in France, Greece, Italy, Japan and Spain.

17. While the characteristics of the group of youth left behind differ from one country to another, they share the common fact of cumulating multiple disadvantages. Youth in this group tend to lack a diploma, come from an immigrant/minority background and/or 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 11% of 15-24-year-olds on average in the OECD in 2007. Among them, two in three 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 9).

Figure 9. **NEET[a] youth at risk of losing contact with the labour market, 2007**

As a percentage of the youth population



How to read this figure? In the United Kingdom, 14.3% of youth were NEET in 2007 of which 34% short-term unemployed, 7% long-term unemployed and 59% inactive,

a) NEET youth refer to youth neither in employment, nor in education or training.
Source: National labour force surveys.

18. 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.

19. The second group of youth facing difficulties is the group of poorly-integrated new entrants. While these young people often have diplomas, they often find it difficult to find stable employment, even during periods of strong economic growth. 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.

20. About 30-40% of school-leavers in the OECD are thus estimated as being at risk of facing persistent difficulties in their access to stable employment. 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 an important 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.

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

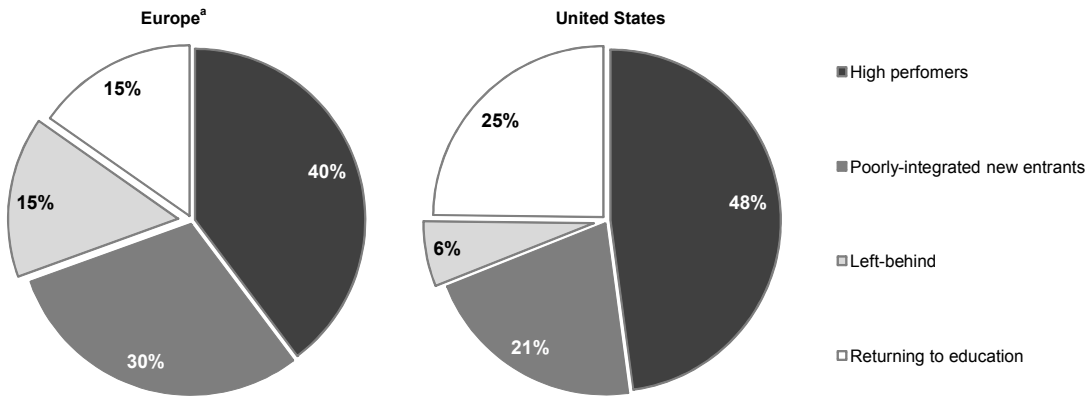
To account for the dynamic nature of youth labour market situations and identify the different pathways that youth can take after leaving secondary education, Quintini and Manfredi (2009) exploit monthly observations in the National Longitudinal Survey of Youth for the United States and the European Community Household Panel 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, signaling difficulties in settling on a promising career path; "Left-behind" youth spend most of the five years in unemployment or inactivity; "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 18 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.

(*cont.)*

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. The empirical analysis includes control for country-specific effects and other key individual characteristics.

Source: OECD Secretariat calculations based on the National Longitudinal Survey of Youth (NLSY) 1997 and European Community Household Panel (ECHP) 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 some European countries.

4. Key short-term challenges and policy options

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

21. 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". This reinforces the pressure for governments to intervene vigorously in the youth labour market.

22. 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.

23. 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 include high labour costs, partly due to relatively high minimum wages, unbalanced employment protection legislation between temporary and permanent contracts and, for youth from ethnic minorities, persisting discrimination practices.

Prevent the current generation of school-leavers becoming a "lost generation"

24. Most youth do settle, with more or less difficulty, into a good career path even during a steep downturn. However, the jobs crisis is pushing more and more youth, even those who have performed well in good times, into the group "at risk of becoming a lost generation". To prevent a failing transition from school to work from having long-lasting scarring effects on youth, it is very important to support their job search 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 economic recovery strengthens.

25. 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 economic recovery gains momentum. 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).

Box 3. **The Young Person's Guarantee in the United Kingdom**

In the 2009 budget, the government announced the introduction of the Young Person's Guarantee. Starting January 2010, this initiative guarantees every young person under the age of 25 who has claimed unemployment benefits for over a year: an offer of a job; work-focused training; or a place on a Community Task Force. 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. Job offers will be guaranteed either through existing jobs or through the so-called *Future Jobs Fund* scheme. Through this scheme local authorities and third-sector groups will be able to submit bids for jobs to improve their local community. Although the programme officially started in January 2010, some jobs were already available in Autumn 2009. A further 100 000 jobs will also be funded by the government in the fastest-growing sectors and will be targeted at long-term unemployed young people. 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 also made a commitment to ensure that all 16 and 17-year-olds can stay 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 extra student places from September 2009.

