EMPLOYMENT AND TRAINING
PAPERS

7

The challenge of youth unemployment

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Foreword

This paper represents a contribution to the ILO's Action Programme on Youth Unemployment being undertaken in the 1996-97 biennium. The Action Programme is intended to: (i) raise awareness amongst constituents concerning the problems associated with the labour market entry of young people; (ii) to improve their understanding of the advantages and disadvantages of the principal policy and programme options for tackling the problem of youth unemployment; and thus, (iii) enhance the capacity of member States to design and implement policies and programmes for promoting youth employment. The Action Programme includes country case studies from all over the world as well as policy reviews concentrating on specific topics within the ambit of the youth unemployment "problem". The country case studies will be used as the basis for the first major output of the Programme, a comparative report on youth unemployment and youth employment policy. The second major output will be a policy manual outlining the implications of the different available policy options.

This paper presents an overview of the youth unemployment problem and youth employment policy principally from the European perspective although it is hoped that much of the comment and analysis is relevant to a much broader range of countries. Its intention is to raise issues rather than to provide a blueprint for policy. In the first part, which considers the nature and causes of youth unemployment, it is shown that the basic cause of youth unemployment is aggregate demand rather than high youth wages or the size of the youth cohort, and suggests that a succesful strategy for dealing with the problem must take this into account. In the second section, dealing principally with the examples of the UK and Germany, a number of factors are identified which influence the effectiveness of youth employment policy. In particular, it is found that precise targetting of programmes and the involvement employers' and workers' organisations as well as government in the design and implementation of policy are both important determinants of an effective policy.

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Acknowledgements

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Contents

1. The problem of youth unemployment

1.1 Some definitions

1.1.1 Who are the youth?

According to the standard UN definition, youth comprises the age-group between fifteen and twenty-four inclusive. In practice, the operational definition of youth varies widely from country to country depending on cultural, institutional and political factors[1]. In industrialised countries, the lower age limit usually corresponds to the statutory minimum school-leaving age. Whilst the upper limit tends to vary more widely. In Britain, for example, "Youth Employment Policy" generally refers to policies targeted at the 16-18 year old age group whilst in Italy the term is used to describe policies for people aged between 14-29 in Northern Italy and 14-32 in the South[2]. For the purposes of this paper the UN definition is used. Within the category of youth, it is also important to make a further distinction between teenagers and young adults, since the problems faced by these two groups are quite distinct.

1.1.2 What is unemployment?

Although it may appear obvious, it is important to begin by discussing briefly what we mean by unemployment. According to the ILO definition, which is now the most widely used definition, at least as regards the reporting of unemployment statistics, the unemployed are defined as those people who have not worked more than one hour during the short reference period[3] but who are available for and actively seeking work. Even with this fairly unequivocal definition, some cross-country differences may arise. For example, how are students treated? In most countries, students are treated as being outside the labour force, in others (e.g. Norway), if they are actively seeking work, they are included.

Furthermore, a number of normative questions arise concerning this definition. For example, is the one hour rule appropriate. Some national authorities would prefer to use a longer working period. Thus, the Netherlands have implemented a twelve-hour (per week) rule. That is, using this definition, a person is defined as unemployed if they have worked less than twelve hours in the reference week[4].

Another issue regards the treatment of those traditionally defined as outside the labour force. One might question the exclusion from the unemployed of discouraged workers. That is to say, people who wish to work but are not actively seeking a job since they see no possibility of obtaining gainful employment. Their position "outside the labour force" is purely a question of prevailing economic conditions. If and when the chances of finding work improve, at least some of these people will return to employment without ever having been defined as unemployed. I would thus argue that non-employment is possibly a more useful concept than unemployment. That is, the ratio of those neither in education or employment to the population (either including or excluding those in education). However, such a statistic is not widely reported and is, at least at present, impracticable.

[1] For an interesting discussion of the concept of youth in the South African context, see Seekings (1993).

[2] The distinction between Northern and Southern Italy arises due to the tendency to make employment policies more generally applicable in the relatively impoverished Southern part of the country.

[3] Generally the previous week or day.

[4] See Bochove (1994) for some justifications of this change.

To provide an example of the importance of these distinctions, table 1 presents information on the non-employed/population ratio and the non-employment rate of male eighteen year-olds and the male unemployment rates of the 15-19[5] year old age group. Even though the last rate is not strictly comparable to the other two since the age group used is wider, the differences in the rankings of countries for the three different indices are quite striking. The UK varies in position from seventh to fourteenth according to which index is employed.[6] Similarly France varies from sixth position to eleventh using the different indices. None of the countries in the table maintain the same ranking throughout and the rank correlation coefficients[7] between the unemployment rate and the non-employment ratio and

Table 1: Non-employment/population ration and non-employment rate for 18 years old and unemployment rates for 15-19 years old males, 1994

		Non-employment Population ratio 18-years old[1]		Non-employment rate 18 years old[2]		Unemployment rate 15-19 years old	
	Country	Ratio	Ranking	Rate	Ranking	Rate	Ranking
Europe	Belgium	13.0	9	59.9	14	9.5	2
	Denmark	4.4	1	12.4	1	9.9	3
	France	10.7	6	53.1	13	21.9	11
	Germany	7.8	4	14.2	2	6.2	1
	Greece	10.8	7	35.0	8	12.8	5
	Ireland	16.8	11	41.3	9	31.8	12
	Italy	15.2	10	45.5	11	33.0	13
	Netherlands	5.3	2	21.0	4	12.1	4
	Portugal	7.2	3	17.9	3	15.5[3]	6
	Spain	17.2	12	48.2	12	39.8	14
	United	23.5	14	34.4	7	21.1	10
Other	Australia	17.4	13	29.9	5	19.2	8
OECD	Canada	10.2	5	42.5	10	20.9	9
	United States[3]	12.0	8	33.4	6	18.4	7

Notes: 1) This is defined as: (unemployed not in school + inactive not in school)/total population of the age group.
2) This is defined as: (unemployed not in school + inactive not in school)/total population of the age group not in school.
3) Refer to 1993.
Source: OECD Economic Outlook 1996, Table 4.8 and 4.9 and OECD Database.

[5] As noted above the lower age limit varies from fourteen to sixteen according the statutory minimum school-leaving age.

[6] Indeed, these figures put the recent strong UK performance on unemployment into rather a different perspective.

[7] Spearman's rank correlation coefficient is defined as:

$$1 - \frac{6\sum D^2}{n(n^2 - 1)}$$

Where D is the difference in rank between the two series and n is the number of observations.

non-employment rate respectively are .61 and .54. Hardly a very close relationship between series which are supposedly representing the same phenomenon. Others argue for the use of the unemployment/population ratio (e.g. Gaude, 1997). Using this type of definition often radically changes the impression of the magnitude of the problem particularly when one looks at cross-country definitions. This is particularly true when one looks at teenage unemployment.

Table 2 presents a similar comparison to table 1. However, this time the two reported statistics are the unemployment/population ratio and the unemployment rate (1995) of 15-19 year old males. Once again there are striking differences between the two indices, even more so than in the previous table. The difference between the two indices depends on the labour force

Table 2: Unemployment population ratio, unemployment rates with rankings

	Country	Unemployment/ Population	Ranking	Unemployment rates	Ranking
Europe	Belgium	2.7	1	30.6	12
	Denmark	5.1	6	7.3	1
	France	3.0	3	24.1	10
	Germany	2.7	2	7.9	2
	Greece	3.7	4	21.8	9
	Ireland	7.0	8	28.0	11
	Italy	7.4	9	31.5	13
	Netherland	6.3	7	14.1	4
	Portugal	3.9	5	14.0	3
	Spain	10.4	13	46.0	14
	United Kingdom	9.5	10	19.5	6
Other OECD	Australia	10.9	14	19.7	7
	Canada	9.8	11	19.8	8
	United States	10.1	12	18.4	5

Source: OECD Database.

participation rate. Countries with relatively low labour force participation rates of teenagers will tend to score better according to the first index vis-a-vis the second.The rank correlation coefficient in this case is .16. Although unemployment/population ratios are more readily available, the statistic is perhaps less meaningful than the non-employment ratio or rate since, other things being equal, the more discouraged workers there are the lower will be this ratio.

Whatever the merits of the foregoing arguments, this paper continues to employ the conventional unemployment definition, since it is the only statistic which is widely available across a range of countries, and over an extended time period. Some comfort may be drawn from the fact that, at least within countries, movements in the series are likely to be highly correlated over time. It should , however, be born in mind that very often, when talking about, in particular teenage unemployment rates, we are in fact referring to a rather small group of people due to the low labour force participation of this group.

1.2. Characteristics of youth unemployment

1.2.1 Youth unemployment rates are higher than adult unemployment rates

The most obvious general labour market characteristic of youth unemployment is that its rate is higher than that of adults. Figures 1a and 1b illustrate this separately for males and females. The observation is true across a wide range of countries (not just in Europe or indeed in industrialised countries) and across gender. There are of course a few exceptions to the rule. In Germany female unemployment rates appear to increase with age whilst young male adults (20-24) have unemployment rates which are higher than both prime-age adults and teenagers. This "inverted-U" shape profile of unemployment is found in a number of other countries. One observes this pattern in Indonesia and the Philippines and for males in Finland, Portugal and Sweden.

Figure 1a: Male unemployment rates by age, 1994.

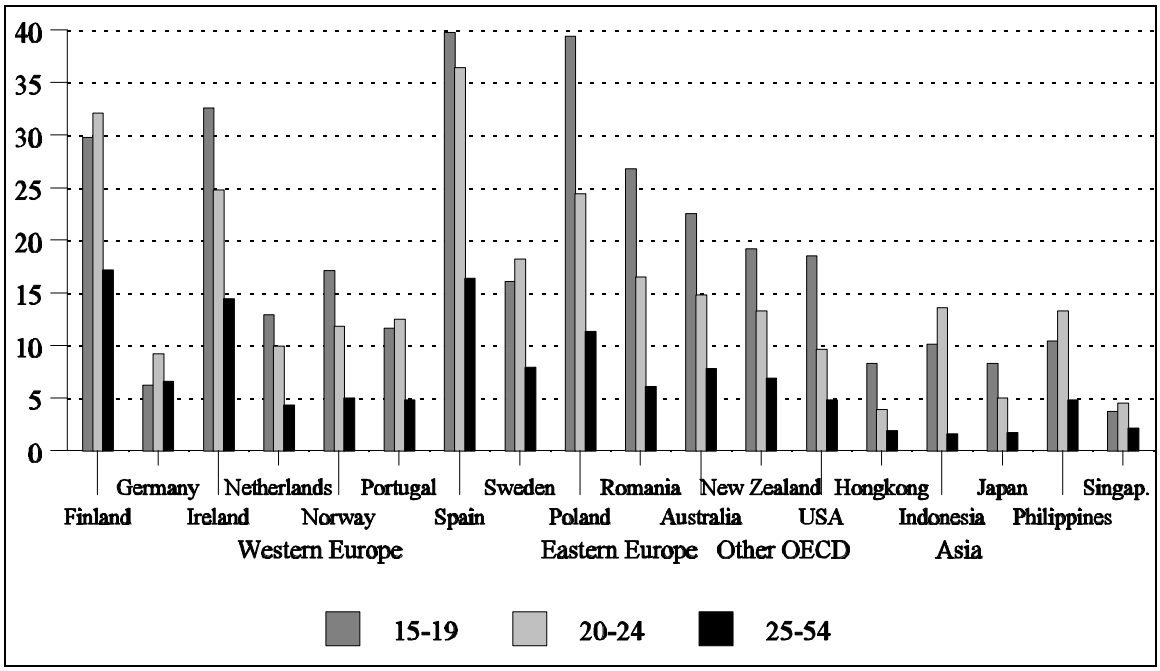
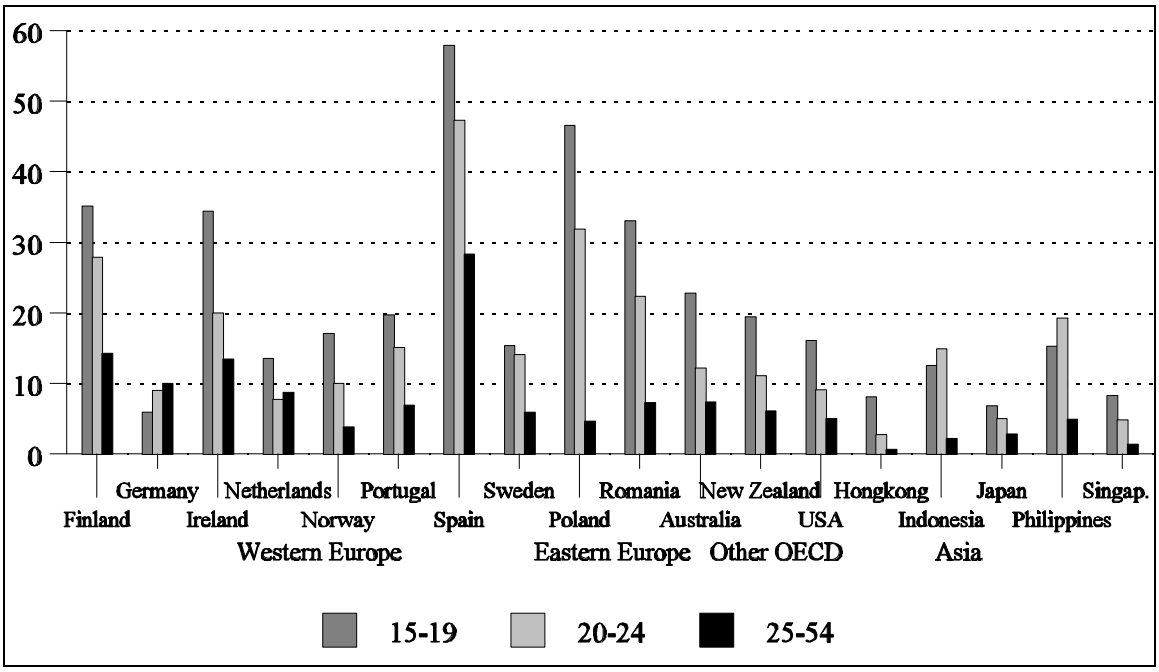


Figure 1b: Female unemployment rates by age, 1994.



Notes: 1) For France, data refer to 1993.
2) For the Netherlands, data refer to 1992.
3) For Indonesia, teenagers are defined as those aged 10-19.
4) For Norway, Spain, Sweden and the USA, teenagers are defined as those aged 16-19.
5) For Portugal, teenagers are defined as those aged 12-19.
6) For Romenia, teenagers are defined as those aged 14-19.

Source: ILO-comparable annual employment and unemployment estimates, ILO, Geneva, 1996

1.2.2 Variations in youth unemployment are closely related to variations in adult unemployment

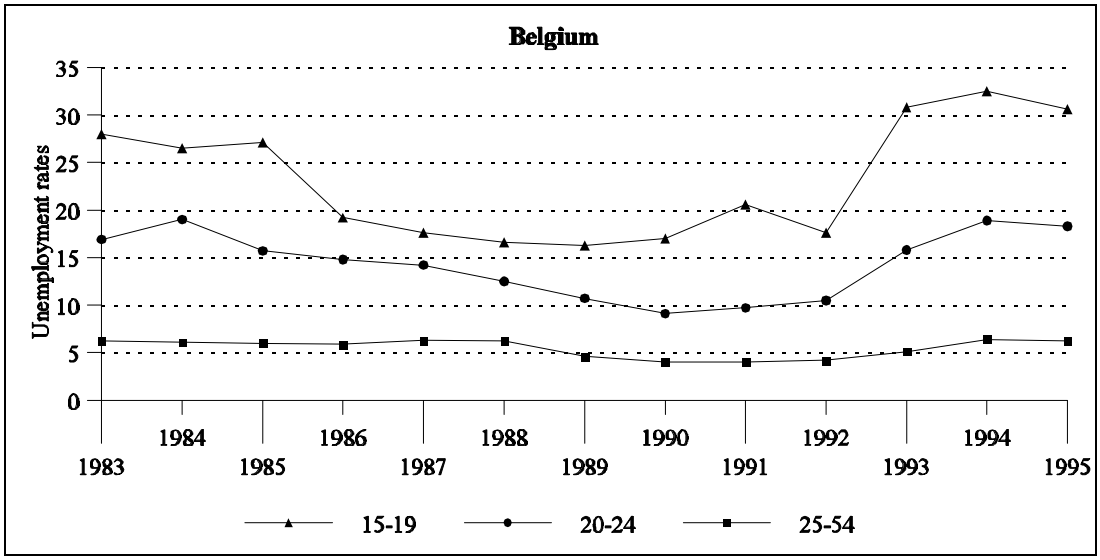
Figures 2a and 2b presents time series information on male and female unemployment rates by age for a number of European countries. The most obviously striking characteristic of the figure is the apparent close relationship between youth and adult unemployment rates across all of these countries. Gaude (1997) estimates the elasticity of the youth (15-24) unemployment rate with respect to the adult (25-54) rate across a range of countries[8]. There is a fair degree of cross country variation, however, in the majority of cases considered, he finds an R-squared of over .9 and an elasticity of the youth unemployment rate with respect to the adult rate of close to one. In other words, across a wide range of countries, variations in the youth unemployment rate are directly proportional to movements in the adult rate. Since, however, youth unemployment rates are almost invariably higher than adult ones, such variations are, in absolute terms, more substantial for youths than for adults. In other words, in absolute terms, youth unemployment rates vary more in response to variations in economic conditions than do adult rates, increasing more in recessions and recovering more quickly during booms.

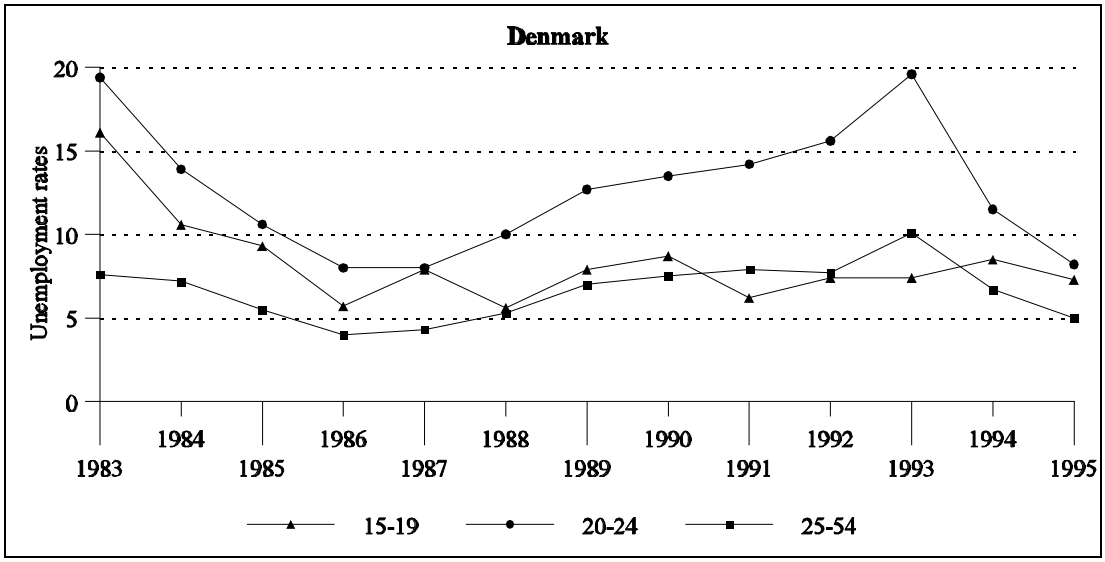
[8] Gaude estimates the following relationship separately for 17 countries:

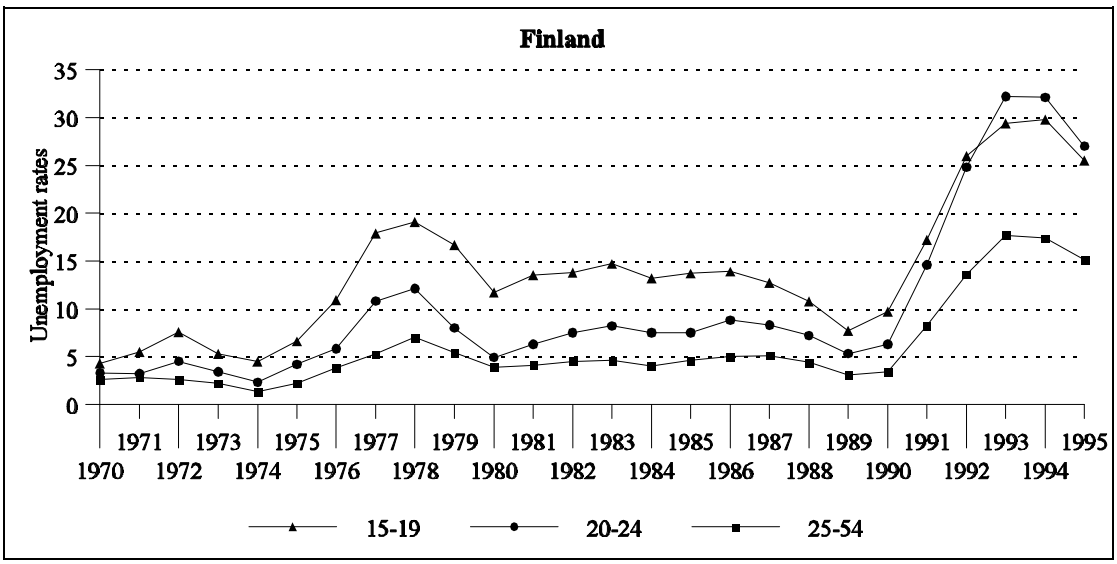
$$Ln(YUR)_t = \alpha + \beta Ln(AUR)_t + \varepsilon_\tau$$

Where YUR_τ is the youth unemployment rate, AUR_τ is the adult unemployment rate and Ln indicates natural logarithm. The countries covered are Australia, Canada, Finland, France, Germany, Hong Kong, Indonesia, Ireland, Japan, the Netherlands, New Zealand, Norway, the Phillippines, Portugal, Singapore, Spain, Sweden and the USA.

Figure 2a: Male unemployment rates by age







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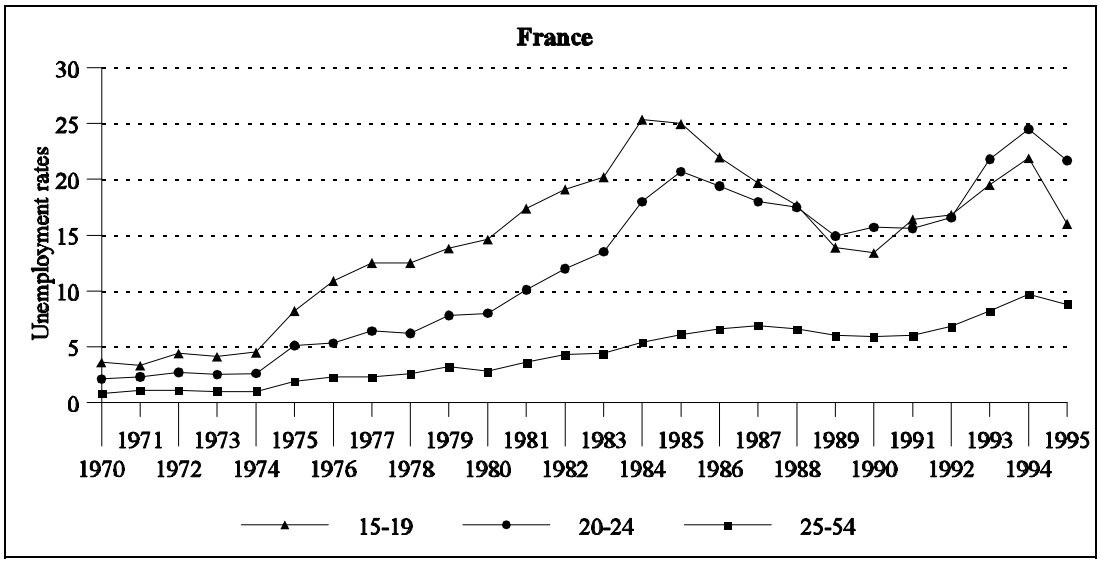

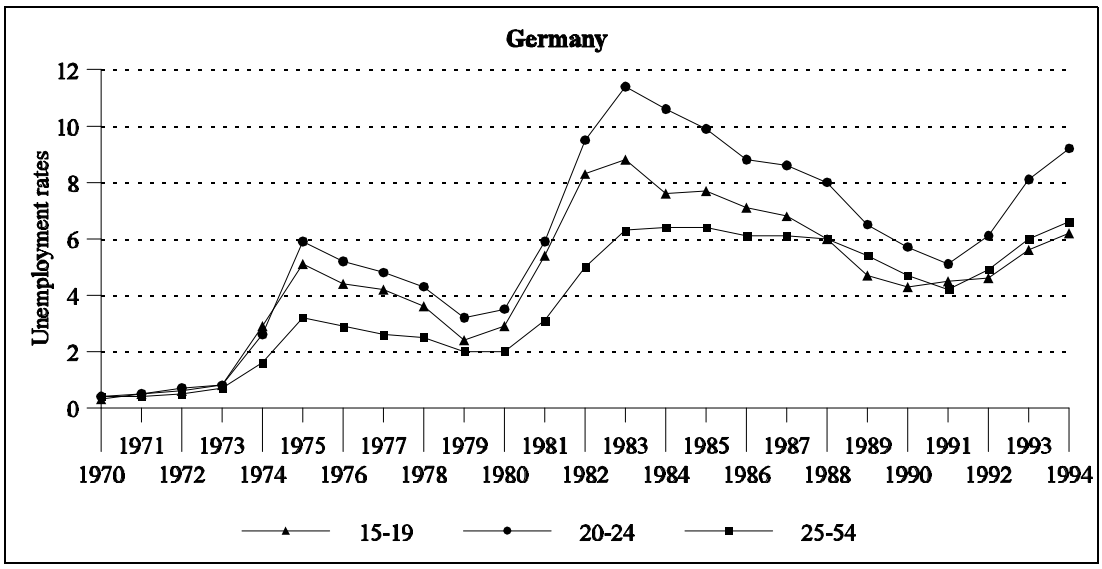

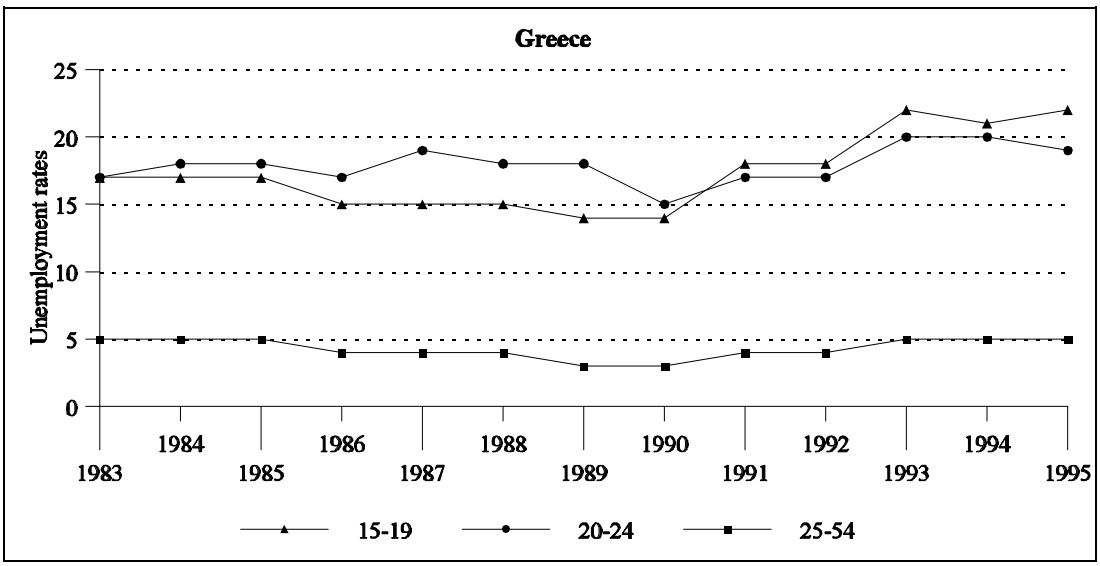

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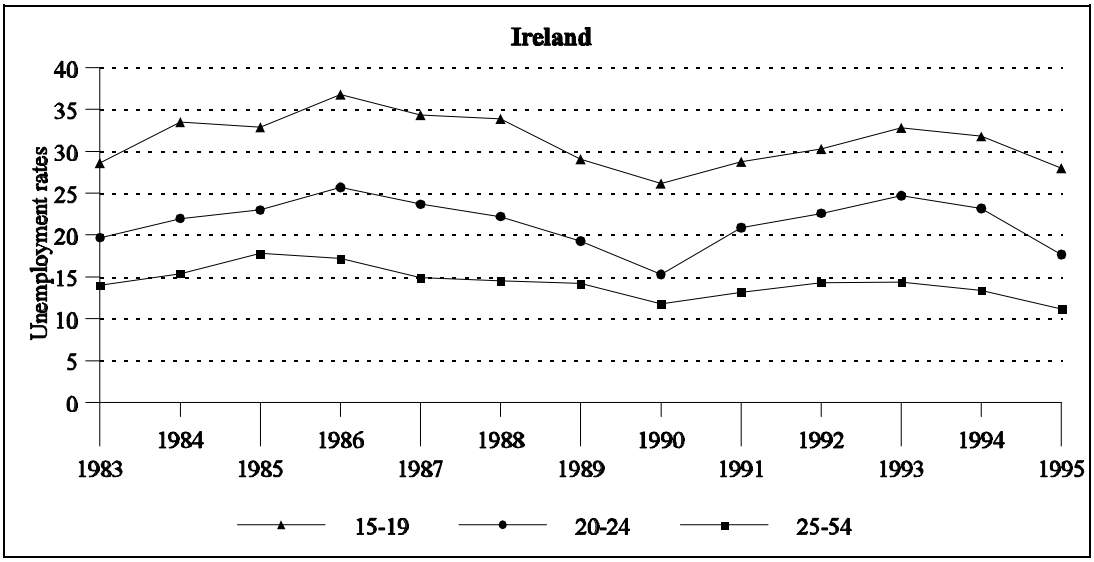

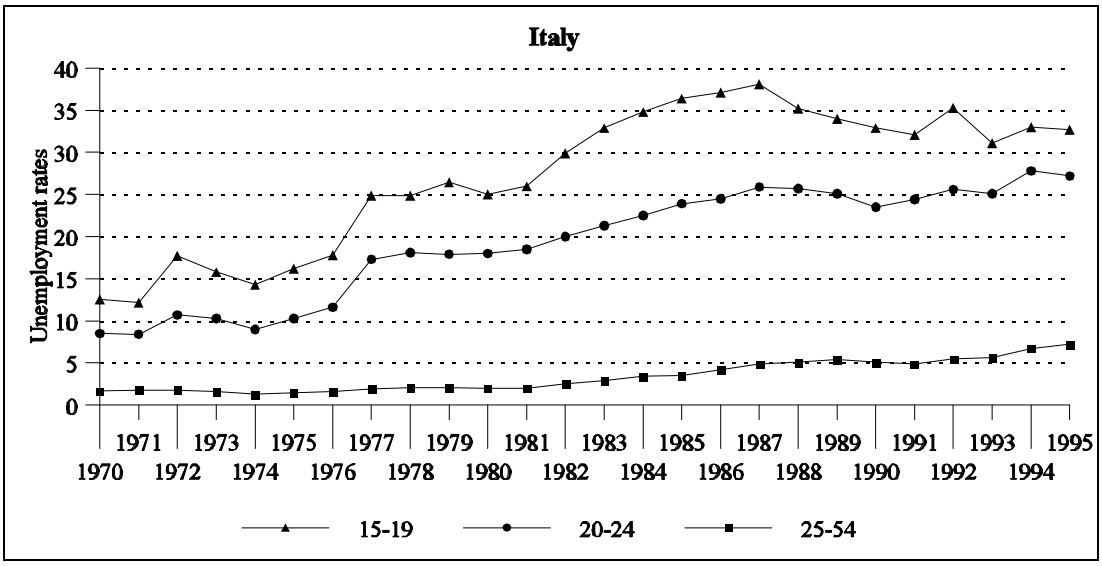

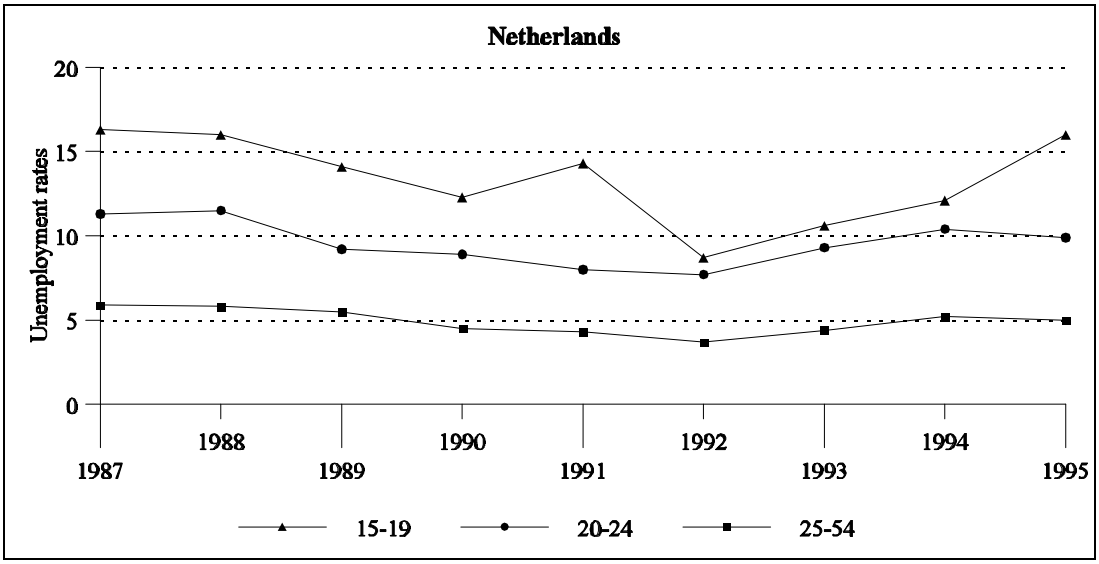

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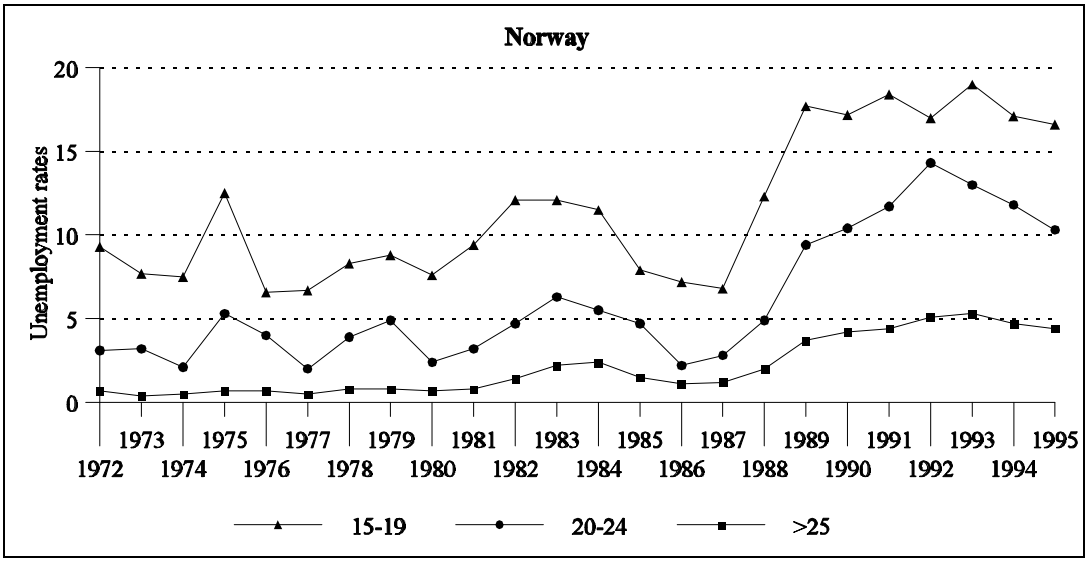

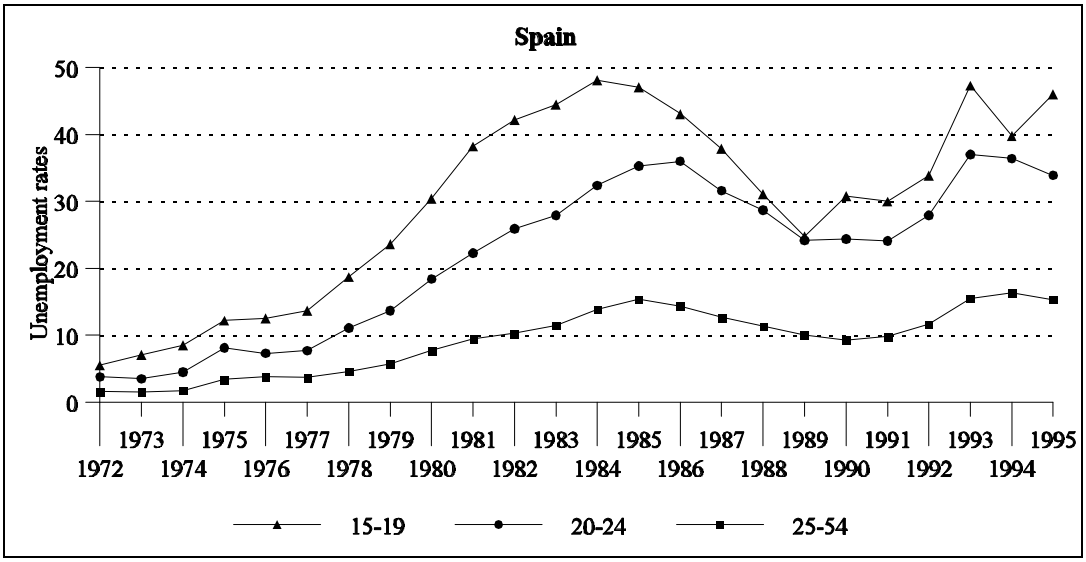

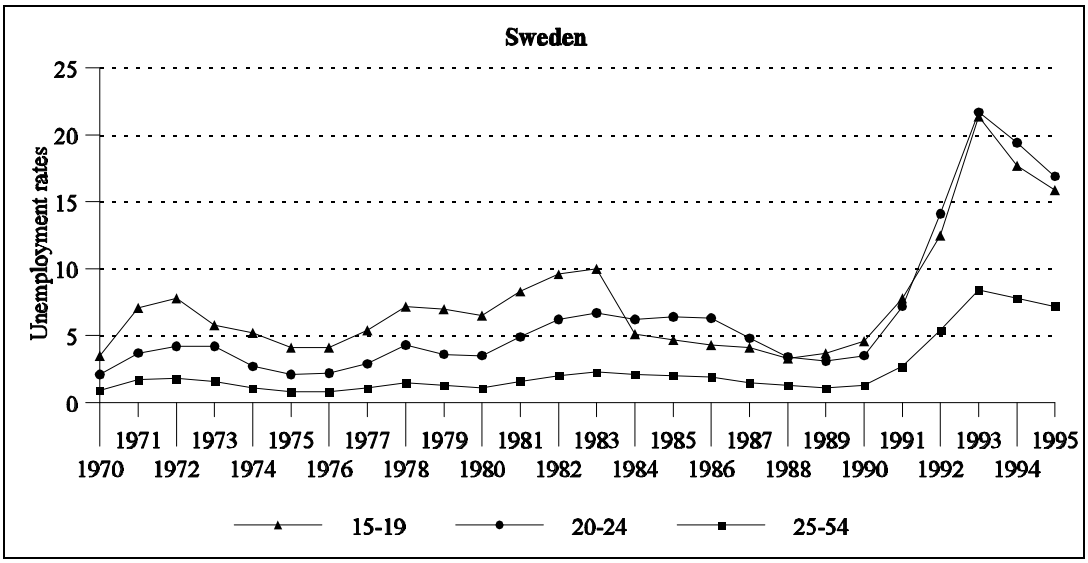

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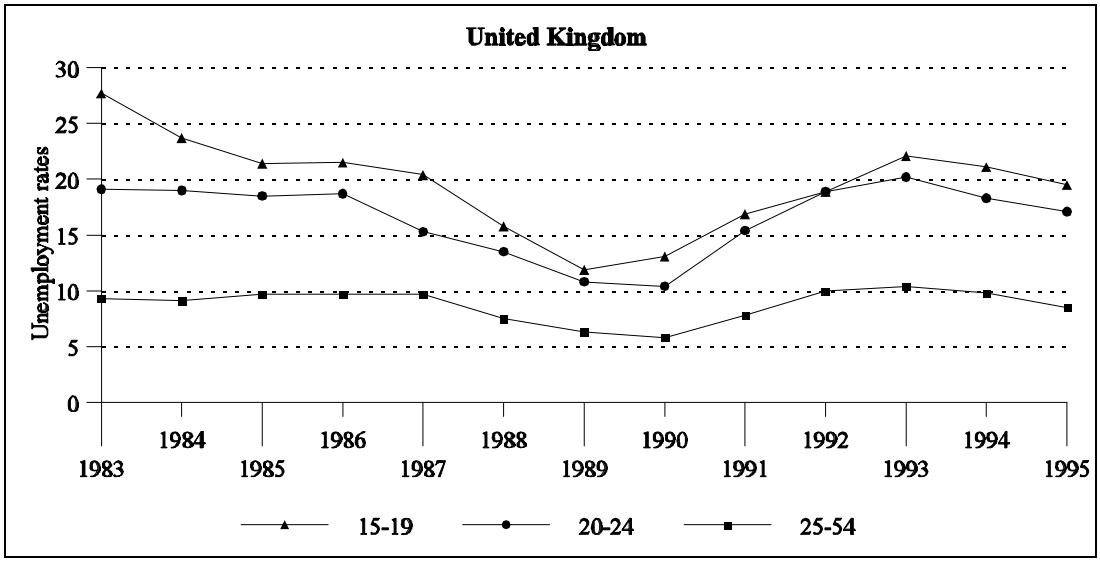
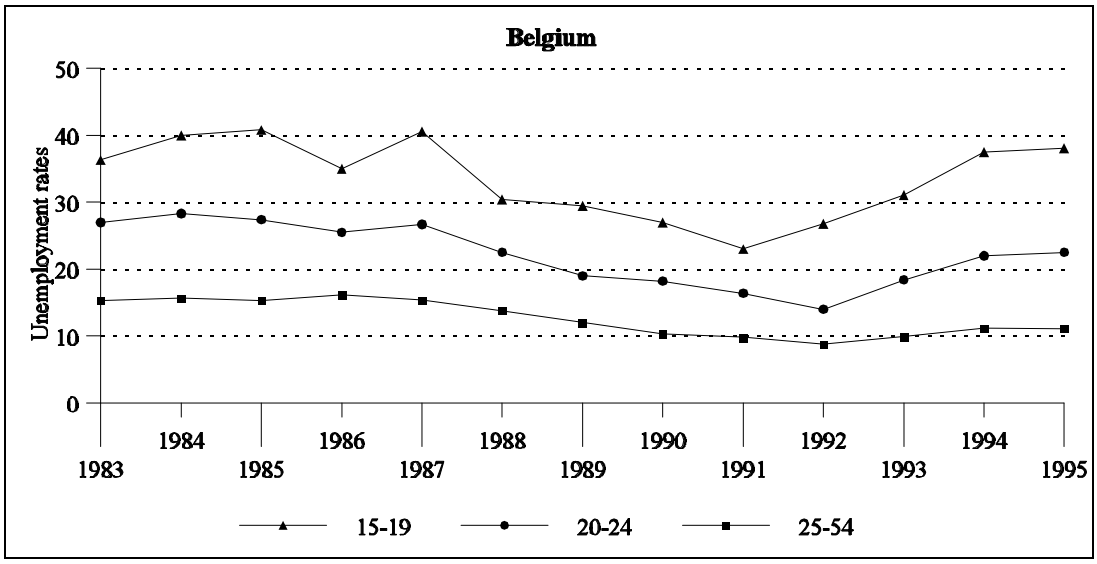
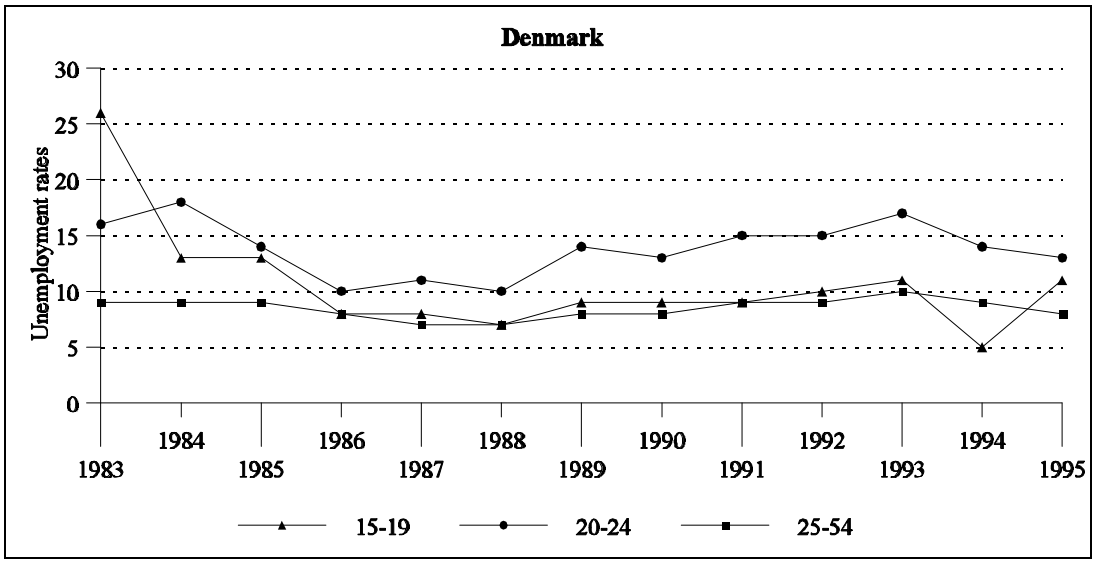
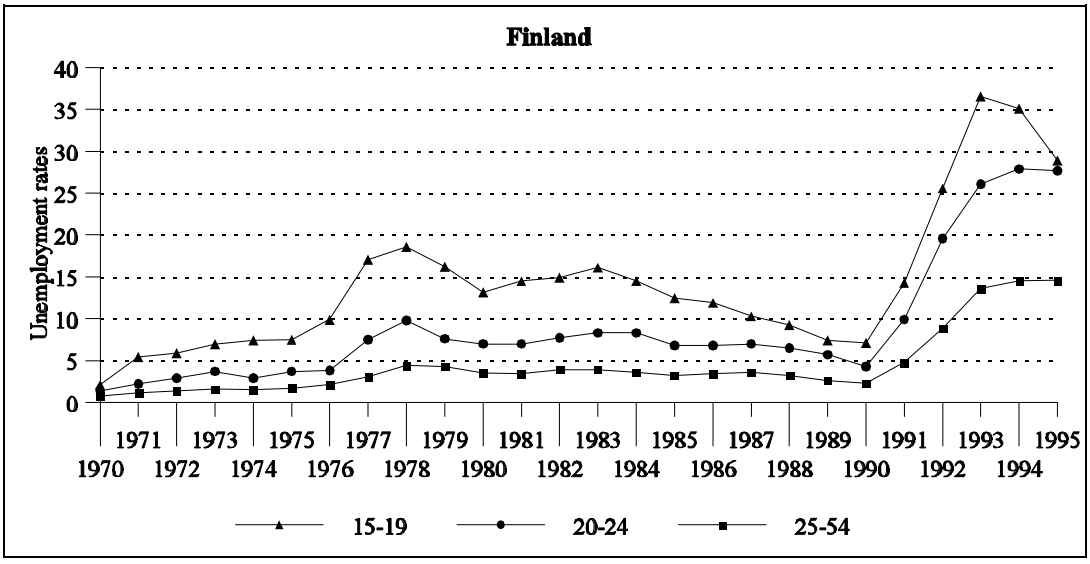


Source: OECD Database.