26. 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 tend to 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 promptly offered support and effective safety nets.

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, which are characterised by lower pay, even controlling for individual characteristics, as well as weaker safety nets and fewer opportunities to participate in on-the-job training (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.

27. Countries could consider a number of 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 involved in re-employment programmes.
- *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. Such a shift could be especially appropriate during an economic downturn when the opportunity cost of time spent on a training programme or in education is lower. 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 the *Future Jobs Fund* scheme in the United Kingdom, Box 3 and *emplois passerelles* in France, Box 7).

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

28. In eleven OECD countries a 20-year-old job seeker who has never worked can benefit from unemployment assistance benefits (Box 4). Most countries have established strict conditions of mutual obligations for young beneficiaries. For instance, in Denmark, starting in 1996 youth under age 25 without a qualification who registered in unemployment agencies received only a reduced unemployment benefit, the same amount as an education allowance, and must take part in a training programme.

Box 4. **Unemployment assistance benefits for a young job seeker**

Germany, Finland, Ireland and Sweden: full ordinary unemployment benefits.

Denmark: minimum benefit for young people who have contributed to unemployment insurance (voluntary) from the end of their studies for a duration of at least 18 months; benefit reduced by half for unqualified persons under age 25.

Australia, Belgium, Greece, Luxembourg, New Zealand and the United Kingdom: reduced unemployment benefits. Belgium: 50% of ordinary unemployment insurance minimum benefits. Australia, New Zealand and the United Kingdom: between 80% and 85% of the unemployment insurance benefits received by unemployed 40-year-olds. Luxembourg: 70% of the minimum wage (40% for those under age 18). Greece: EUR 73 per month for long-term-unemployed aged 20 29.

In some countries (Australia, Finland and New Zealand), unemployment insurance/unemployment assistance benefits granted to unemployed youth are reduced when they live with their parents. In Finland, the benefit is reduced based on the share of the parents' income above an income threshold.

Duration of the benefits: between five months (Greece) and 48 months (Denmark). In Germany, Australia, Belgium, Finland, Ireland, New Zealand and the United Kingdom, the payments are theoretically unlimited, but usually conditional on activation

29. In two-thirds of OECD countries, school-leavers are thus not eligible to unemployment benefits unless they have worked a certain period of time (from four months in France to one year more generally). They can however receive social assistance in case of social distress as from the age of 18 (25 in France, Luxembourg and Spain). In addition 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 (OECD, 2009b). For instance, the United States has decided to increase federal funding to states to expand unemployment benefits to many more jobless people, including youth (Box 5). 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.

30. During an economic downturn and early phases of the recovery, apprenticeships programmes can play a vital role in promoting access to jobs to youth. But even in countries where the apprenticeship system is well established (Germany, Austria, Switzerland and Luxembourg), employers become reluctant to offer apprenticeships, especially to those youth lacking educational qualifications and from an immigrant background.

31. Young apprentices whose contract has been ended should receive help to complete their training. 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 5 **Youth programmes funded by the Recovery Act of 2009 in the United States**

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

- Federal funding to states to include earnings gained in the most recent quarter in the assessment of unemployment benefit eligibility. In the states that have accepted the funding – 32 so far – the measure will expand coverage for the jobless with short work histories, notably youth but also part-time workers and those who have cycled in and out of the work force.
- Expansion of the existing programme of tax credits to apply to employers hiring disconnected youth (16-24).
- Additional funding for employment programmes. A total of USD 3 billion was devoted to Workforce Investment Act initiatives for adults, displaced workers and disconnected youth. Youth are well represented in programmes for all three groups and are expected to benefit significantly from the increased funding. More specifically, the age eligibility for disconnected youth services was raised from 21 to 24 and the government called for additional funding to focus on summer jobs programmes.
- 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 the construction, rehabilitation or acquisition of Job Corps centres, *i.e.* a residential training programme for 16-24 year-olds.

For more details, see OECD (2009e).

32. 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.* Half of OECD countries have temporarily extended the coverage of unemployment benefits in general since the beginning of the crisis. It would be a welcome step particularly during the downturn and early stages of recovery 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 on the part of the unemployed youth 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 7 and8).

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

33. 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 strengthen 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 6). 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 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.

Box 6. **The Investing in Young People Act (WIJ) in the Netherlands**

Since September 2009, all Dutch municipalities are 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.

9. Results from an experimental evaluation show 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 benefits is indeed largest among unemployed youths lacking eligibility for unemployment benefits. As the recession of the early 1990s led to difficulties in financing the Swedish social welfare system, the right to welfare benefits 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.