Figure 2b: Female unemployment rates by age







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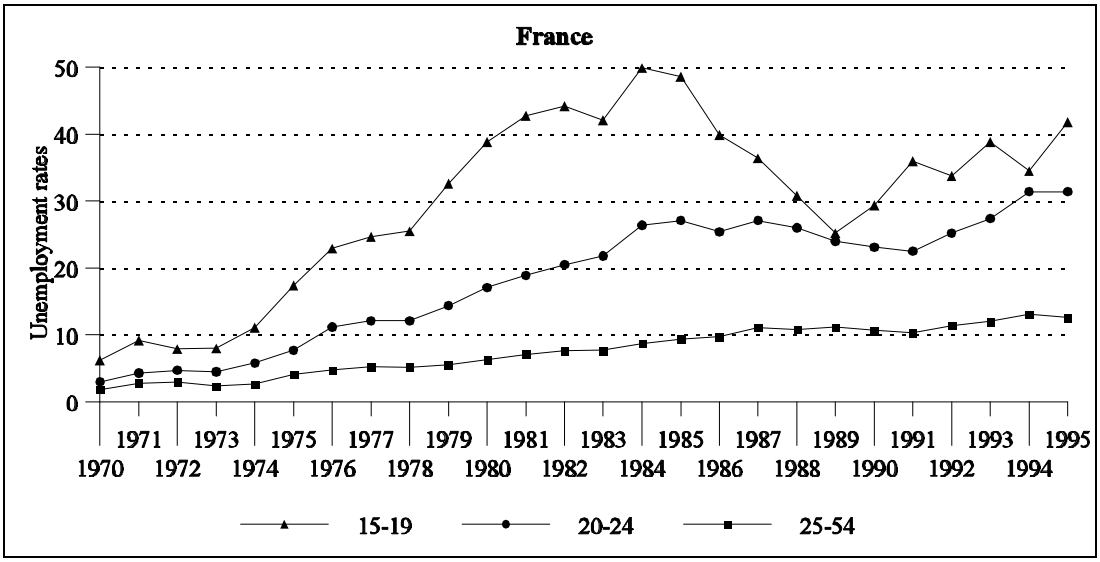

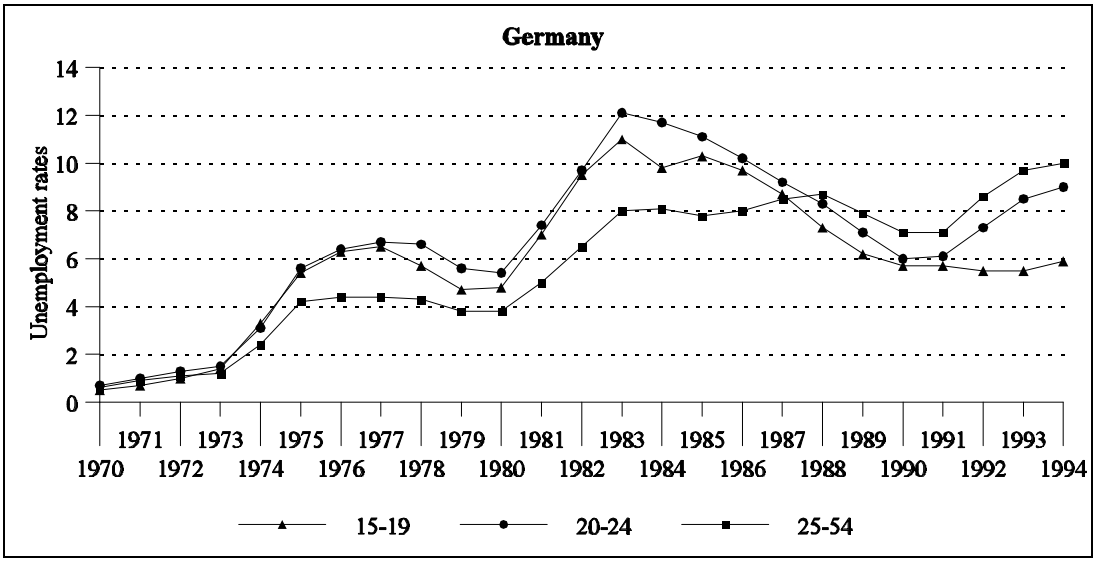

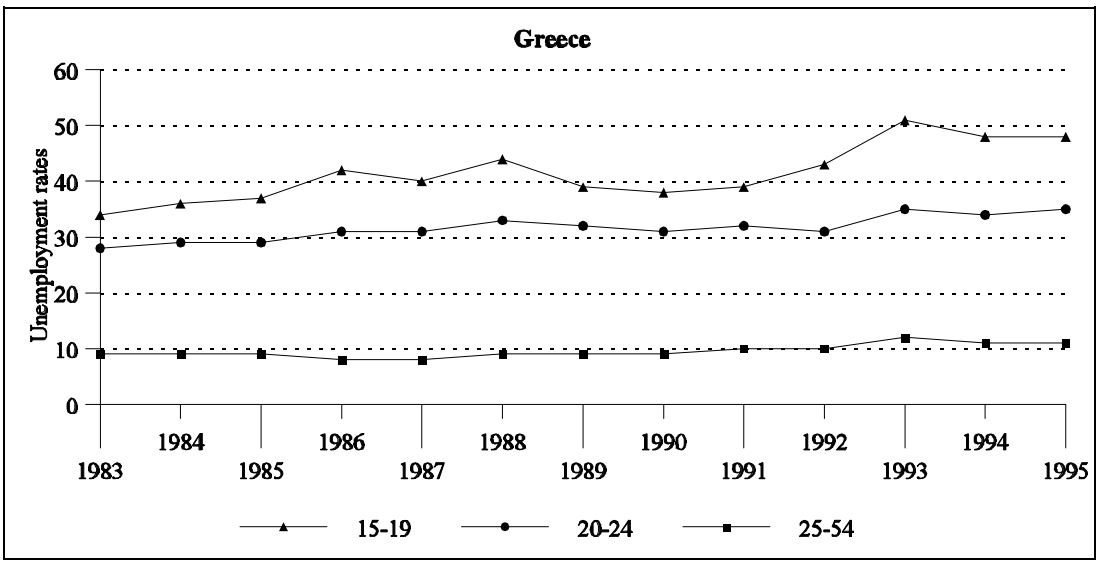

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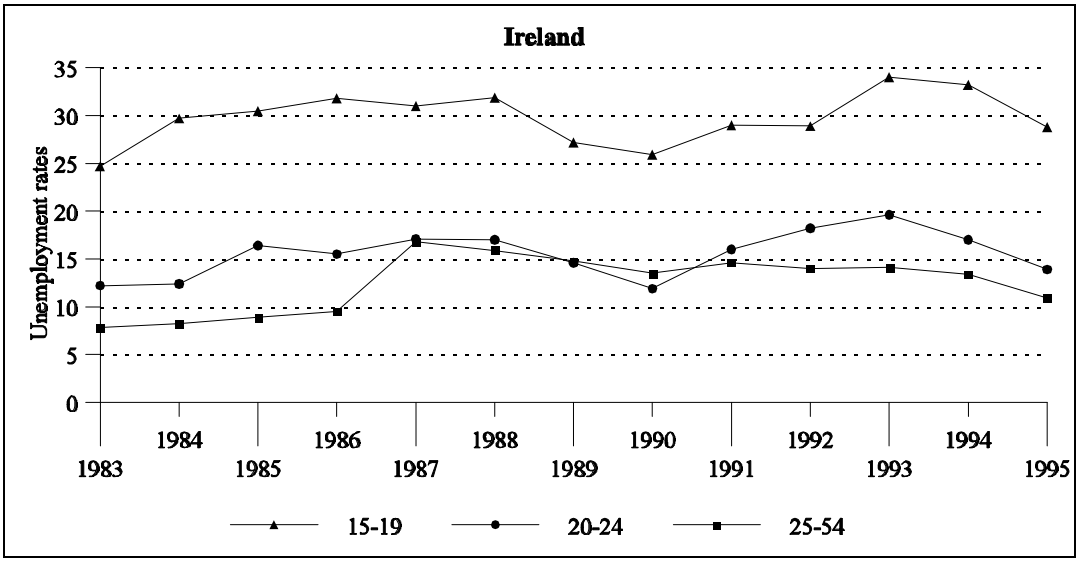

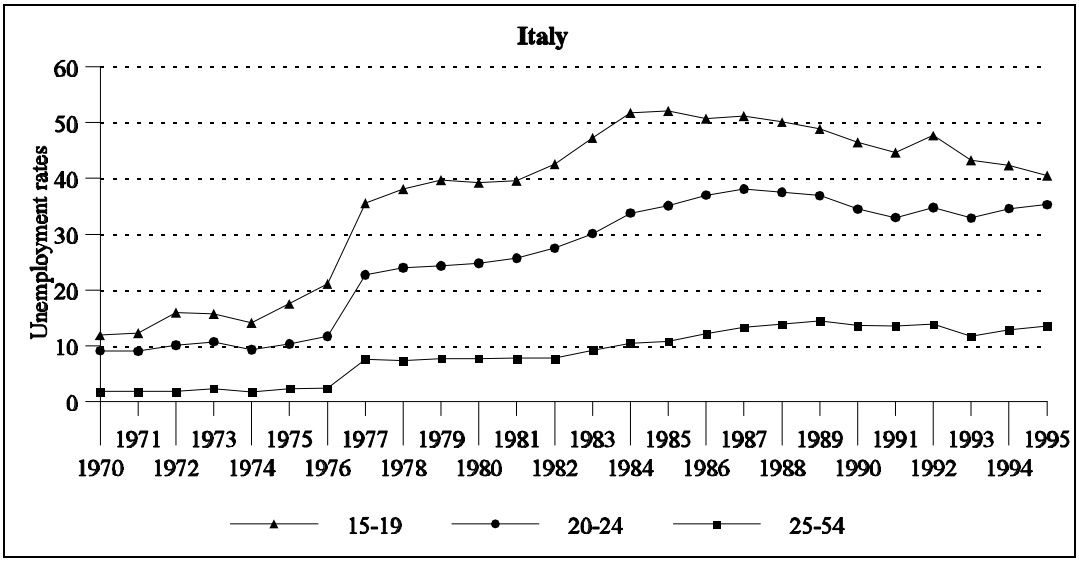

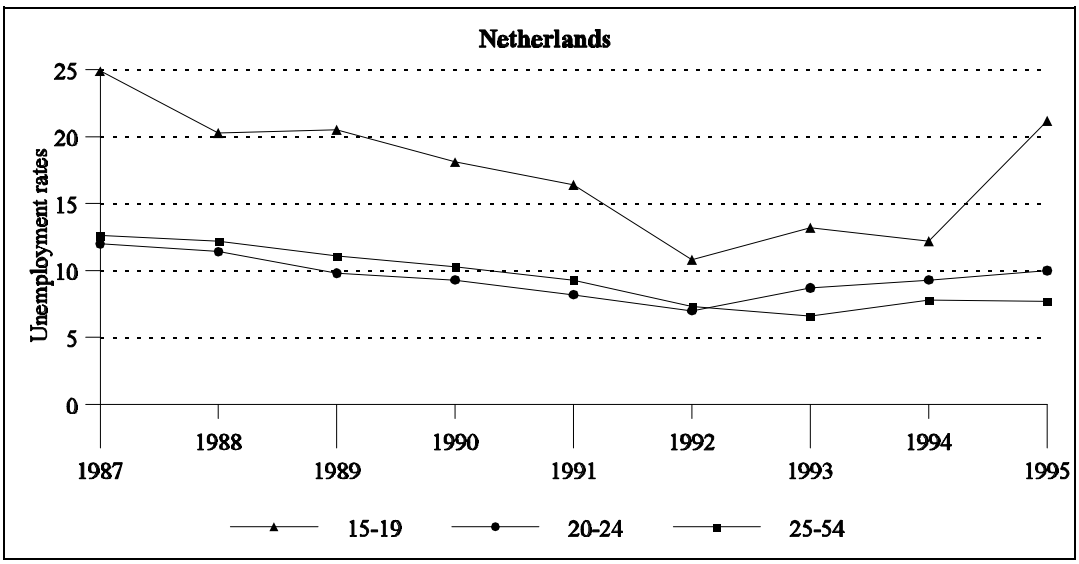

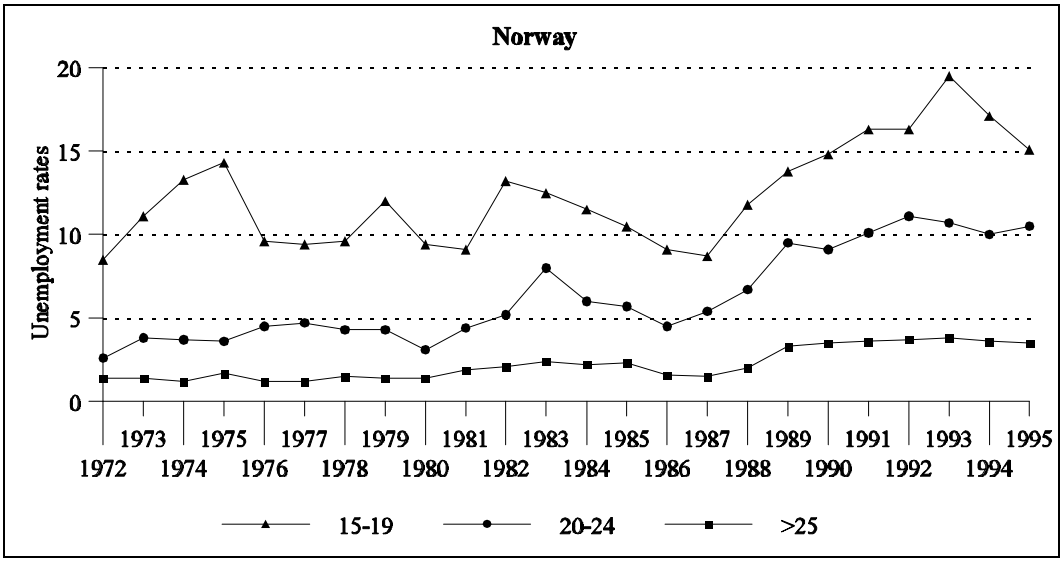
Norway
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15
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1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995
15-19
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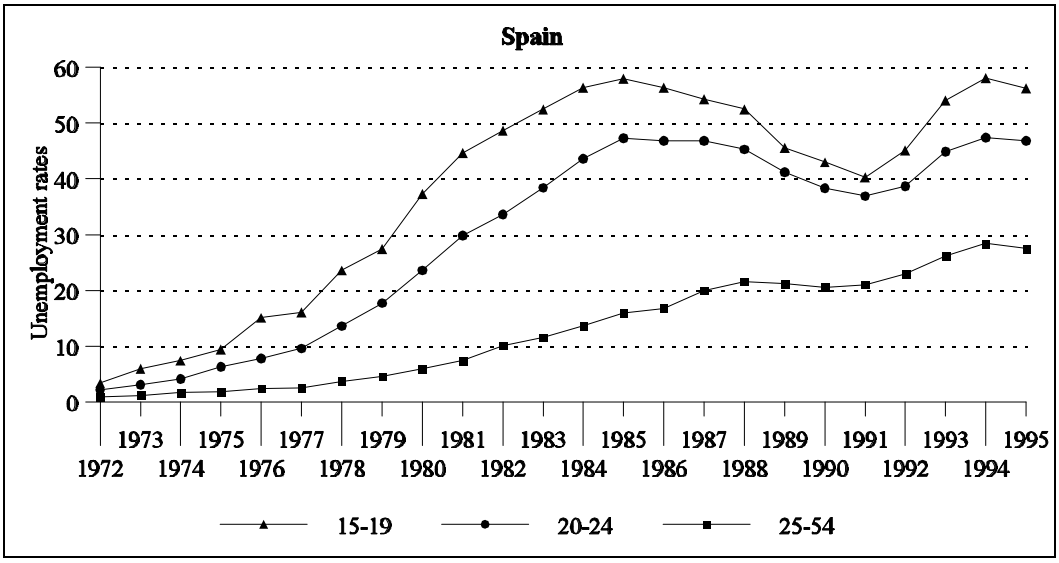
Spain
Unemployment rates
60
50
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1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995
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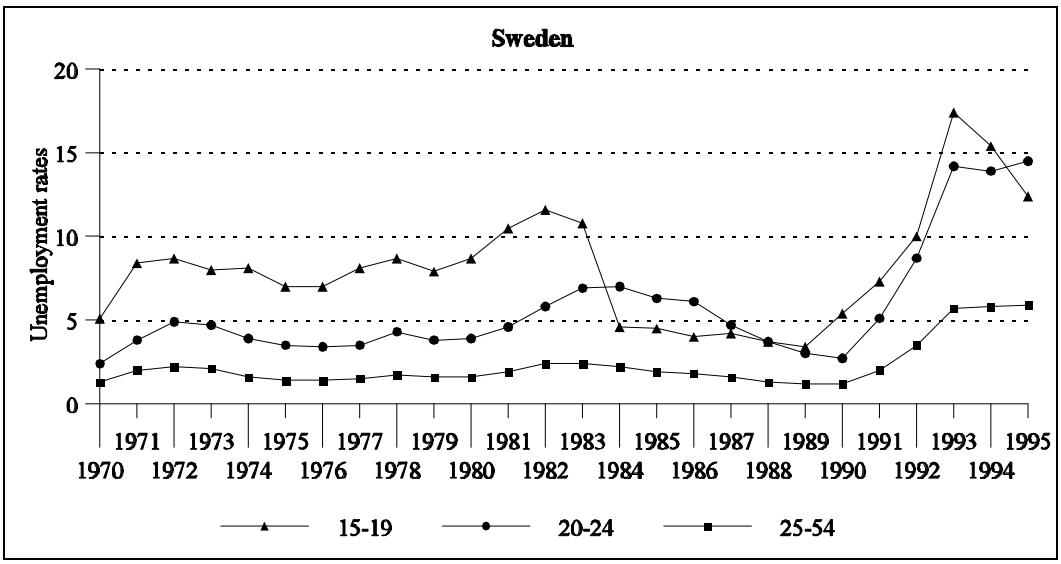
Sweden
Unemployment rates
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1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995
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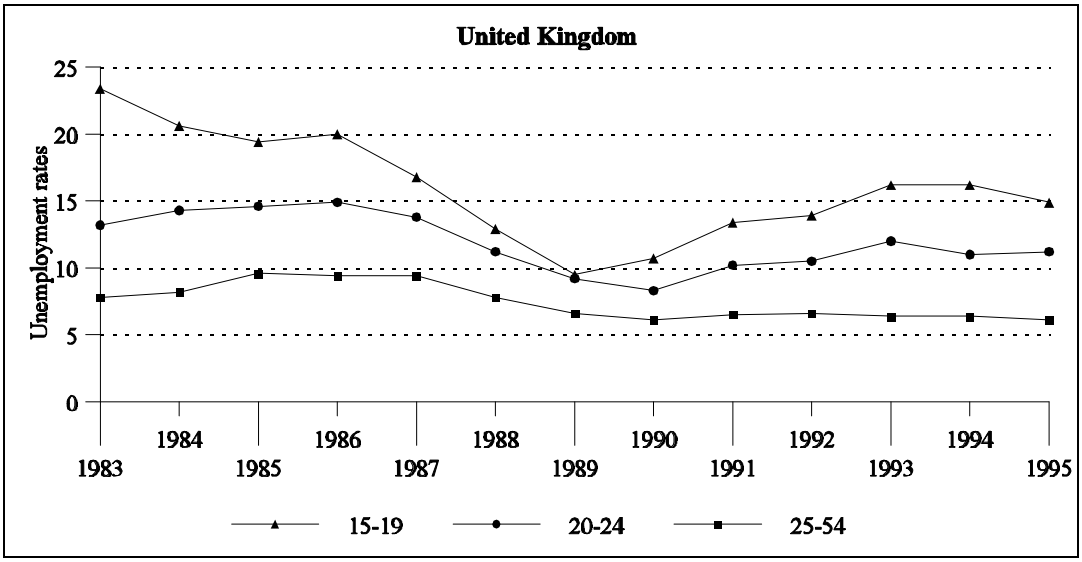
Figure 2b ctd.



Source: OECD Database.

1.2.3 Youth unemployment and labour force participation

One fairly obvious but important aspect of youth unemployment (and indeed adult unemployment) is the relationship between unemployment and labour force participation. On the one hand, the rate of participation will influence the level of youth unemployment through its influence on the size of the labour force. Other things being equal then, a higher labour force participation rate will imply a higher unemployment rate. This type of effect is important in, for example, discussions of the minimum wage in monopsonistic labour markets[9]. In that context an increase in the minimum wage may increase both unemployment and employment through its effect on labour supply[10]. From our point of view, the relevant point is that more people enter the labour market in search of jobs because of the increased attractiveness of work. However, such an increase may exceed the additional available jobs, therefore, the measured unemployment rate will rise.

At the same time, high levels of unemployment will tend to discourage workers from entering the labour market. If there is practically no chance of finding work, what is the point of looking for it? Much better to stay in education, for example, so as to improve one's job prospects.

Thus, unemployment and labour force participation have a dual relationship. On the one hand, an increase in labour force participation caused by some extraneous factor, such as an increase in the available wage, will tend to increase measured unemployment. On the other, higher unemployment rates will tend to discourage labour force participation and therefore lower activity rates. Thus, the relationship between youth unemployment and economic activity will depend on which effect dominates in particular circumstances. Consequently the relationship will tend to vary across time and space.

As figures 3a and 3b show, the trend for teenagers in most European countries has been towards a decreasing labour force participation[11] largely as a result of increased participation in full-time education although it will also reflect, to some extent withdrawal from the labour market in the face of poor labour market prospects[12]. Increasing educational participation teenagers is a feature of all European countries to a greater or lesser extent and in part reflects the increasingly poor labour market prospects of young people as well as the conscious decision by governments to increase educational participation as a partial response to teenage unemployment.

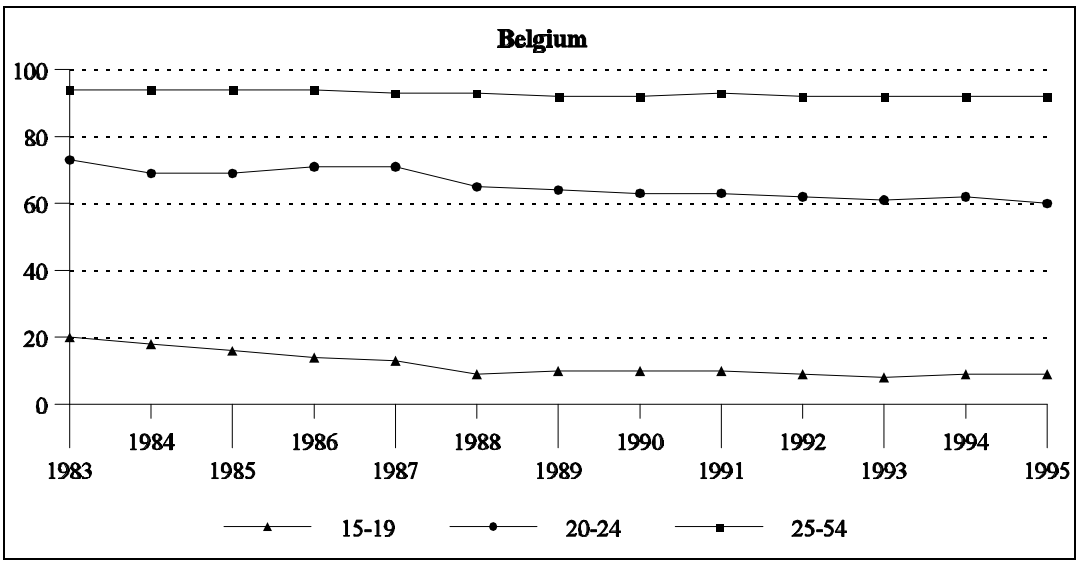
[9] That is, labour markets in which firms have the power to fix wages at a level below the marginal productivity of labour.

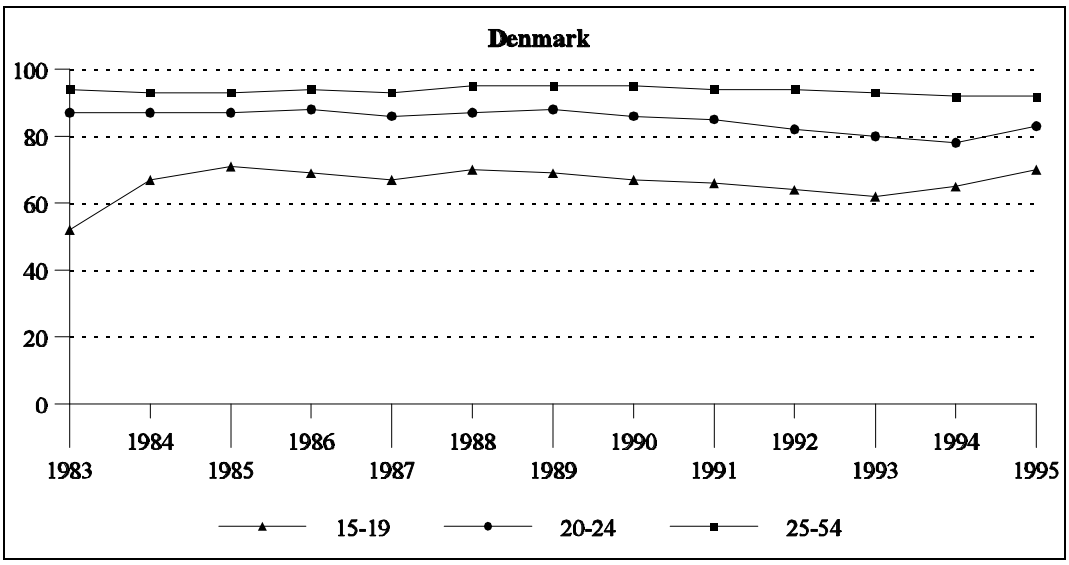
[10] For a concise and straightforward description of the effects of a minimum wage in a monopsonistic labour market, see, for example, Fernie & Metcalf (1996). See also the discussion in Ghellab (1997) and the brief discussion of the effects of the minimum wage on youth employment below.

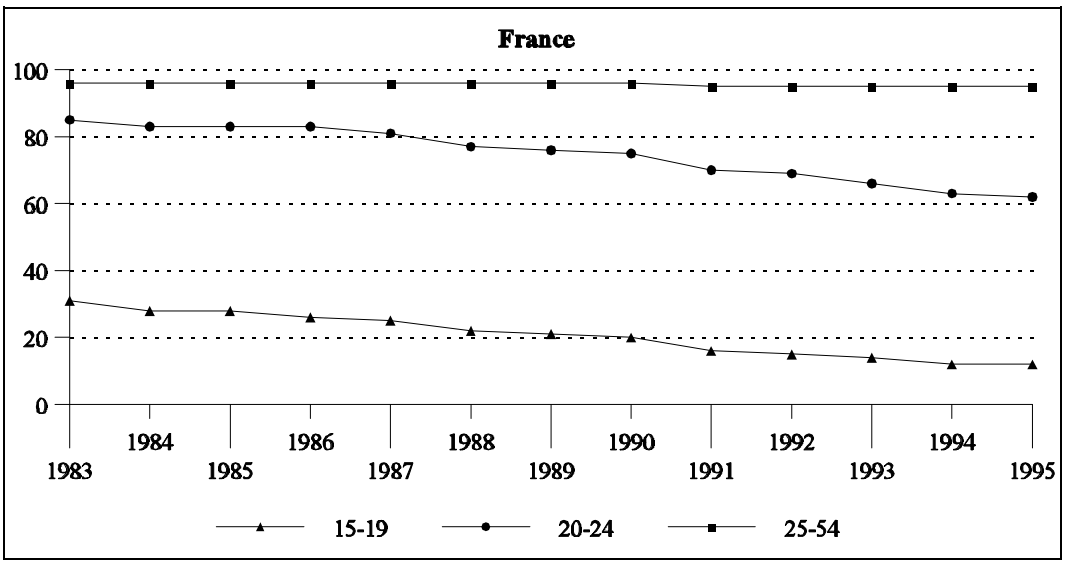
[11] Exceptions to this trend are the Netherlands, and, most strikingly Denmark.

[12] Franz & Pohlmeier (1996) provide some evidence of labour market withdrawal of lower qualified youths in Germany. Blau & Kahn (1996) argue that poorer labour market prospects are the principal explanation of the lower labour market attachment of young American, as opposed to young German, women.

Figure 3a: Male labour force participation rates by age







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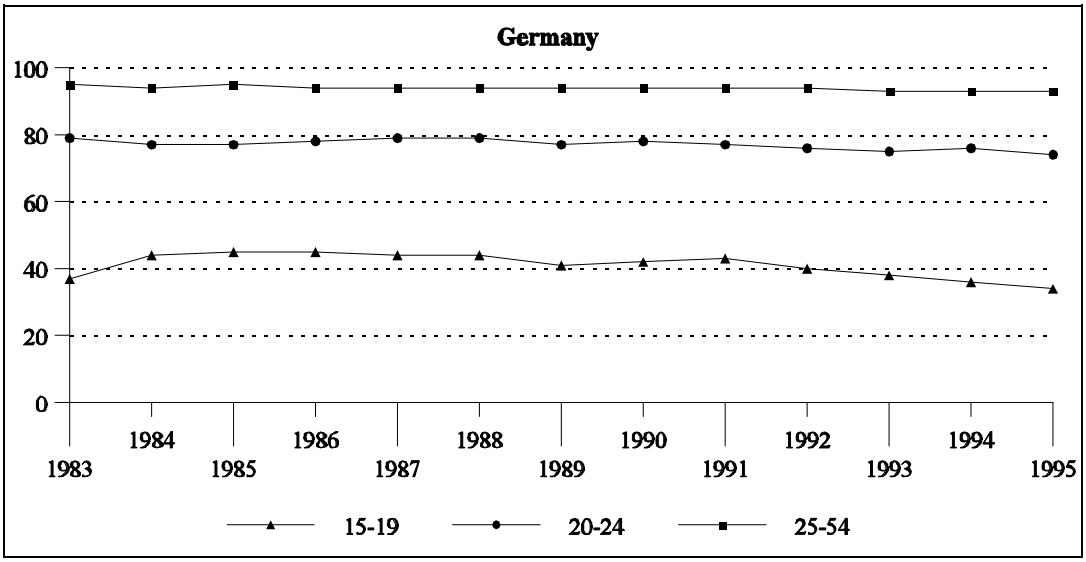

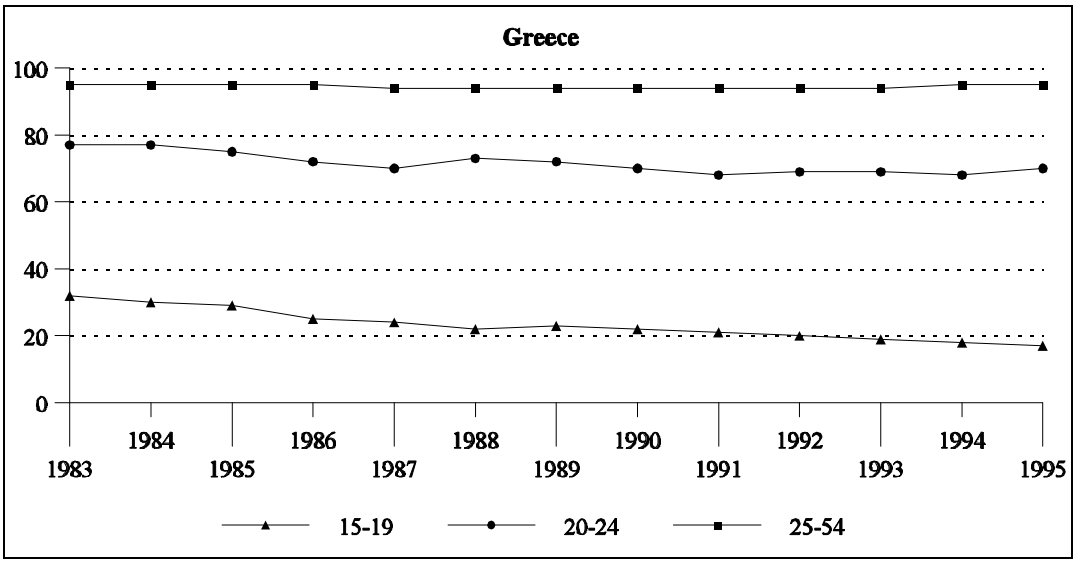

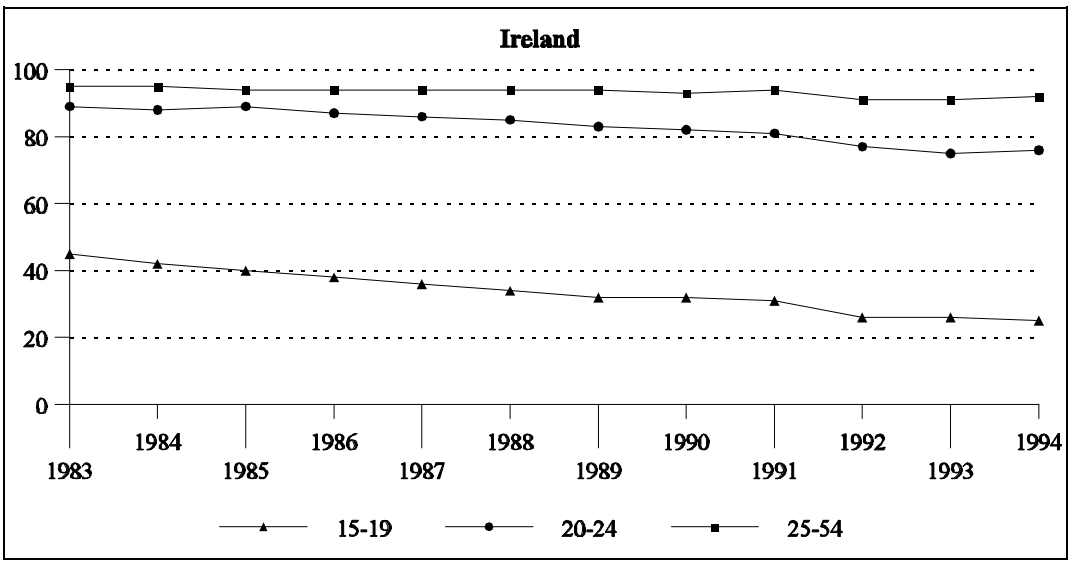

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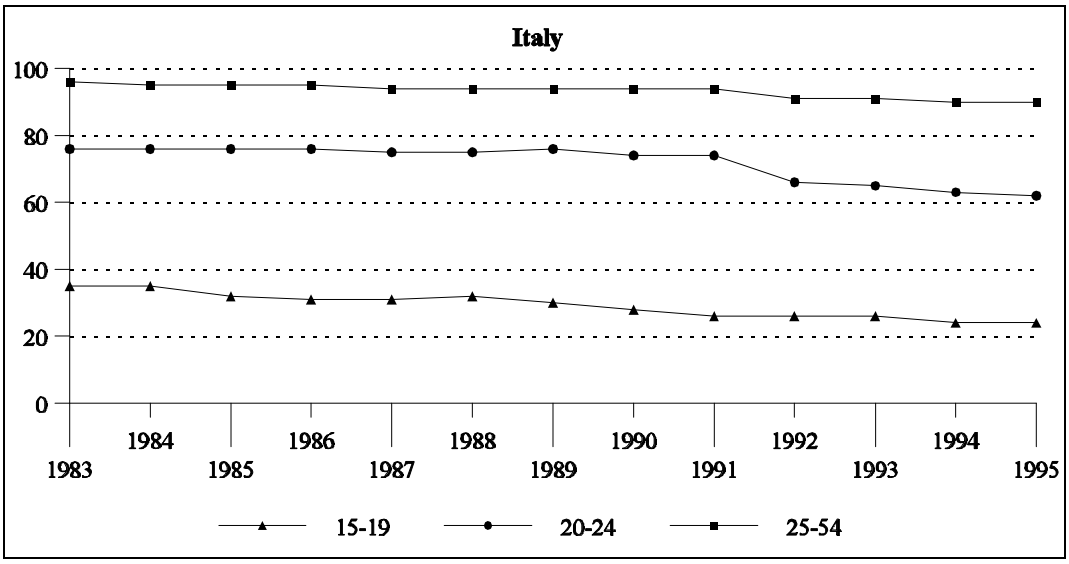

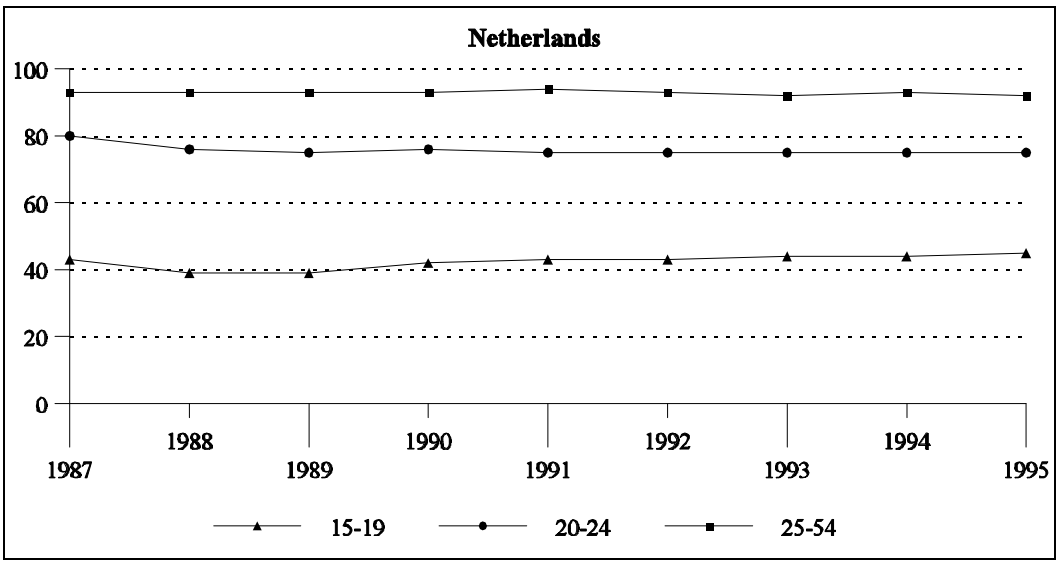

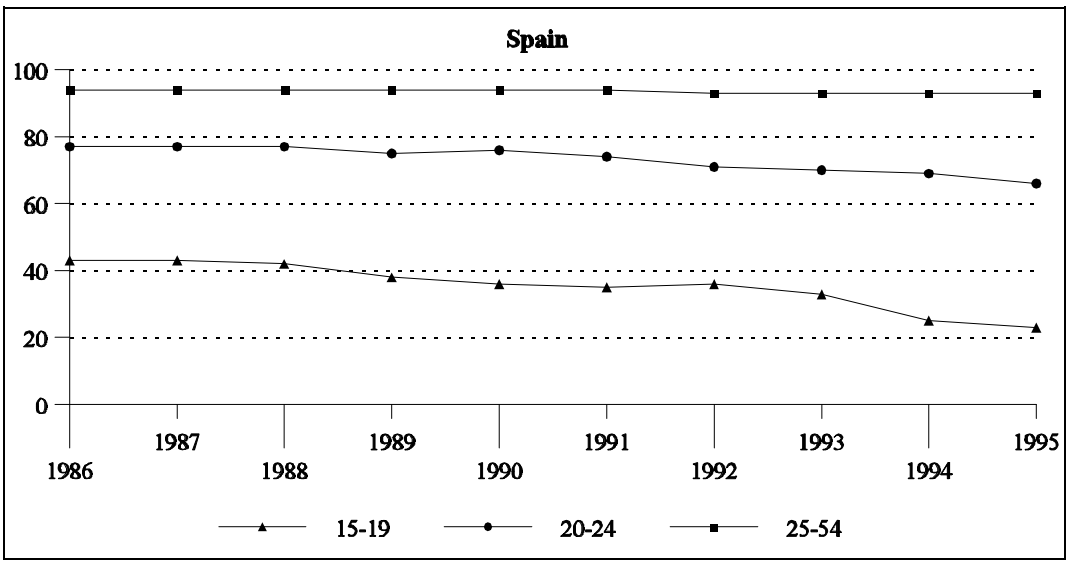

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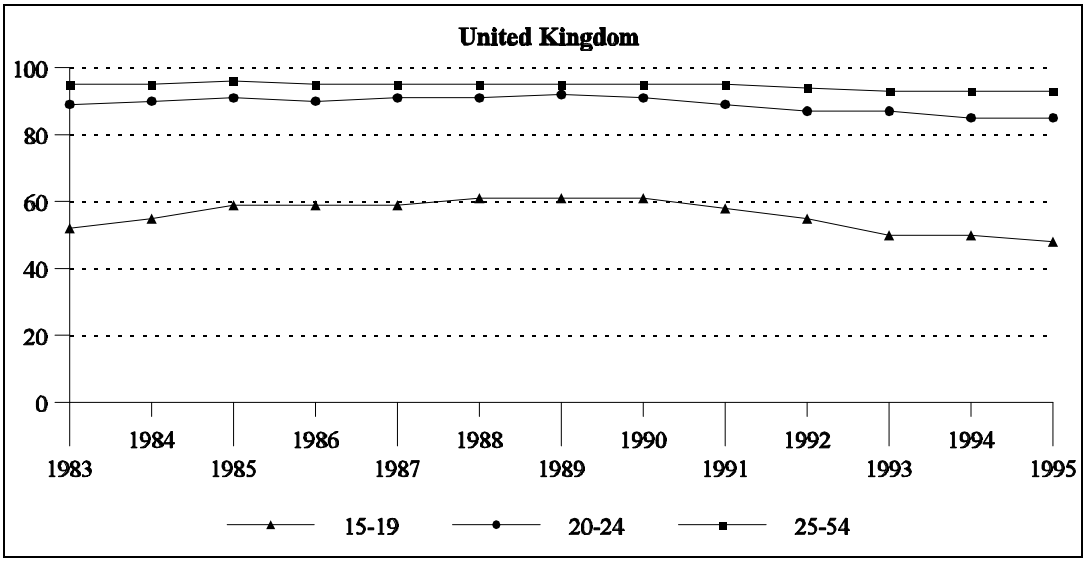
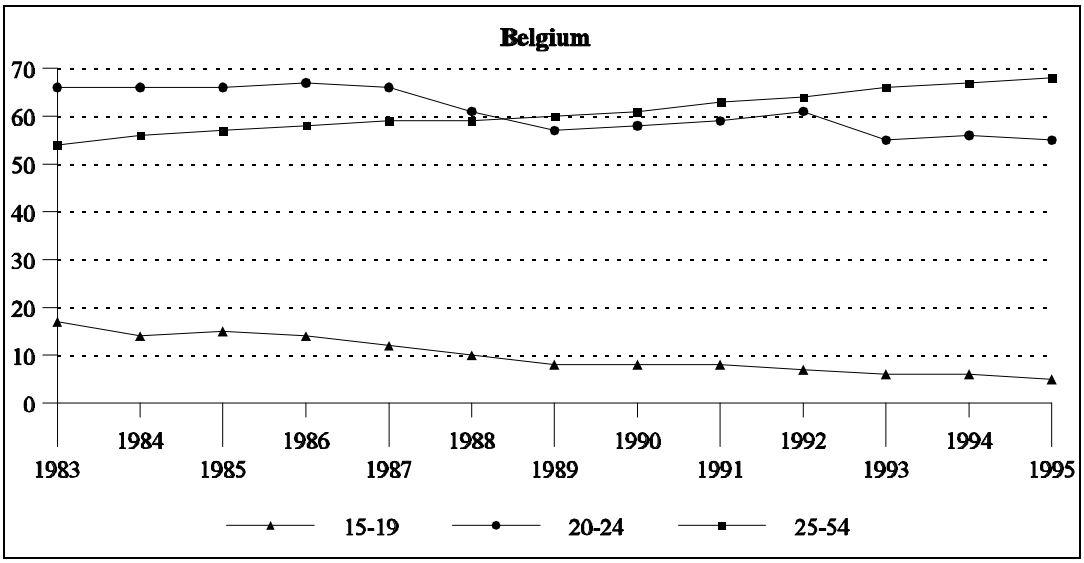
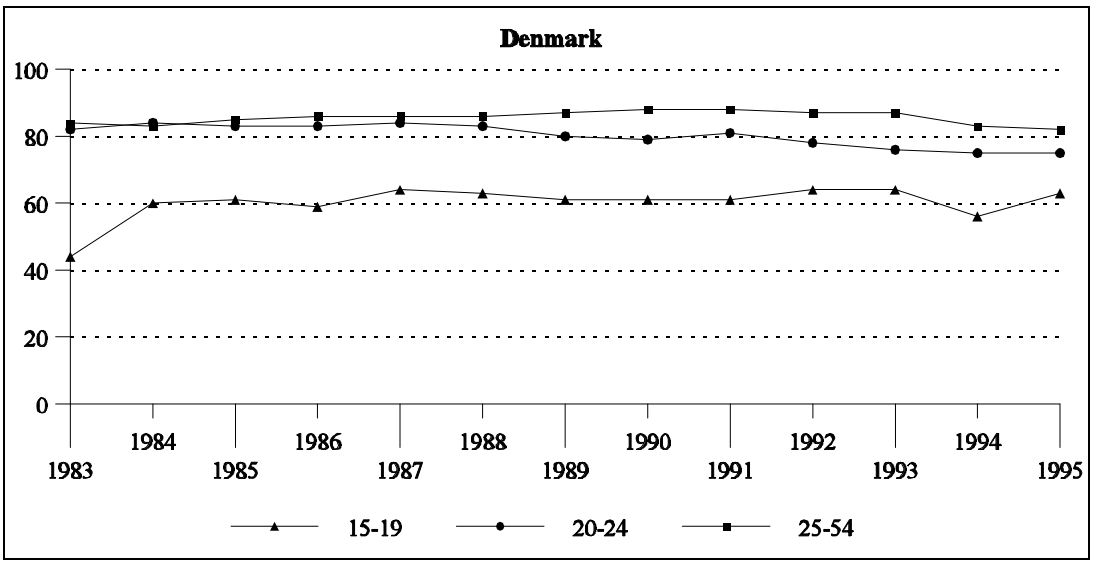
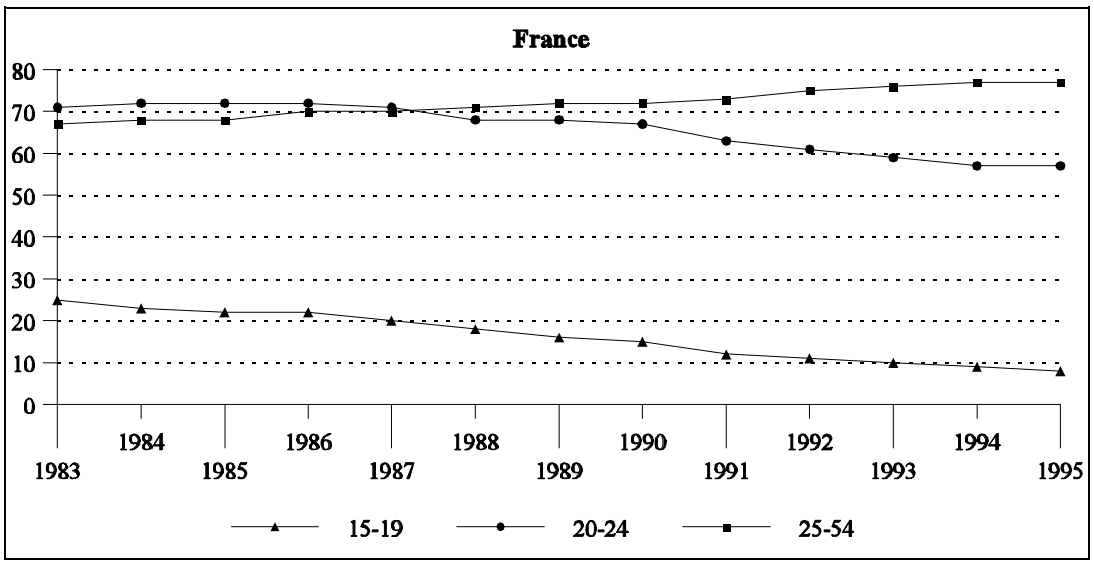


Source: OECD Database.