34. 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). Other countries could learn from the Dutch Investing in Young People Act promoting a "skills-first activation strategy" up to the age of 27 (Box 6). Australia has recently decided to make participation in education and training up to the age of 20 the single most important precondition for receiving income support (Box 8).

- *Make sure that skill-upgrading services are tailored to the current profiles of jobless youth.* Twenty-three of the 30 OECD countries have increased the provision of training available to jobseekers (OECD, 2009a*)*. It is vital to avoid the back-to-the-classroom option as the latter might prove very counterproductive with disconnected youth. In this context, priority should be given to training programmes taught outside traditional schools combined with regular exposure to work experience. The United States has decided to provide more federal funding for the refurbishment of *Job Corps Centres*, a residential programme delivering to disadvantaged youth a mix of adult mentoring, work/production experience and remedial education (Box 5).

5. The crisis as an opportunity to promote structural reforms

35. The crisis puts heavy pressures on governments from many fronts, while it has highlighted once again 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. The OECD Jobs for Youth 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

36. 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 7) 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 7. **From an emergency plan to a strategy "Acting for 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 who made 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 subsidise 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).

In September 2009, these employment measures were reinforced in the broader youth strategy "Acting for youth" dealing also with: improving guidance in school; preventing 17-18 year olds from dropping out of school; helping youth to become financially autonomous; and encouraging youth to become better citizens.

37. 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 8). 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 economic recovery strengthens. Compulsory longer schooling alone is, however, no panacea particularly for teenagers at risk of disengagement from school and having difficulties with authority and compulsion.

38. 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 increased 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 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.

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).

Box 8. **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 upper secondary (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 a registered training organisation. 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.

39. 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. The UK government commitment to ensure that all 16 and 17 year olds can stay in further education for the next two years goes in the right direction (Box 3). The decision made in Denmark that all pupils in lower secondary education will prepare an individual education plan in collaboration with their parents, the school and the youth guidance centre should help prevent teenagers from dropping out from school (Box 9).

- *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 period of labour market slack, governments should at least prevent a drop in the number of these work-study options. In this context, the US government decision to provide additional funding for summer jobs programmes during the crisis and early phases of the recovery is welcome to facilitate access of youth to on-the-job training (Box 4).

- *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.

Box 9. **Quick, intensive and focused approach towards youth in Denmark**

In November 2009, the Danish government and the three major political parties agreed on a series of policies designed to ensure a quick, intensive and focused approach towards youth aged 15-17, 18-19 and 18-29. These actions cover both the Ministry of Education and the Ministry of Employment.

Concerning the ***15-17-year-olds***, all pupils in lower secondary education will prepare an education plan in collaboration with their parents, the school and the youth guidance centre (the institution that has primary responsibility for initiatives in relation to the individuals under the age of 18). The education plan should lead to further education or describe what the young person will otherwise be doing and may include activities such as training, employment, internship, stay abroad or volunteer work. If pupils do not follow their education plan, their parents will risk losing child benefits. Additional resources have been provided for increased co-operation between youth guidance centres, educational institutions and the Public Employment Service (PES). The Ministry of Education and the Ministry of Employment will co-operate to develop a database, which will ensure a full overview of the education and training of each young individual. This will enable a quick identification of vulnerable young people and provide the information needed to offer a targeted effort.

Initiatives targeted at the ***18-19-year-olds*** focus on a package offering intensive contact with the PES and rapid activation. The package includes an individual interview after only one week of applying for welfare benefits, a job-search training course within the first two weeks and an active measure (an educational opportunity or work placement) offered no later than one month after the beginning of the unemployment period.

More generally for ***all youth aged 18-30***, the aim is to tackle long-term unemployment. In particular, the PES will propose a hiring subsidy in the private sector for young people under 30 who have been recipients of welfare benefits for more than 12 months. In addition, young people without qualifications will take a reading and writing test when they register as unemployed and the PES has been given resources to provide literacy and numeracy courses. The PES will also be obliged to refer new graduates aged under 30 to a private provider after only six weeks of unemployment (previously it was after 4-7 months depending on the level of education).

Tackling the demand-side barriers to youth employment

40. 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 (ten 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.

41. 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 as compared with 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, which are very often atypical, to career employment.

42. 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 OECD countries for youth with an immigrant background 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 by rigorous implementation of existing anti-discrimination legislation.

- *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 apprenticeship contracts for low-skilled youth that provide a wage that is lower than the minimum wage as the contracts imply a training commitment from the employer. This latter option is the one chosen in France (Box 7).

- *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 is particularly important in countries such as France, Greece, Italy, Japan and Spain where the group of "poorly-integrated new entrants" is large. The development of effective active labour market measures such as job-search assistance, involving short vocational training and in-work training, should aim to secure youth to get a firm foothold in the labour market following a "flexicurity" framework.

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