Figure 3b: Female labour force participation rates by age







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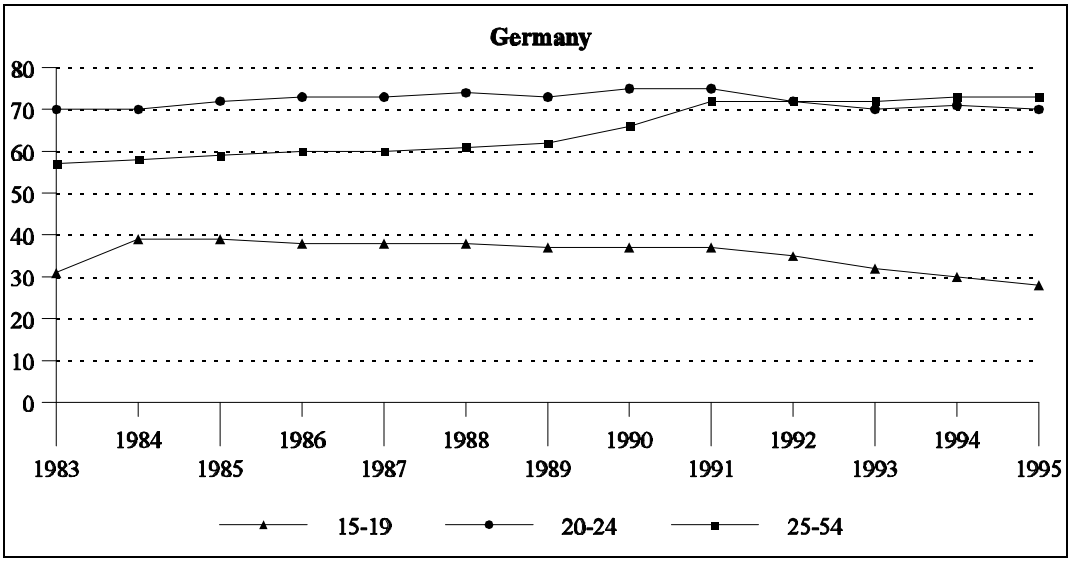

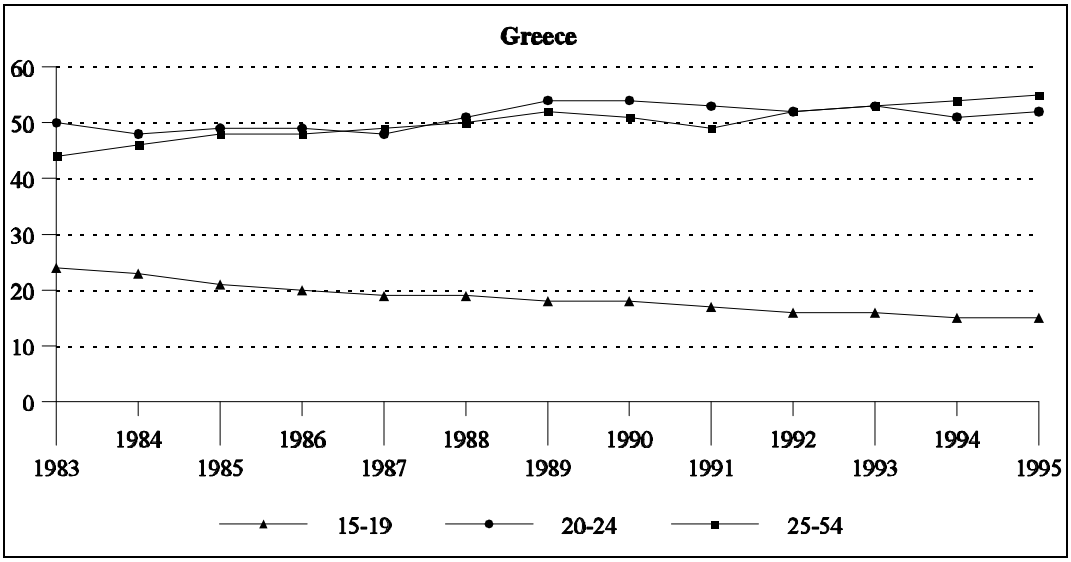

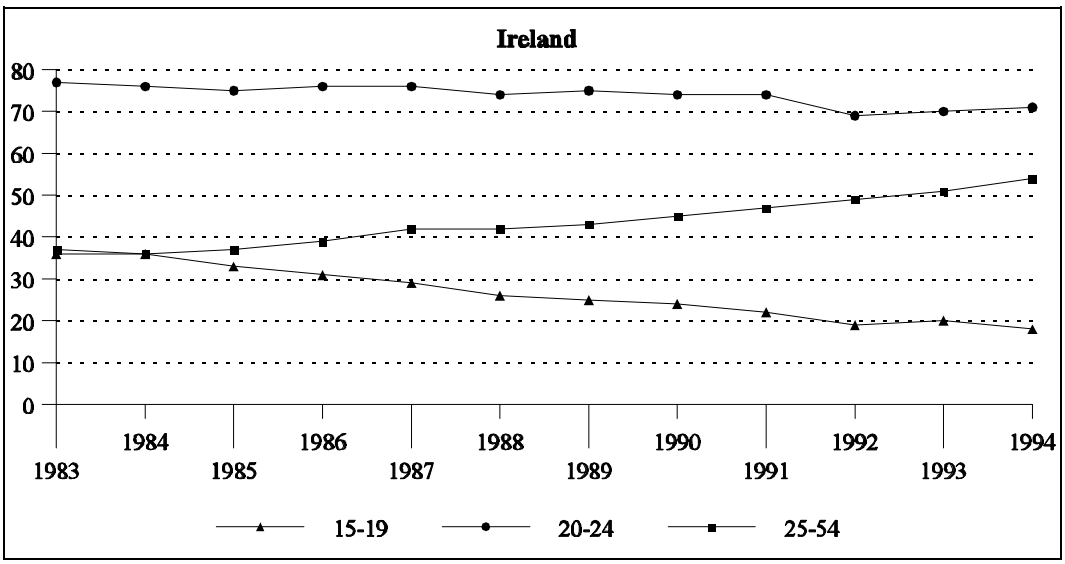

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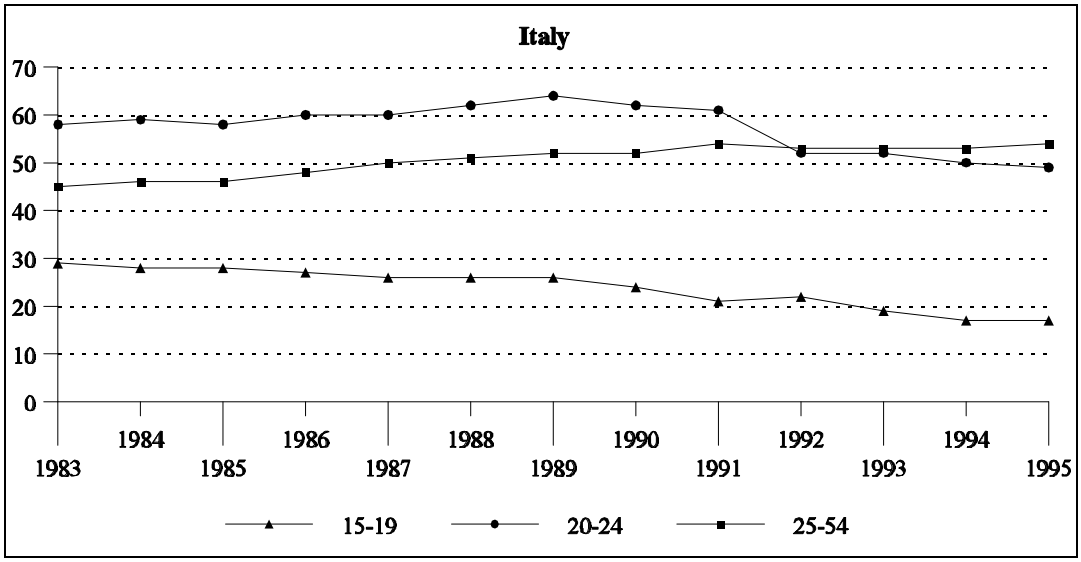

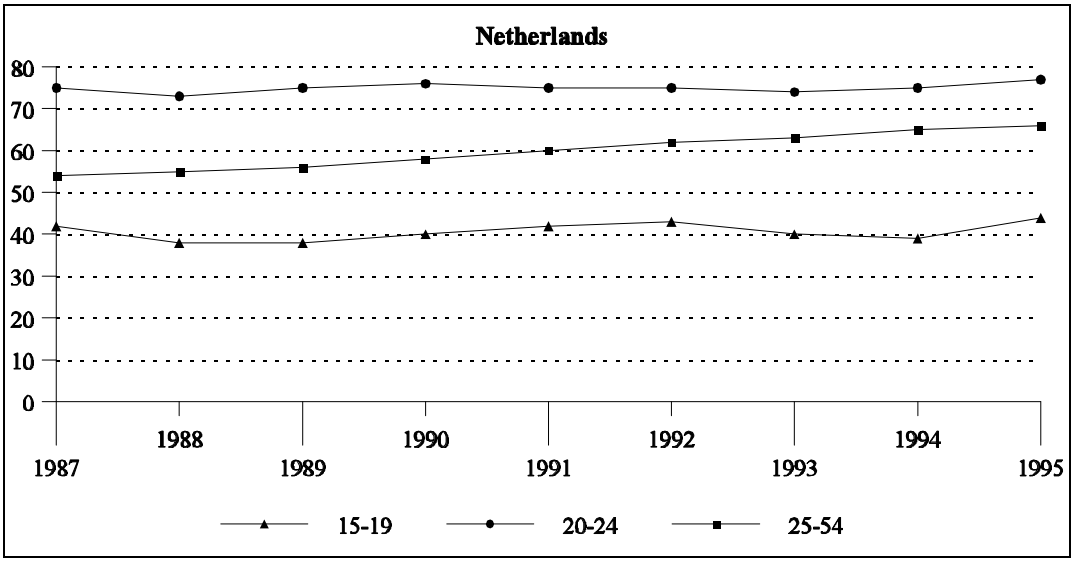

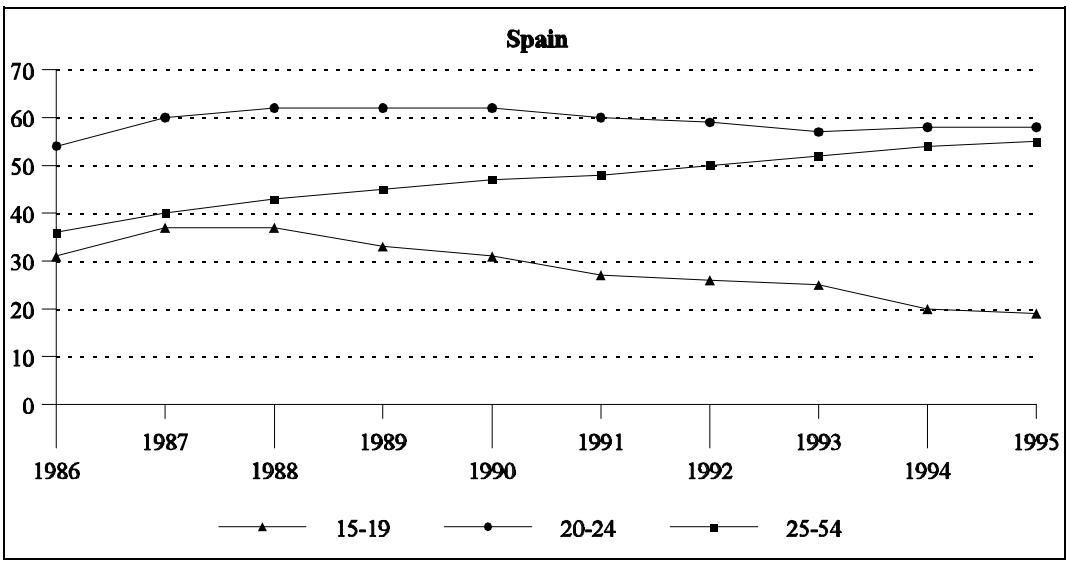

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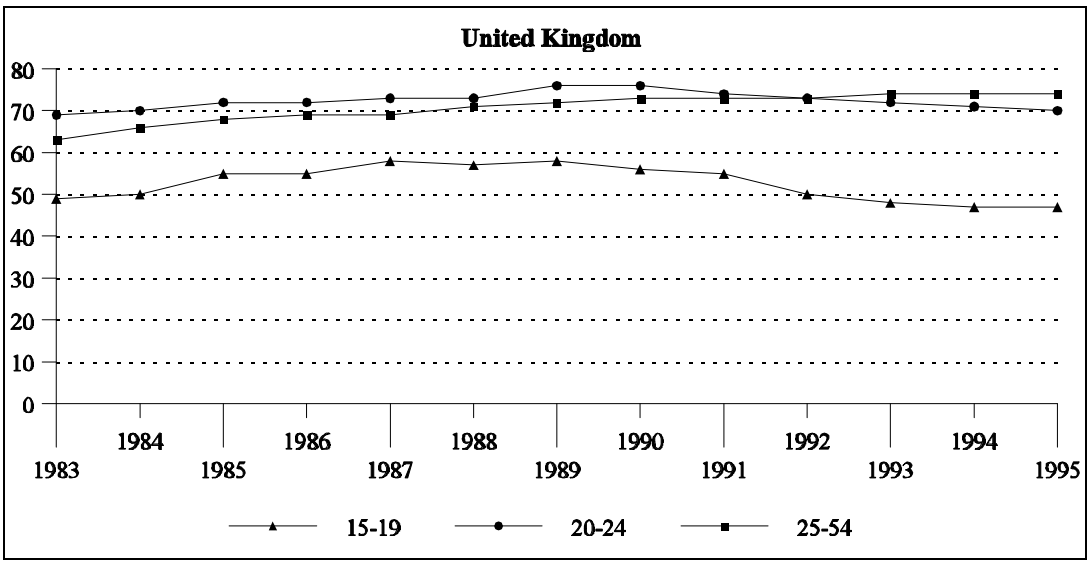


Source: OECD Database.

The trends for young adults are broadly similar, although the pattern is more mixed. Finally, in a number of countries there has been a marked trend towards increased labour force participation of adult women[13].

1.3 Causes of youth unemployment

One may then ask what are the causes of youth unemployment. This question may be analysed at different levels. One might think of considering it in terms of the following three questions:

1) *What are the main determinants of fluctuations in youth unemployment?*
2) *Why do youth unemployment rates vary more, in absolute terms, than adult rates in response to changes in economic conditions?*
3) *For individuals, which characteristics increase or reduce the chances of being employed or unemployed?*

The first two questions essentially regard the characteristics of youths and youth labour markets as a whole, whilst the third brings the discussion down to the micro characteristics of individuals which affect their chances of finding work. Let us consider the first two macro questions together.

1.3.1 What are the main determinants of fluctuations in youth unemployment and why do they vary more than adults rates?

Explanations of youth unemployment basically reduce to the discussion of the relative importance of three factors[14]:

- *Aggregate Demand*
- *Youth Wages*
- *Size of the Youth Labour Force*

The intuitive arguments underlying the roles of these three factors are fairly self-evident. In determining responses to the problem, however, it is clearly of fundamental

[13] One explanation which has been suggested for the very high rates of female youth unemployment in Spain is the increased labour force participation of adult females in that country in recent years.

[14] The one issue that is not considered here is that of an insufficient supply of skills as a *cause* of youth unemployment. An insufficient supply of skills cannot be seen as a cause of unemployment at least in the short-run. If this were so, Britain, with lower skills levels than most other European countries (e.g. Layard et al., 1994, Prais 1995), would have higher youth unemployment rates than say France. This is very evidently not the case. Keep & Mayhew (1995), for example, argue convincingly that skills levels determine the type of equilibrium (low-skill/low-wage or high-skill/high-wage) which is arrived at rather than the aggregate level of youth unemployment (or indeed the economic performance of the economy). A similar point has been elegantly put by Meade (1995), who writes:

> "The great majority of politicians and other interested persons tend to….concentrate on….measures such as education and training of labour and investment in modern efficient capital equipment….These reforms are of extreme importance but *they are concerned basically with raising the output per head of those who are in employment rather than about the number of heads that will find suitable employment*," (my italics, Meade, 1995, p. xvii).

On the other hand, the relative level of skills of an individual do quite obviously affect that person's relative employment prospects. Skills also contribute to determining the quality of work, above-all through its impact on wages. In the long-run, however, skills levels may play a role in the growth potential of output and, therefore, indirectly the growth of employment. That is, they may influence youth employment through their effects on economic growth. Behrman (1993) discusses some of the issues related to the debate.

importance to determine the relative importance of these factors in as far as is possible.

Aggregate demand

Aggregate demand affects youth unemployment in a similar way in which it affects the overall level of unemployment. A fall in aggregate demand will lead to a fall in the demand for labour in general and consequently for young labour as well as adult workers. This is a fairly uncontroversial and self-evident (albeit important) statement. Perhaps of more interest and relevance to the discussion here is the fact noted above that youth unemployment rates are typically substantially higher than adult rates, and that they are more cyclically variable as was demonstrated by figures 2a and 2b.

In this regard, rather than ask: does aggregate demand influence youth unemployment? To which the reply is an unequivocal yes, a more interesting and relevant question is: why do fluctuations in aggregate demand affect youths disproportionately?[15]

There are a number of reasons why one might expect youth unemployment to be more sensitive than adult unemployment to changes in aggregate demand. On the supply side, it is often argued that young people are more likely to voluntarily quit their jobs than older workers. Their initial experiences in the labour market are likely to involve a certain amount of "shopping around" in so far as circumstances permit, so as to find an appropriate occupation. The opportunity cost of doing so is lower for young people. They will tend to have fewer skills and lower wages, and are less likely to "need" a job to support a family. Blanchflower & Freeman (1996) report that, in the USA, young people between the ages of 16 and 25 typically hold 7-8 different jobs[16]. If such voluntary quitting or behaviour or "shopping around" is less cyclically sensitive than job availability, one consequence will be that when job opportunities become scarce, unemployment will rise more amongst those groups with a higher likelihood of quitting their jobs. Whilst voluntary quits will also tend to fall during a recession, Moser (1986) shows that, in the USA, voluntary quits fall off markedly with age and are less cyclically volatile than "fires" by firms. The implication is that young people are more likely to quit their jobs than adults and will continue to do so during recessions and therefore will be disproportionately affected by recession-induced reductions in new hires.

Although this goes someway towards providing an explanation, there is little doubt that it is demand side considerations which are of more consequence. The opportunity cost to firms of firing young people is lower than for older workers. Being less skilled, they embody lower levels of investment by firms in training and consequently involve a smaller loss to firms making them redundant. Furthermore, young people are less likely to be subject to employment protection legislation. Almost invariably, such legislation requires a qualifying period before it can be invoked and typically compensation for redundancy increases with tenure. Thus, also for this reason, the more recently taken on employees will be cheaper to fire. Obviously, this will disproportionately affect young people.

Also, much research has shown that the first reaction of firms to a recession is to cease hiring before commencing on the more expensive procedure of redundancies. It is evident that young people will comprise a disproportionate segment of job-seekers and thus will be more heavily affected by a freeze in new hires. For example, Pissarides (1986) has demonstrated

[15] A further question of some importance regards the ***relative*** importance of aggregate demand and wages as determinants of youth unemployment. This question is considered below.

[16] Other countries display rather less job mobility. Blanchflower & Freeman report figures of the order of 2-3 jobs in the UK and Germany and 1.5-2 in Japan and Norway.

that, at the aggregate level, increased unemployment in Britain in the late 1970s and 1980s was essentially attributable to a reduction in the outflow from unemployment rather than any variations in the inflow which varied to a much smaller degree[17]. More recently, looking at the uncompleted duration of unemployment, O'Higgins (1995, pp.27-28) has demonstrated that this continues to be true for both older and younger age-groups. Variations in unemployment reflected increasing unemployment duration, and therefore a fall in the outflow rate, rather than a marked increase in new entrants to unemployment[18]. Indeed, for the under-18s, the progressive reduction in unemployment witnessed from 1983 on was accompanied by a sustained increase in the numbers of new entrants to unemployment. In other words, falling unemployment was accompanied by an *increase* in the inflow rate rather than the reverse.

For all these reasons it is not particularly surprising to find that young people's unemployment rates are higher than for adults and that they are more cyclically sensitive than their older counterparts.

Wages

The arguments related to wages also have, at least superficially, an obvious intuitive appeal. Wages are likely to have a negative impact on youth employment in as much as, the higher are the relative wages of youth with respect to those of adults the more incentives there are to employ adults as opposed to youths. Although intuitively appealing, this argument relies on the assumption that adult workers are perfect, or at least close, substitutes for their younger counterparts. In many cases, it is not at all clear that this is true, particularly as regards skilled workers. If, on the other hand, youths and adults are complementary in the workplace, reflecting, for example, different skill requirements, the wages of youths with respect to adults should have no influence. In such a scenario, both youth wages and adult wages with respect to other input costs will have a negative effect. Thus, although wages play a role, higher youth wages will tend to lower the employment rates of both adults and young people.

Wages vs aggregate demand

Much of the debate in Europe over the appropriate policy response was, at least initially, conducted in terms of the relative importance of the youth/adult wage ratio and aggregate demand in determining the level of youth unemployment[19], although the debate has now moved on towards discussions of the consequences for youth unemployment of a minimum wage. To take the example of Britain, the first half of the 1980s saw a plethora of studies

[17] Fairly obviously variations in the level of unemployment may be decomposed into variations in the inflow to, and outflow from, unemployment. Thus:

$$U_t = I_t - O_t + U_{t-1}$$

where U_t and U_{t-1} represent the levels of unemployment at time t and time t-1 respectively, I_t is the inflow into unemployment between time t -1 and time t and O_t is the corresponding outflow from employment. Variations in unemployment may be attributable to variations in either or both of the inflow and outflow rates. The principal source of inflows (at least for adults) is workers being made redundant whilst the principal destination of those leaving unemployment is a job (e.g. Clark & Summers, 1982).

[18] If variations in unemployment are due mainly to a fall in the outflow from unemployment this will be reflected in an increase in the average duration of unemployment spells. That is, if the inflow rate remains (more or less) constant, the number of people in unemployment for a short period will also remain more or less constant, whereas, with the fall in the outflow from unemployment, the average time it takes to find employment and therefore the average duration of unemployment spells will rise.

[19] Indeed, in Britain the assumption that high relative wages were at the root of the problem provided a central justification of the Government's strategy to reduce youth unemployment.

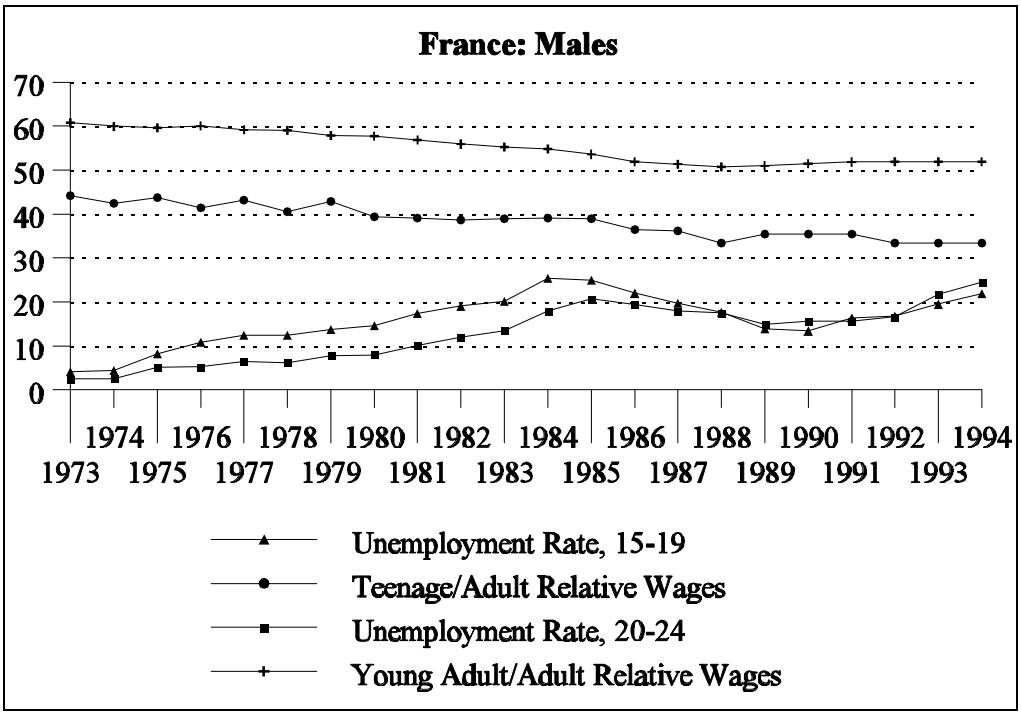
analysing the issue[20]. Without going into details, it might just be observed that whilst all the studies considering the issue found that aggregate demand played an important role in determining the level of youth unemployment, the findings on the effects of the relative wages were more mixed. With some studies finding a role for relative wages and others not. In part this depends on differences in the modelling procedure and problems with the data on wages, however, the fact remains that the earlier studies, taken as a whole, established a clear and strong link between youth unemployment and aggregate demand, but failed to find an unequivocal link between the level of youth relative wages and youth unemployment.

More recently, Blanchflower & Freeman (1996) have noted that the almost universal fall in the relative wages of young workers observable in OECD countries during the 1990s, despite being accompanied by a sharp reduction in the relative size of the youth cohort did not lead to any increase in youth employment rates which also fell over the period. Finally, Blanchflower (1996), in his analysis of International Social Survey Programme (ISSP) data, notes a weak relationship ($R^2 = .15$) between youth/adult relative wages and the corresponding youth/adult unemployment rates for thirteen industrialised countries.

Figure 4 compares movements in the youth/adult wage ratio with movements in youth unemployment rates. Examination of the figure is undoubtedly a rather superficial way of looking at the issue. Having said that, however, the figure does not seem to reflect any close relationship between the relative wages of youth and their unemployment rates. Indeed, the impression is that, more often than not, unemployment and relative wage rates appear to be moving in opposite directions to each other.

[20] See, for example, Makeham (1980), Layard (1982), Lynch & Richardson (1982), Wells (1983), Hutchinson et al. (1984), Rice (1986) and Junankar & Neale (1987) on Britain. More generally the problem was analysed by contributions to Freeman & Wise (1982).

Figure 4: Youth/adult relative wages and youth unemployment rates



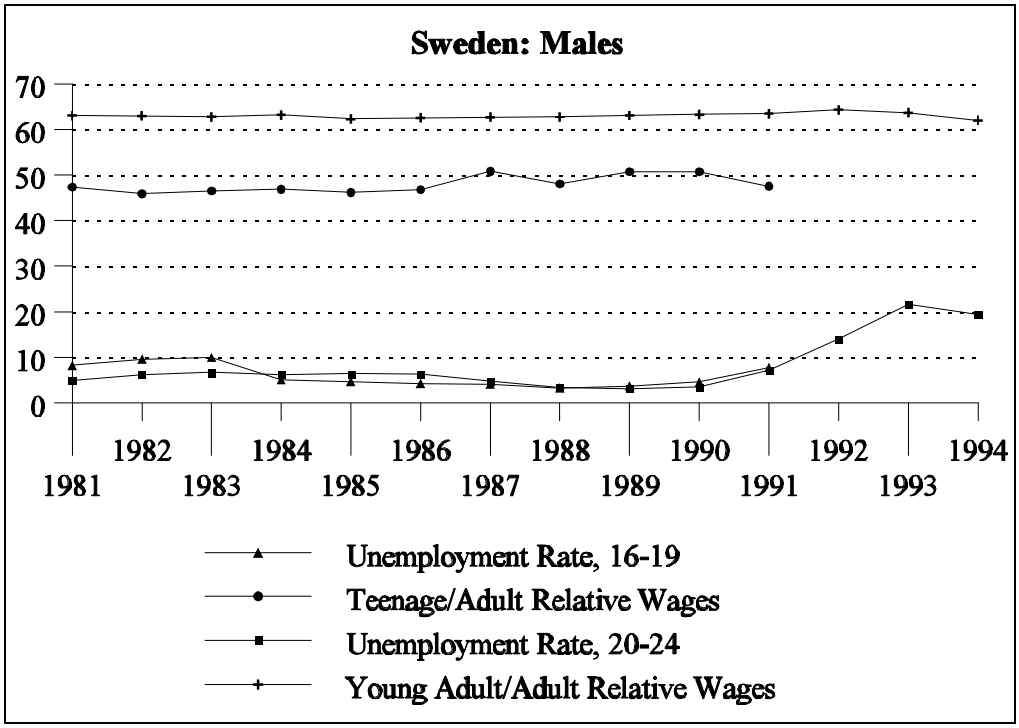
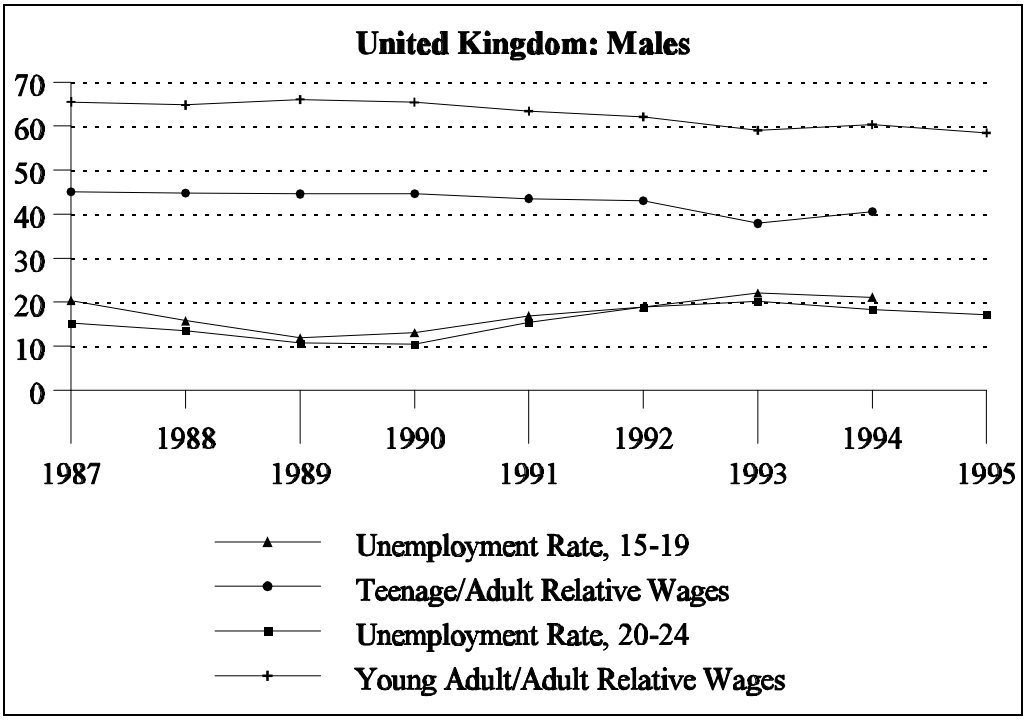
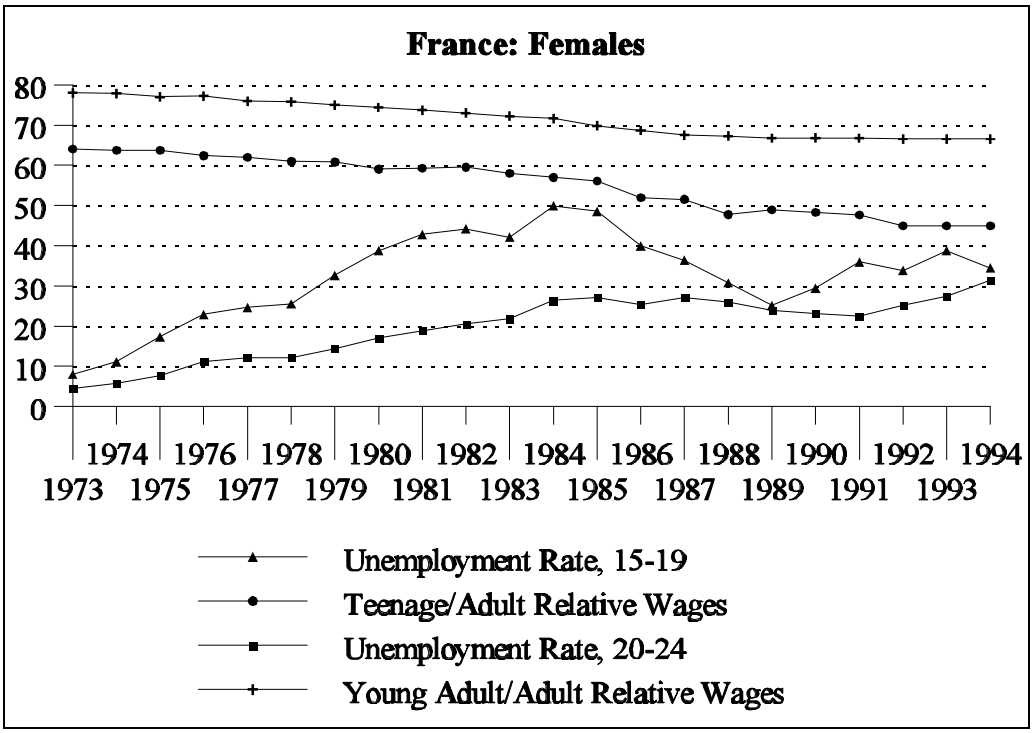


Figure 4 Ctd.


United Kingdom: Males
70
60
50
40
30
20
10
0
1987
1988
1989
1990
1991
1992
1993
1994
1995
Unemployment Rate, 15-19
Teenage/Adult Relative Wages
Unemployment Rate, 20-24
Young Adult/Adult Relative Wages


France: Females
80
70
60
50
40
30
20
10
0
1973
1974
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
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1987
1988
1989
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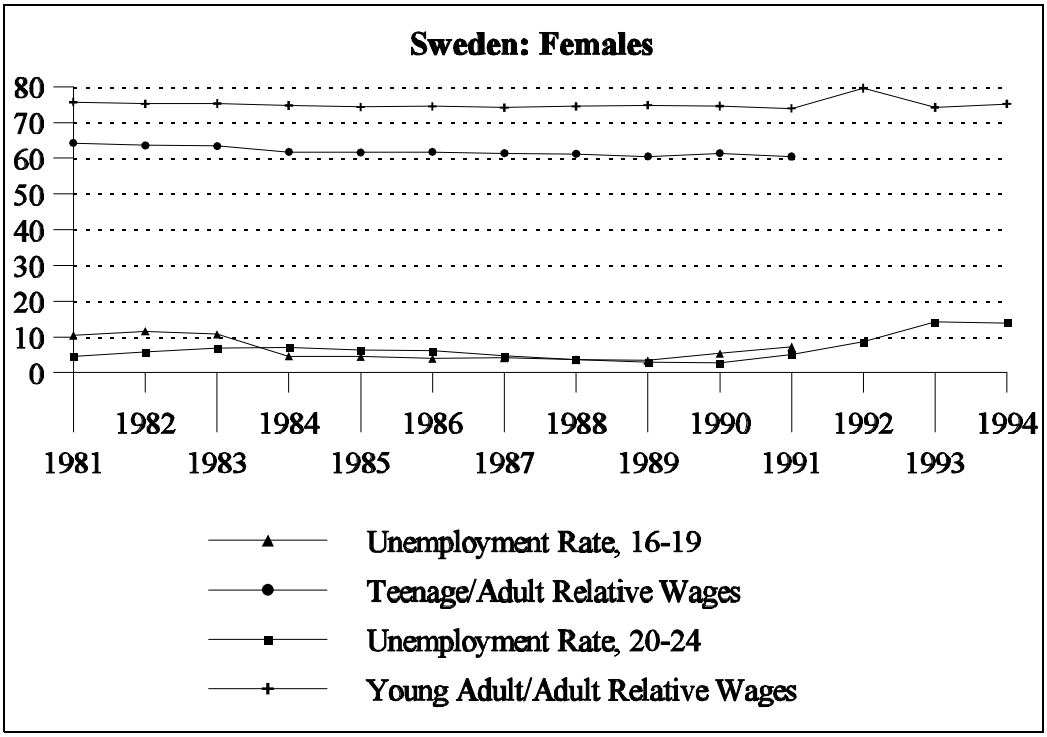
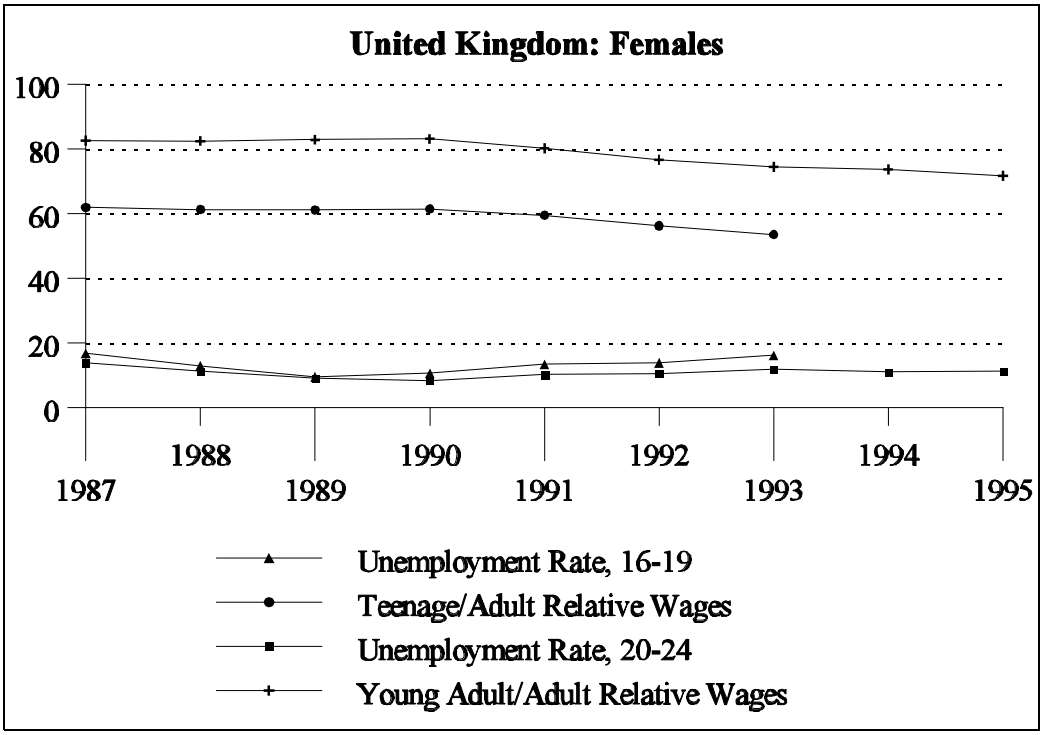
Unemployment Rate, 15-19
Teenage/Adult Relative Wages
Unemployment Rate, 20-24
Young Adult/Adult Relative Wages

Figure 4 Ctd.





Notes: 1) Teenage wage rates in France are those of 18-20 years old.
2) Adult wage rates are those of 40-50 year olds in France, 25-64 year olds in Sweden and 40-49 year olds in United Kingdom.

Source: OECD Database

A similar story is told by the minimum wage literature. Opponents of the minimum wage argue along the lines noted above: a high minimum wage (assuming it applies also to youth) will tend to increase youth unemployment through its impact on the relative cost of young workers with respect to adults, and more generally by pushing up labour costs. Those who are more favourably disposed towards the minimum wage note that such an argument relies crucially on the implausible assumption of perfectly competitive labour markets. If the labour market is characterised by a degree of monopsony (buyer's power), firms may set wages at a level below the marginal product of labour. As a result, an increase in the minimum wage may actually lead to an increase in employment and, so long as the wage is set below the perfectly competitive market clearing wage, a reduction in unemployment[21].

Although the perfectly competitive model pervades theoretical and empirical discussions of the effects of the minimum wage[22], such a model is clearly an oversimplification of the economy in the real world. The more appropriate question is one of "how much monopsony?"

Since the question cannot be resolved theoretically, the answer must be sought in the empirical evidence. Studies which have considered the issue have, once again, provided mixed results although the weight of the evidence tends to point against any substantial deleterious effect of minimum wages on youth unemployment. For example, the much discussed study of the effects of the minimum wage in the USA undertaken by Card & Krueger (1995) finds no detrimental effect of the minimum wage on employment.

Evidence for Europe has recently been analysed by Dolado et al. (1996) which examines the effects on employment over time of changes in the minimum wage in France, the Netherlands, Spain and the UK. In the UK and France they find that changes in the minimum wage had no effect on youth (or adult employment). In the Netherlands there is some slight evidence for a positive effect of the cut in the youth minimum wage on the employment of young workers. Whilst in Spain they find that, although increases in the minimum wage lead to a reduction in youth employment, the effect on total employment was positive. To improve the employment prospects of young people at the expense of adults or *vice versa* is rather different to raising the employment prospects of young workers without affecting those of others. Whilst the latter may be seen as an unequivocally "good" thing, it is less obvious that raising the employment prospects of younger workers at the expense of older workers is still such a "good" thing, particularly if the net effect on employment is negative.

In any event, the important point is that there is little evidence to support the proposition that raising the minimum wage significantly damages the employment prospects of young people. Even when a negative effect is detected, as in the two latter cases above, the effect is small and barely statistically significant[23]. This does not appear to be a sound

[21] In his comments on the Dolado et al. analysis (1996, p. 358) Gilles Saint-Paul argues that the question is about employment not unemployment. If set below the perfectly competitive market clearing wage-rate (and above the wage which the firm would prefer to pay), Saint-Paul argues that although raising the minimum wage may increase employment it will have no effect on unemployment since workers are on their labour supply curve and, in such a model, there is no involuntary unemployment. This point of view depends crucially on the definition of unemployment. If one accepts the ILO definition of an unemployed person being one who is not working but who is available for and actively seeking work, i.e. with no reference to the reservation wage, the point no longer holds.

[22] See, for example, OECD (1994).

[23] It is true, however that a number of individual cross-section and longitudinal estimates have found significant effects of the minimum wage (for example, van Soest, 1994, and Abowd et al., 1996) The former rely crucially on assumptions concerning the distribution of wages in the absence of legal minimum (Dickens et al., 1994) whilst the latter paper, using longitudinal data, avoids this problem but is heavily dependent on the assumption of no unobserved differences amongst those being paid at or below the minimum wage (for example, on government schemes in France which allow payment of a sub-minimum wage). Since there is much evidence to suggest the existence of such differences (for example, O'Higgins, 1994), and perhaps more importantly that employers perceive participation on such programmes as evidence of an

foundation on which to base policy recommendations for a reduction in the youth minimum wage as a solution to the youth unemployment problem.

Size of the youth labour force

The third major contributory factor to youth unemployment which I wish to mention is the size of the youth cohort. Self-evidently, the greater the number of young people on the labour market, the more jobs that will be required to accommodate them. Again, the more interesting question is how big an affect does the size of the youth population have on youth unemployment? The answer to the question is important, not least because the size of the youth population in the near future is much easier to predict than future economic conditions, and thus one may be able to say whether the youth unemployment problem is likely to go away of its own accord. Recently, Korenman & Neumark (1996) have looked at the question for 15 OECD countries. They estimate various equations based on the following form[24]:

$$Ln(YU_{it}) = \alpha Ln(RCS_{it}) + \beta Ln(AU_{it}) + \varepsilon_i + \varepsilon_t + \varepsilon_{it} \quad (1)$$

where YU_{it} is the youth (15-24) unemployment rate in country i at time t, RCS_{it} is the corresponding youth/adult population ratio and AU_{it} the adult unemployment rate. Using their preferred estimates, they find, overall that the elasticity of youth unemployment with respect to the relative cohort size is of the order of .5. That is to say, an increase in the relative size of the youth population of 10% will raise the youth unemployment by around 5%[25]. In contrast the elasticity of the youth unemployment rate with respect to the adult unemployment rate is of the order of .8. In other words, although the size of the youth cohort does have significant implications for the youth unemployment rate, aggregate labour market conditions have a more important influence[26]. The implications are that, although in most European countries, the relative cohort size is on the decline and, as figure 5 shows, is likely to continue to do so over the foreseeable future, this will not, of itself resolve the problem.

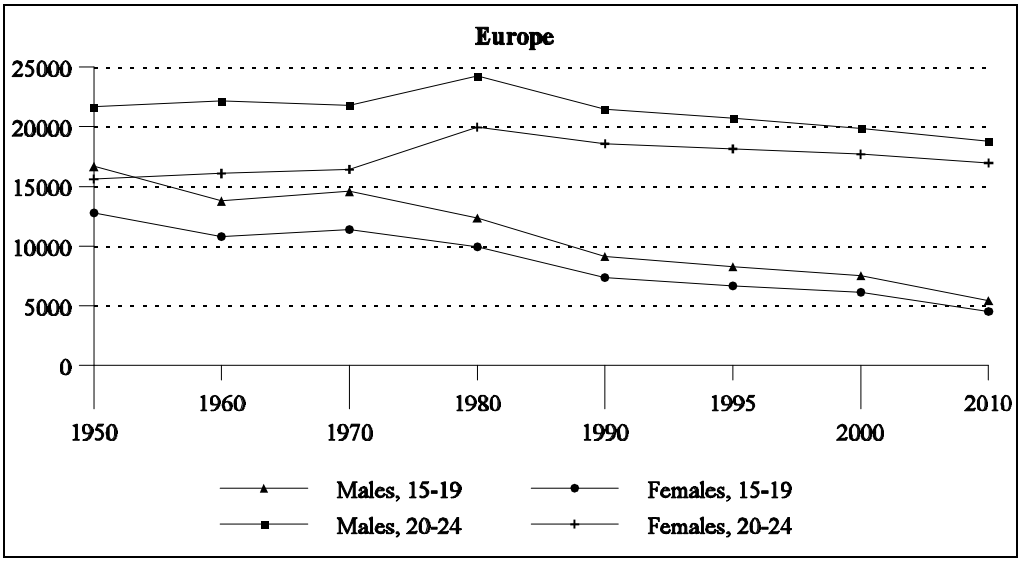
individual's poor productive potential (Fay, 1996, p. 17), this assumption is at least questionable. Furthermore, looking at an individual's employment prospects does not tell us very much about the aggregate effects in the presence of substitution.

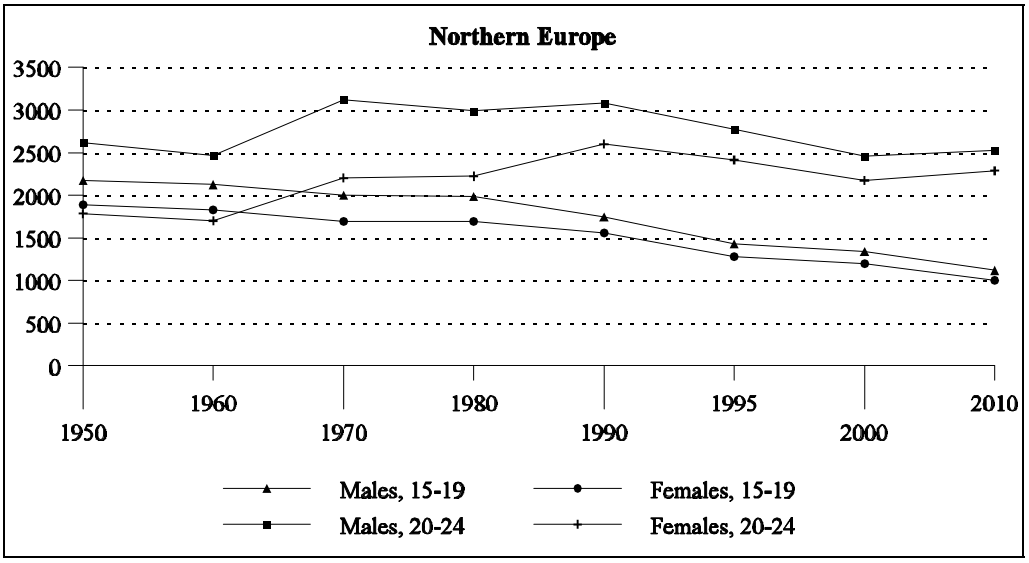
[24] The authors also include dummy variables to cover variations in data series definitions as well as considering a number of different specifications.

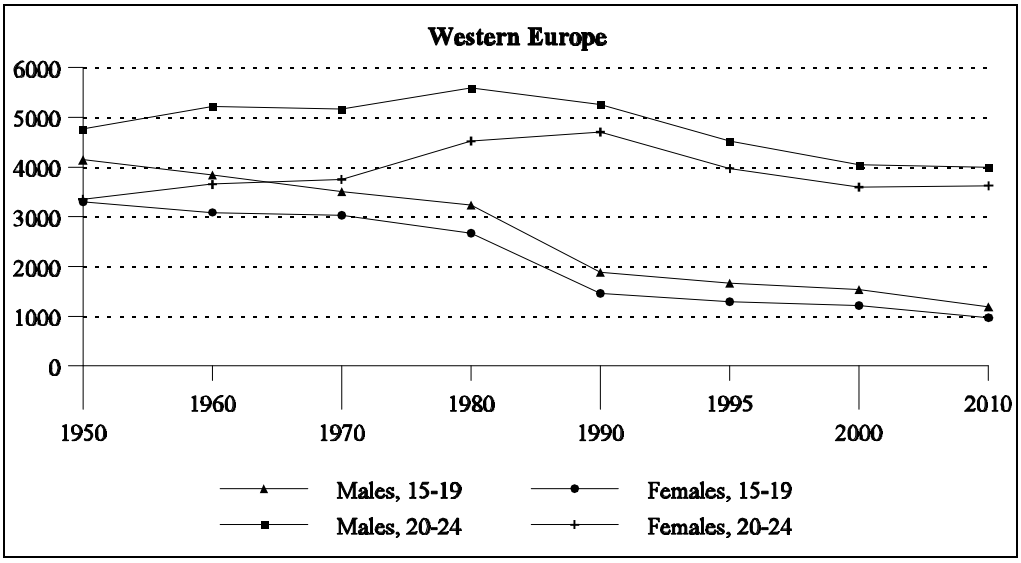
[25] It should be made clear that this 5% increase is relative to the existing youth unemployment rate and does not refer to the percentage point increase. That is, for example, suppose the youth unemployment rate is 20%, a 10% increase in the youth population will raise the youth unemployment rate by 1 percentage point to 21% or, in other words, by one-twentieth of the existing rate.

[26] It will be observed that, both in the Korenman & Neumark specification and in the results reported below, the variable actually employed is the youth/adult population ratio rather than the relative size if the youth labour force. This is because, as noted above, labour force participation is likely to depend on conditions in the labour market. That is to say, the relative size of the youth labour force will be endogenous.

Figure 5: Labour force estimates and projections, 1950-2010







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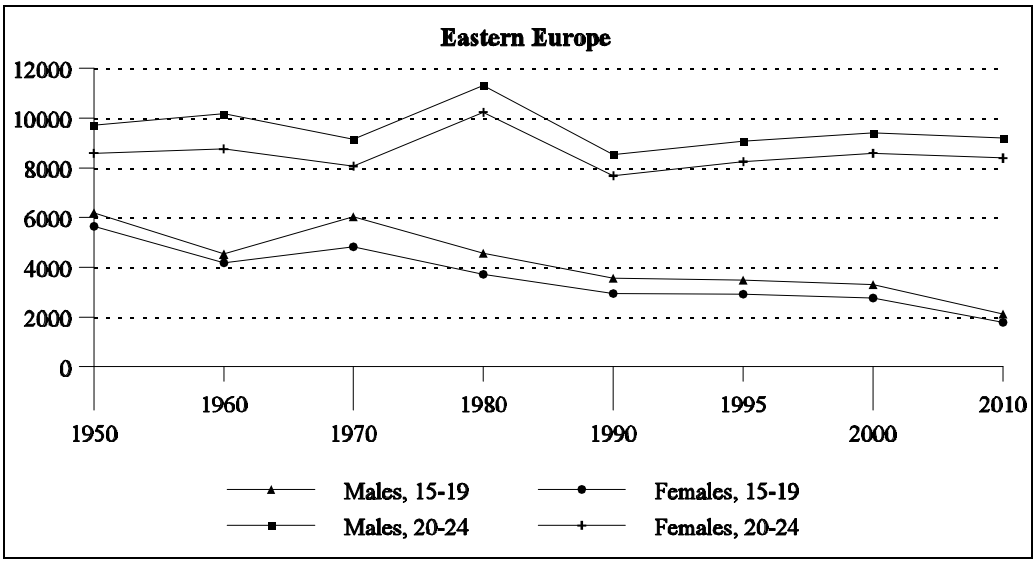
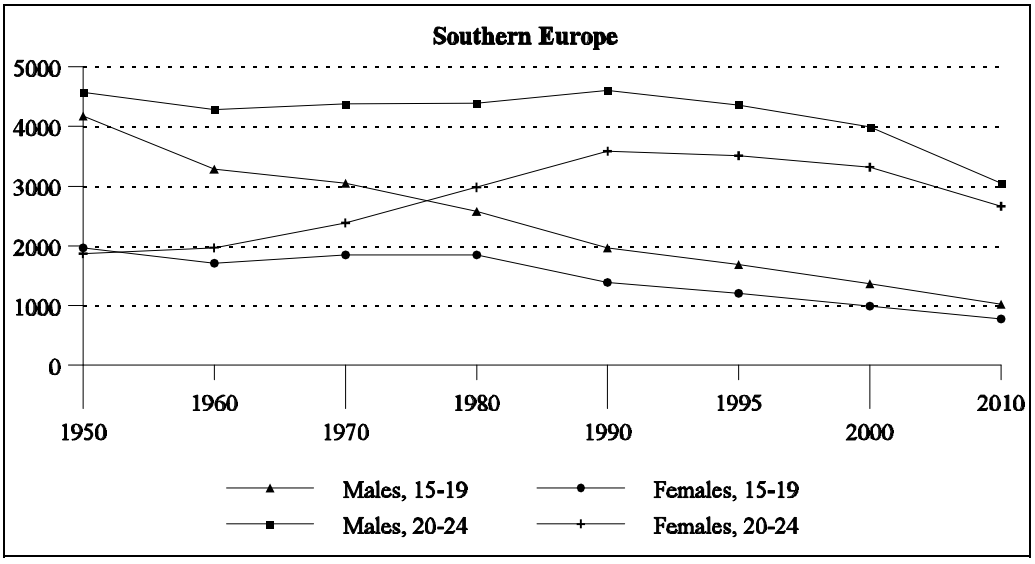




Notes: 1) Northern Europe comprises Denmark,Estonia, Finland, Iceland, Ireland, Latvia, Lithuania, Norway, Sweden and United Kingdom.

2) Western Europe comprises Austria, Belgium, France, Germany, Luxembourg, Netherlands and Switzerland.

3) Eastern Europe comprises Belarus, Bulgaria, Czech Republic, Hungary, Moldova, Poland, Romania, Russian Federation, Slovakia and Ukrain.

4) Southern Europe comprises Albania, Bosnia and Herzegovina, Croatia, Spain, Greece, Italy, Macedonia, Malta, Portugal, Slovenia and Federal Republic of Yugoslavia.

Source: ILO Database.

Interestingly, when they consider men and women separately, they find substantial differences by gender. For young men the relative cohort size has no significant effect whilst the elasticity with respect to adult unemployment is of the order of .9. For young women, the cohort size is of substantial importance with an elasticity of .9 which compares with an adult unemployment elasticity of .6. This might be explained by the fact that, whilst the labour force participation rates of young men are more sensitive to economic conditions, in terms of wages and employment prospects, both of which are likely to be adversely affected by increases in the relative cohort size, there is an exogenous tendency towards increased labour force participation on the part of young women which may tend to reduce the negative influences on labour force participation of adverse conditions on the labour market. Another contributory factor may be that economic conditions, through the increasingly effective implementation of equality of treatment laws[27] which have improved the working conditions and, in particular the wages, of women, have offset to some extent the negative impact of cohort size on wages.

Table 3: Elasticity of youth unemployment rates with respect to the adult unemployment rate and the youth/adult population ratio and youth/adult relative wage rates (with country and time fixed effects, t-ratios in parentheses).

	Males	Females	Males	Females
	15-19	15-19	20-24	20-24
Adult Unemployment	.73 (29.6)	.73 (21.1)	.91 (42.1)	.82 (34.2)
Youth/Adult Population Ratio	.48 (5.0)	.57 (4.3)	.07 (0.8)	-.05 (-0.5)
n	344	344	344	344
R^2	.94	.91	.96	.95

Notes: 1) Coefficients which were statistically significant at 5% are reported in bold letters.
2) The countries included are: Australia (1970-95), Canada (1970-95), Finland (1970-95), France (1970-95), Germany (1970-95), Ireland (1971-95), Italy (1970-95), Japan (1970-95), Netherlands (1971-95), New Zealand (1986-95), Norway (1972-95), Portugal (1974-95), Spain (1972-95), Sweden (1970-95), UK (198795) and USA).

Table 3 reports the results of estimating a Korenman & Neumark type specification. The equations differ from Korenman & Neumark's specification in as much as the equations were estimated separately for teenagers and young adults as well as for males and females. The results are broadly similar to those reported by Korenman & Neumark[28]. Although, the relative importance of adult unemployment rates appears to be greater in the results reported here

[27] I do not by this mean to imply that equality of treatment legislation has brought the economic conditions facing women in the workplace into line with those facing men in industrialised countries. This is very obviously false. However, such legislation, as well as changing attitudes, has lead to an improvement of the treatment of women ***relative*** to men albeit starting from an unequal position.

[28] Although not as regards the results for males and females. This may depend on part the different countries analysed but also the correlation between the youth cohort size and the relative wage rates.

compared to the analysis of Korenman & Neumark. In addition, what emerges is the importance of the distinction between teenagers and young adults. The relative size of the youth cohort appears to be of some importance for teenagers, and particularly teenage females but does not play a role in determining the unemployment rates of young adults. The effect of adult unemployment rates is more important than cohort size in both cases, but there is a bigger difference between the effects for young adults than teenagers.

From the preceding discussion, it is clear is that:

i) there is no strong evidence that youth unemployment rates are closely related to youth/adult relative wage rates with the implication that reducing the relative wages of youths is unlikely to have any substantial effects on youth unemployment; and,
ii) whilst the relative size of the labour force does play a role in the level of youth unemployment, this role is outweighed in terms of importance by the effects of aggregate demand.

One implication of this is that reductions in the labour force of youths will not, of itself solve the youth unemployment problem. As can be seen from figure 5, according to ILO projections, the size of the labour force is expected to fall more or less for all youth groups all over Europe at least until 2010. This may ease to some extent the youth unemployment problem but will not solve it, particularly in Northern Europe where the fall in labour force is relatively small with even a slight increase for the 20-24 age group between 2000 and 2010 and in Eastern Europe where young adults in the labour force are likely to increase slightly in the immediate future.

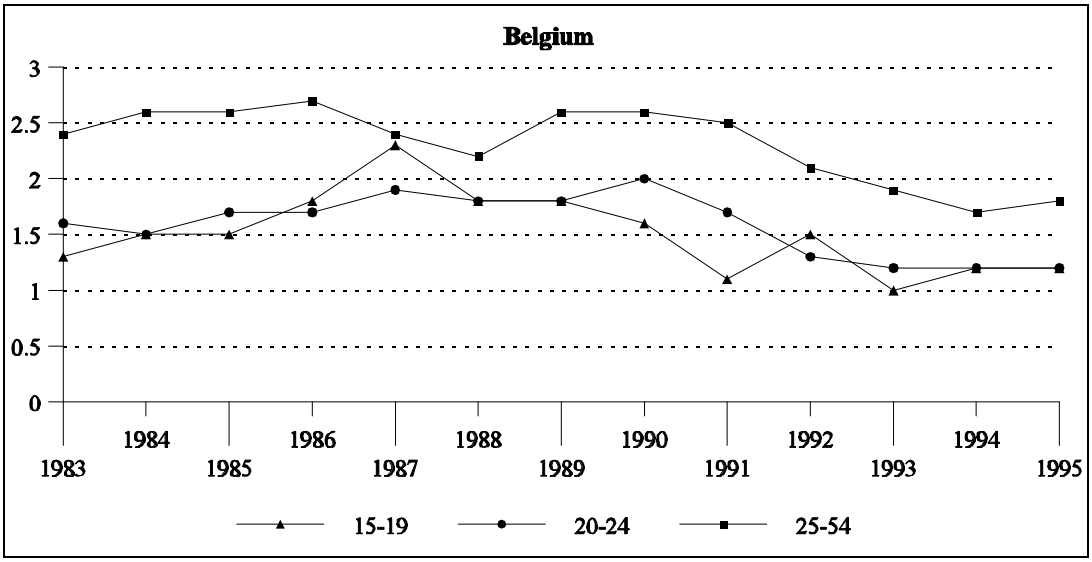
1.3.2 Who are the young unemployed?

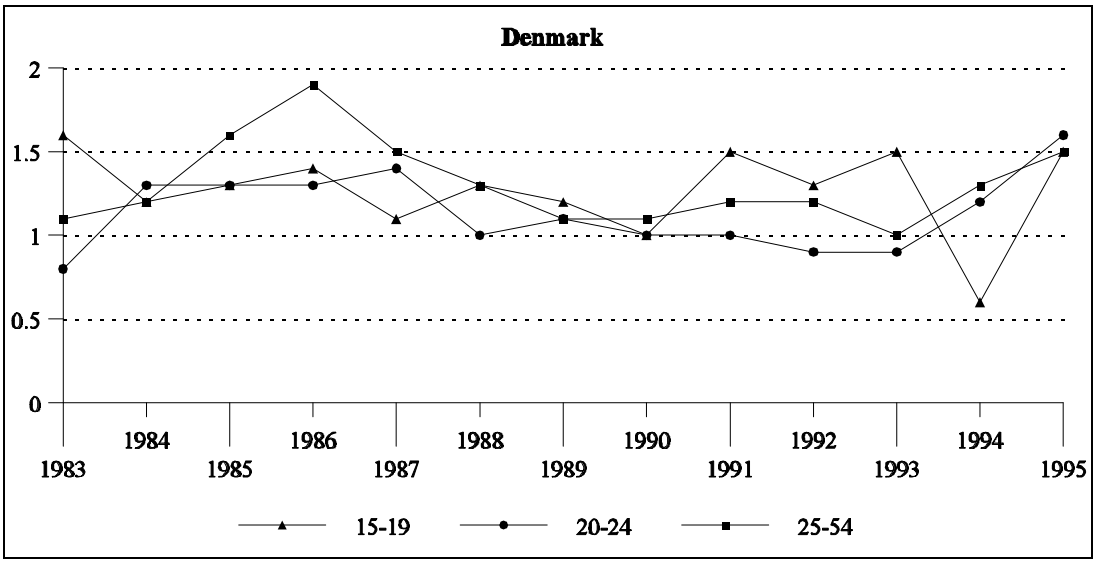
Youth unemployment is by no means spread evenly amongst young people. A number of individual characteristics tend to increase or reduce the likelihood that a young person becomes unemployed. Let us look at a few of these in turn.

Women vs. men

There does not appear to be any strict pattern in the relationship between male and female unemployment rates. In the countries for which ILO-comparable data is available, women face higher youth (as well as adult) unemployment rates than men more often than not, although this varies much from one country to another. Figure 6 shows the ratio of female to male unemployment rates for different age-groups over time for a number of European countries. It can be seen from the figure that in several European countries (Finland, France, Poland, Portugal, Romania and Spain) female youth unemployment rates are significantly higher than male youth unemployment rates. Thus, in a number of countries, the situation facing young women is particularly serious. If one looks at developments over time, one notes that, particularly in Southern European countries, this pattern has remained fairly constant or tended to slightly increase over time. This might be attributed to the exogenous tendency for the labour force participation rates of adult women to rise. In as much as adult women tend to be employed in less skilled work than men, there may be greater substitutability between young and adult women than there is for younger and older males.

Figure 6: Ratio of female to male unemployment rates by age





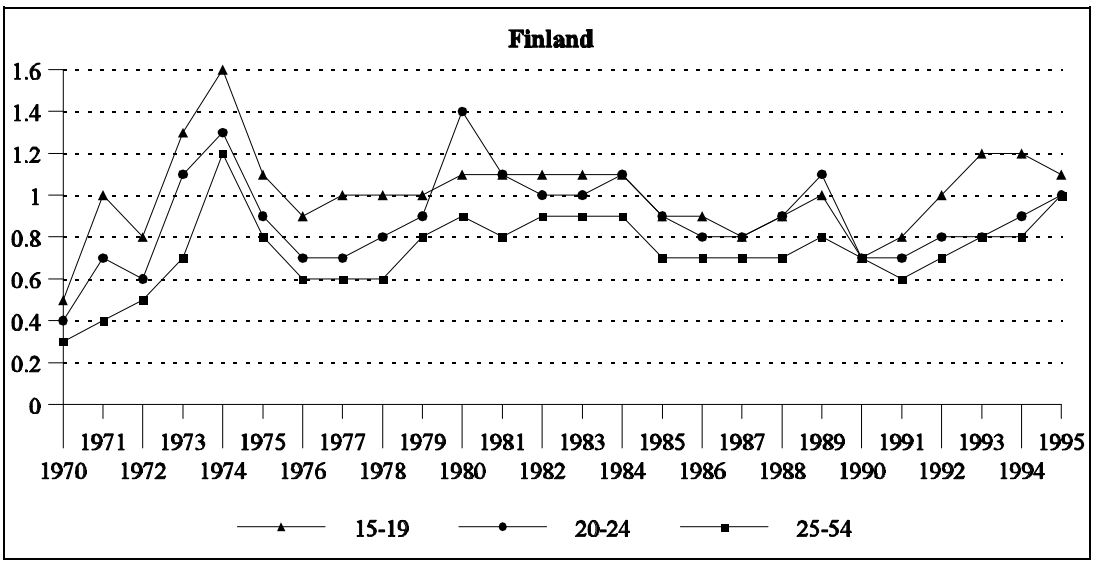
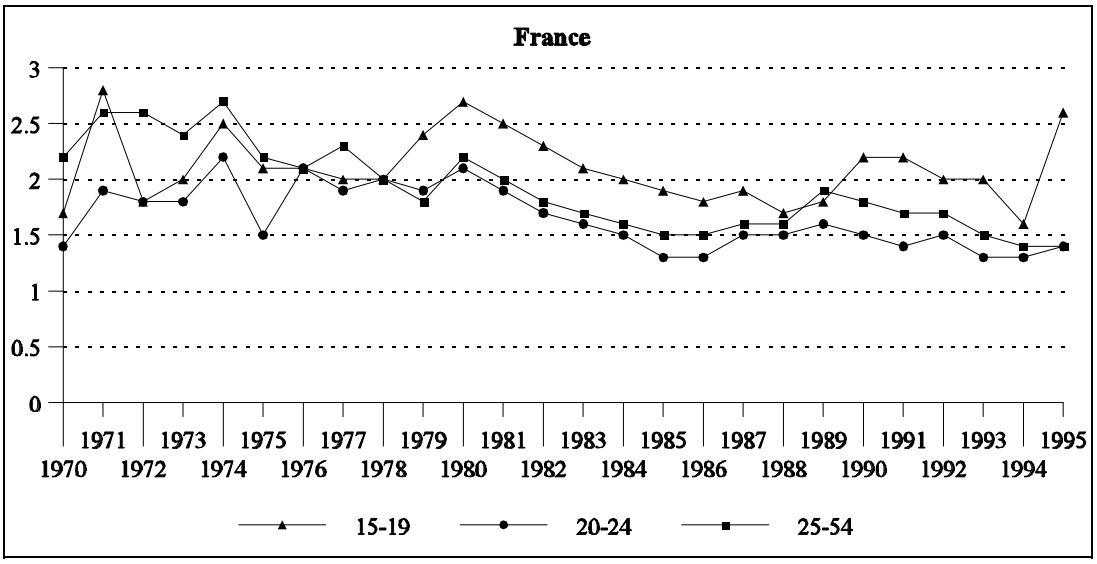


Figure 6 ctd.


France
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1971 1973 1975 1977 1979 1981 1983 1985 1987 1989 1991 1993 1995
1970 1972 1974 1976 1978 1980 1982 1984 1986 1988 1990 1992 1994
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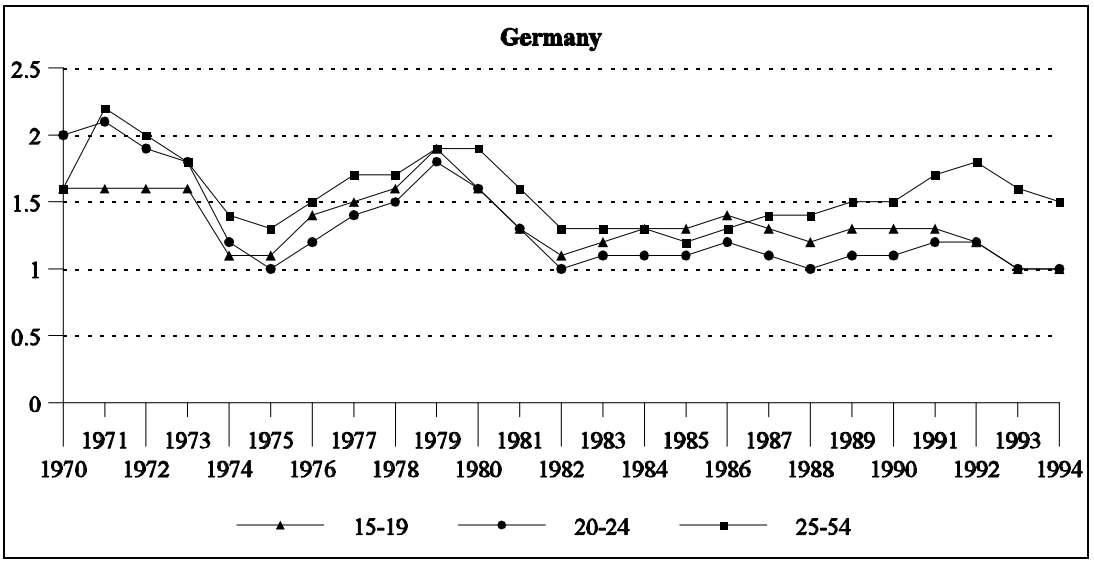
Germany
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2
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1971 1973 1975 1977 1979 1981 1983 1985 1987 1989 1991 1993
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20-24
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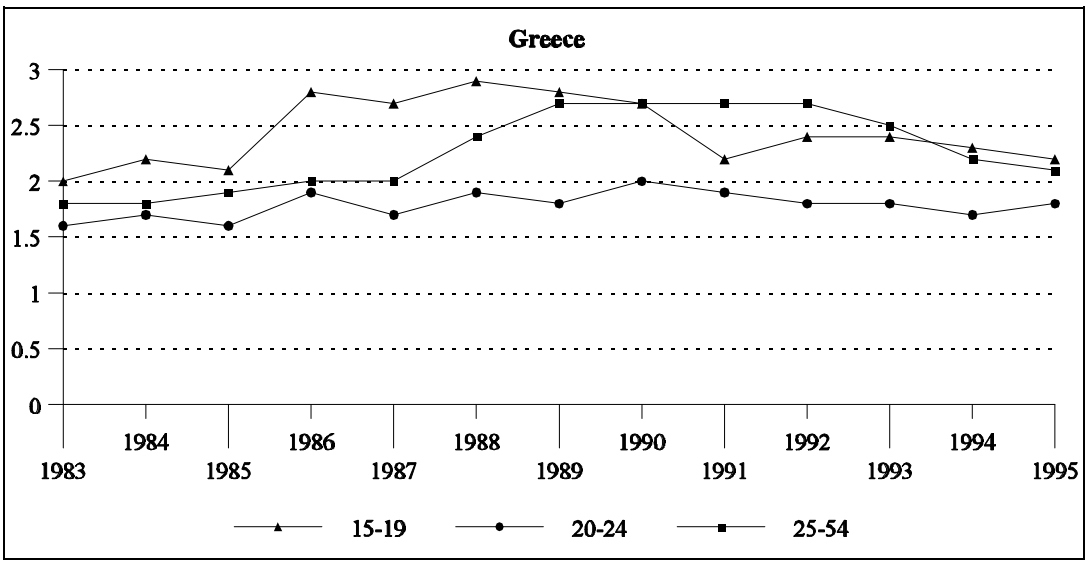
Greece
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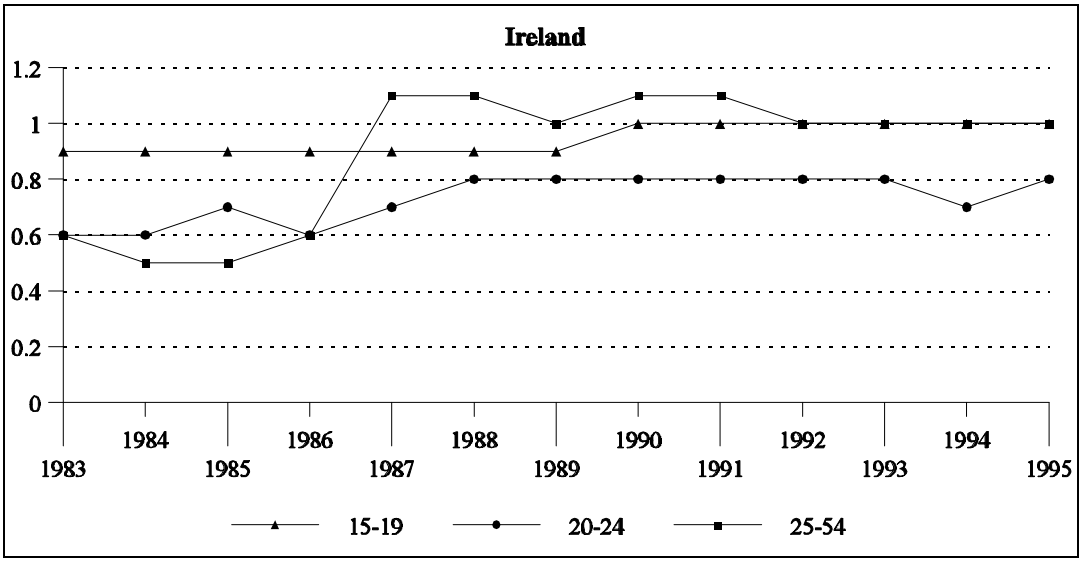
Figure 6 ctd.


Ireland
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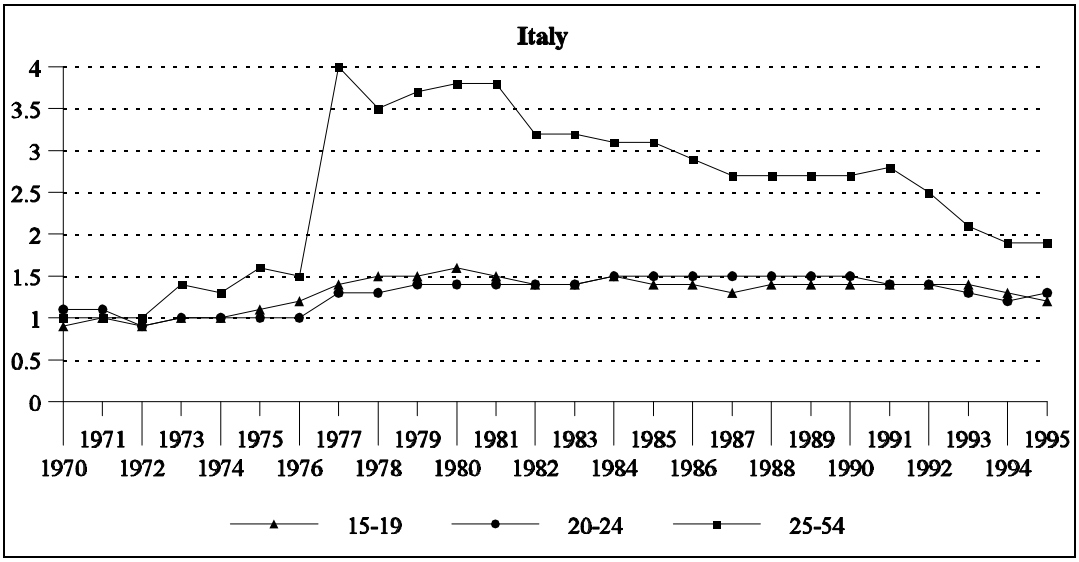
Italy
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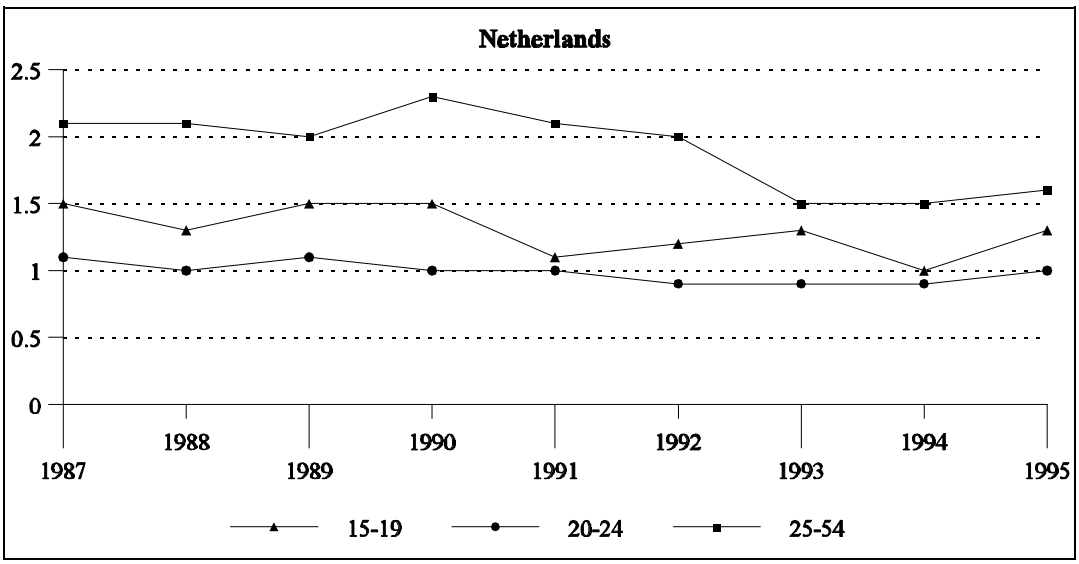
Netherlands
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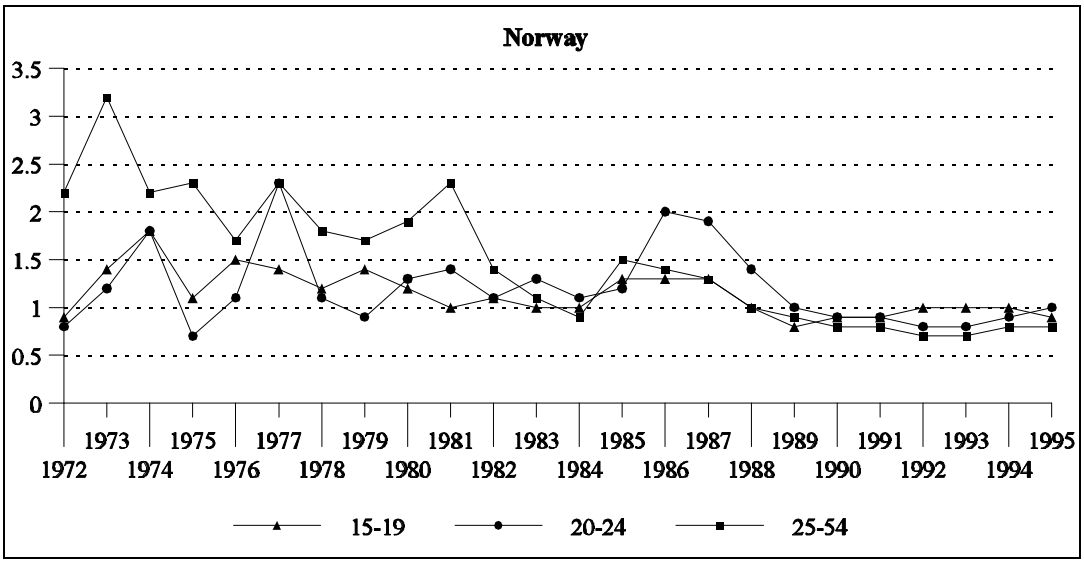
Figure 6 ctd


Norway
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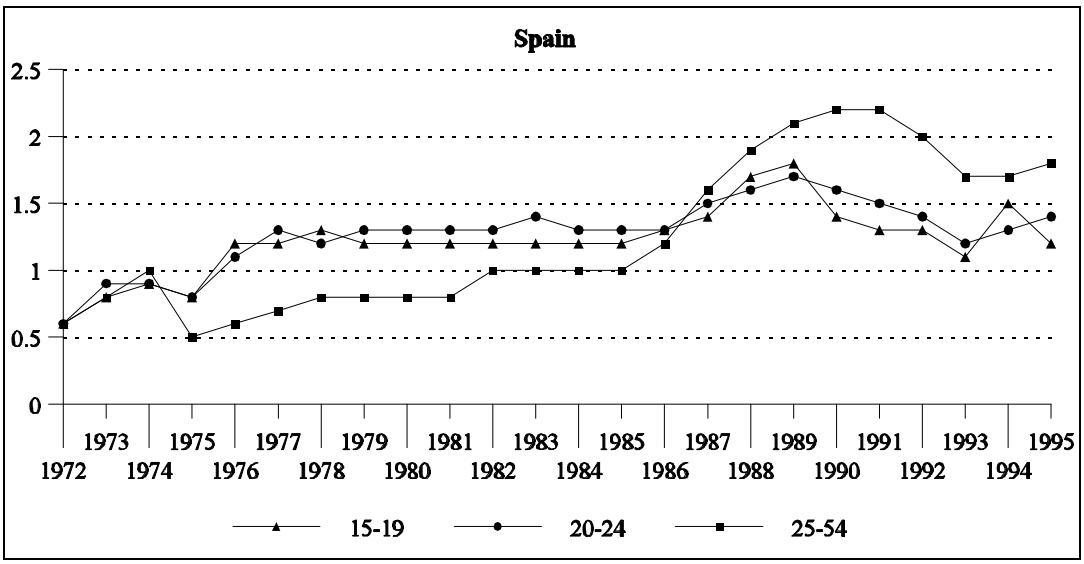
Spain
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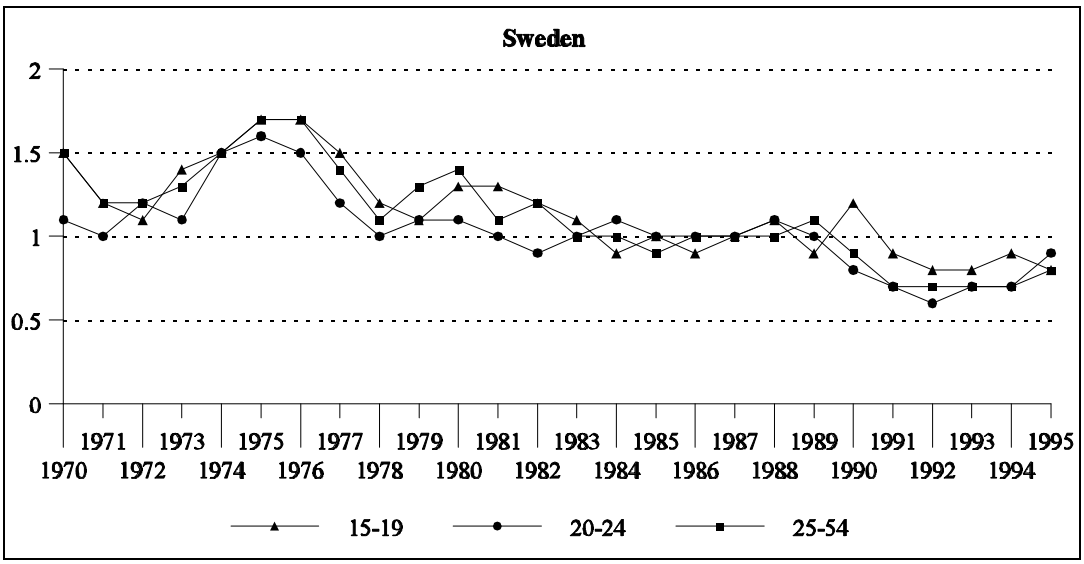
Sweden
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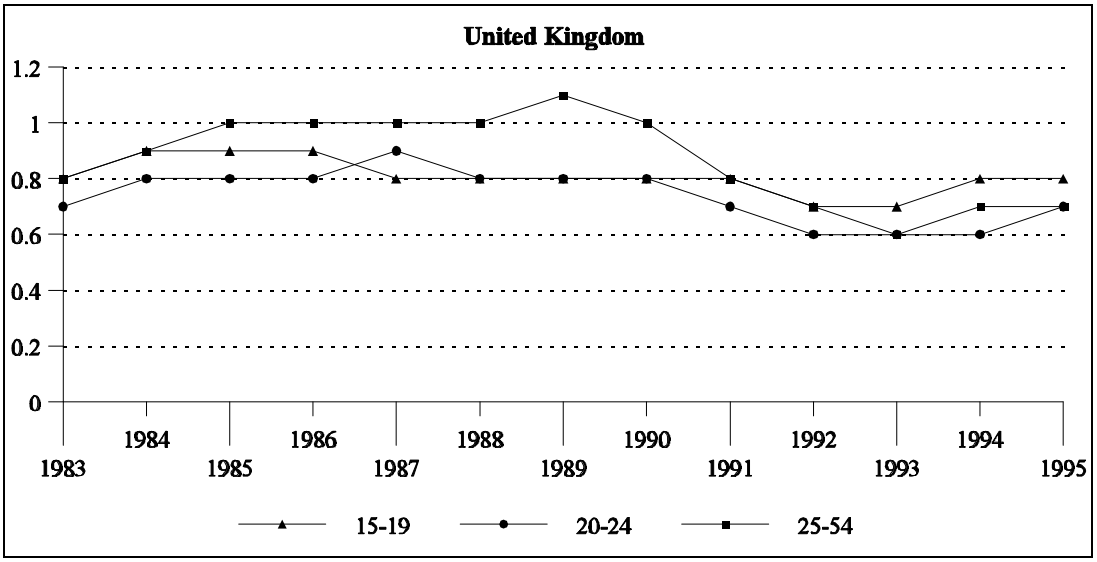
Figure 6 ctd.



Source: OECD Database.

Ethnic origins

The effects of ethnic origin are more clear cut. For example, in the USA in 1995, the average teenage unemployment rate was 17.3%. However, breaking this down by ethnic origin one finds that those defined as "Black" faced an unemployment rate of 35.7% whilst the corresponding rate for "Whites" was 15.6%[29]. Thus, teenage blacks in the USA face unemployment rates more than twice as high as their more fortunate "white" counterparts. One piece of recent research (D'Amico & Maxwell, 1994) suggests that this difference in employment prospects is largely responsible for the observable black-white wage differential for young males in that country.

A similar situation is observable in at least some parts of Europe. In the UK, for example, the Department for Education and Employment (1997) estimate the unemployment rates of all ethnic minorities (Spring 1996) to be 17.6% compared to a rate of 7.7% for "Whites". This is despite the fact that ethnic minorities tend to have higher participation rates in education[30].

Disabled youth

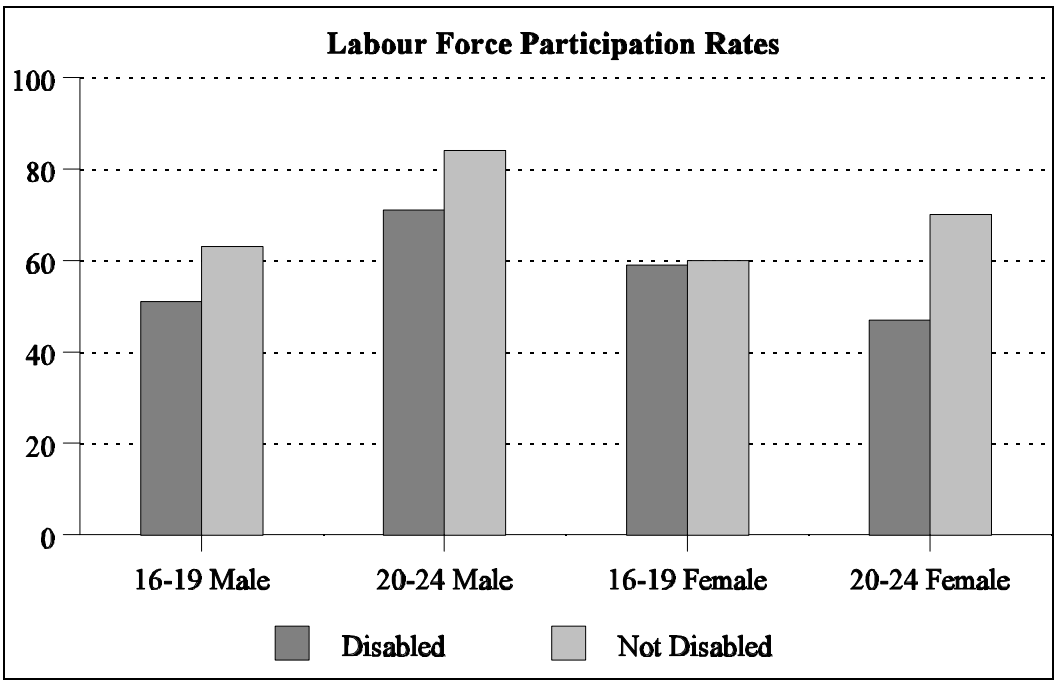
Another group in the labour market facing particular difficulties are the "disabled". Numerous studies have noted both the lower rates of labour force participation and higher unemployment rates[31]. As an example, figure 7 provides information on the economic activity and unemployment rates for young people by disability in the winter 1994/95 in Great Britain. This example is by no means isolated. Reguera (1995, p. 249) reports a number of other cases. It might just be observed that the differential in labour market success between the disabled and those without disabilities tends to increase with age. In part this may be attributed to the tendency of disabilities to increase in severity with time, but also to the persistence of effects of an early lack of success in the labour market.

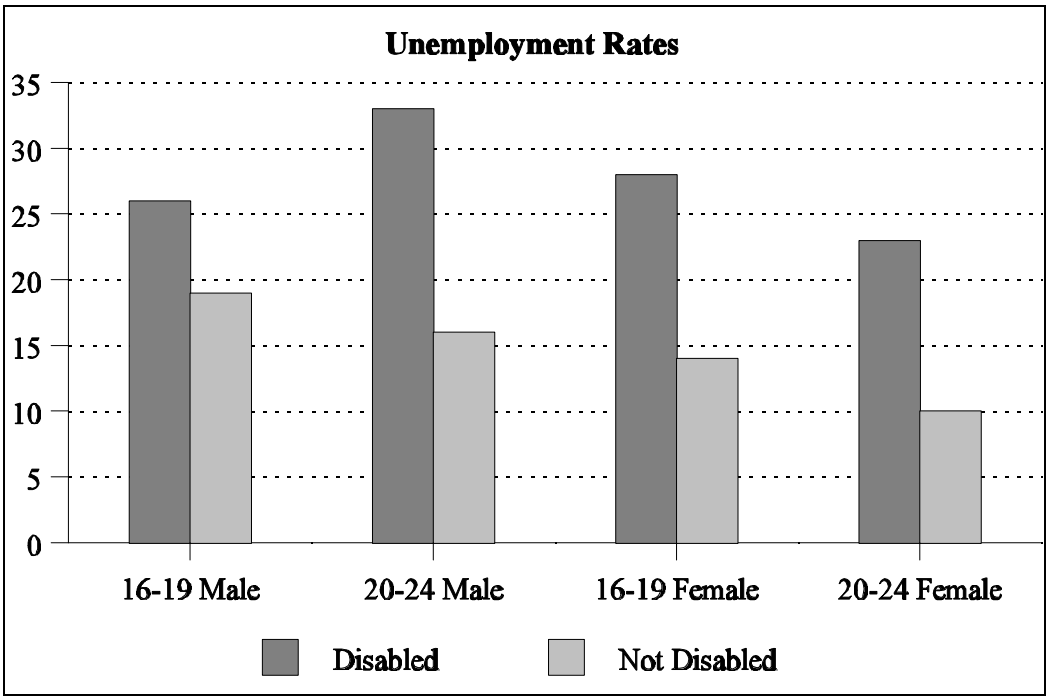
[29] *Monthly Labor Review*, September 1996, p.63. We report data for the USA, since this is the one country which regularly publishes unemployment rates broken down by age, gender and ethnic origin. Casual observation suggests however, that high unemployment rates amongst ethnic minorities is a feature of many European countries.

[30] The rates of participation in education for 16-24 year olds in the Spring 1996 was 57% for all ethnic minorities as against 41% for "whites" (Department for Education and Employment, 1996). To some extent, of course, this could be attributed to the poorer labour market prospects of youths from ethnic minorities who do decide to enter the labour market and has tended to remain a feature of the British labour market since at least the 1980s (O'Higgins, 1992).

[31] See, for example, Reguera (1995) and Sly et al. (1995).

Figure 7: Labour force participation and unemployment rates by age, gender and disability, Great Britain, winter 1994/95





Source: Sly & Duxbury (1995, figures 2 & 3).

Regional disparities

Just as youth unemployment rates tend to track adult unemployment rates over time, they also are highly correlated with regional variations in the adult rate within countries. This means that countries with a high level of regional variation in adult unemployment rates will tend to be characterised by even higher disparities in employment opportunities for young people. Nowhere is this clearer than in Italy. Here the adult unemployment rate varies enormously, largely reflecting differences between the highly industrial North and the less developed South. For example, in 1995 in Southern Italy the average unemployment rates for teenagers, young adults and all those of working age was 56.4%, 55.0% and 21.1% respectively. The corresponding figures for the North were 24.2%, 7.7% and 6.8% (ISTAT, 1996).

Table: 4: Unemployment rates by level of educational attainment for persons 25 to 64 years of age, 1994.

		Below upper secondary	Upper secondary education	Non-university tertiary education	University education
Europe	Austria	4.9	2.8	1.3	1.8
	Belgium	12.5	7.1	3.4	4.0
	Denmark	17.3	10.0	6.0	5.0
	Finland	22.7	16.4	11.1	6.6
	France	14.7	10.5	7.6	6.1
	Germany	14.2	9.0	6.1	5.0
	Greece	6.2	8.7	6.5	7.2
	Ireland	18.9	9.7	6.4	3.4
	Italy	8.4	7.5	-	6.4
	Netherlands	8.2	4.8	-	4.3
	Norway	6.5	4.7	3.6	1.5
	Portugal*	6.0	6.2	2.7	2.4
	Spain	21.3	19.4	18.5	13.8
	Sweden	8.8	7.6	3.9	3.4
	Switzerland	5.1	3.4	2.53	3.7
	United Kingdom	13.0	8.3	5.3	4.7
Other OECD	Australia	10.2	6.9	5.4	3.9
	Canada	14.3	9.0	8.5	5.2
	United States	12.6	6.2	8.5	5.2
Unweighted average		111.9	8.3	6.3	4.9

Source: Education at a Glance: OECD Indicators, 1996.

Skills and education levels

Another characteristic across which unemployment tends to vary is the educational (and the related skills) levels of individuals. Table 4 reports unemployment rates by educational level for a number of European Countries for which data is available. It will be observed that the general pattern is for unemployment rates to fall, often dramatically (for example in Belgium), with the level of education. Although not very surprising, these differences are important and will be returned to below. Recently, Nickell (1996b) has noted that, in OECD countries, the difference between the unemployment rates of those with low levels of education relative to those with higher levels of education has tended to widen over the last twenty years. At the same time, the gap in the wage-rates of unskilled workers compared to those of skilled workers has also tended to widen. Thus, the relative employment and wage prospects of unqualified and/or unskilled workers has been getting progressively worse over the last twenty years or so (Nickell, 1996a).

1.4 Consequences of youth unemployment

It has in the past been argued by some that although, in general, young people face higher unemployment rates than their older counterparts, the consequences of such joblessness were likely to be less devastating for this group than for adults, and particularly older adults[32]. The central point underlying such arguments regard unemployment duration. It is plausible to suggest that the adverse consequences of unemployment increase more than proportionately with the duration of the spell. Material hardship, physiological and psychological damage due to unemployment are all likely to increase rapidly with duration (Fagin & Little, 1984, Smith 1987)[33].

Young people, so the argument goes, face a higher incidence of unemployment, however, the duration of unemployment for young people is less than for older people. Table 5 reports long-term unemployment rates[34] for youths and adults for a range of OECD countries. It will be observed that, whilst long-term unemployment rates are lower for youths than for adults in almost all the countries considered here[35], in many countries the difference between youths and adults is not very big. Certainly the difference in long-term unemployment rates between countries is far more striking than the difference between age-groups which seem to vary roughly in line with youth unemployment rates[36]. Thus, the argument that young people's unemployment durations are much shorter than adults' does not appear to be strongly supported by the evidence.

[32] An early example of arguments against the severity of youth unemployment is provided by Bell et al. (1982).

[33] Clark & Oswald (1994), on the other hand, offer some evidence to suggest that the negative effect of unemployment on mental well-being *decreases* with its duration, although differences in the effect of unemployment due to duration are not statistically significant.

[34] Which I define here as the proportion of the unemployed who have been out of work for more than six months.

[35] With the notable exception of Greece and Italy.

[36] One exception to this is Germany. This suggests that whilst Germany with its relatively low youth unemployment rates has been comparatively successful in integrating young people into work, those who are initially not successful may face severe difficulties in finding employment.

Table 5: Youth unemployment rates and long-term unemployment rates of youths and adults, 1995.

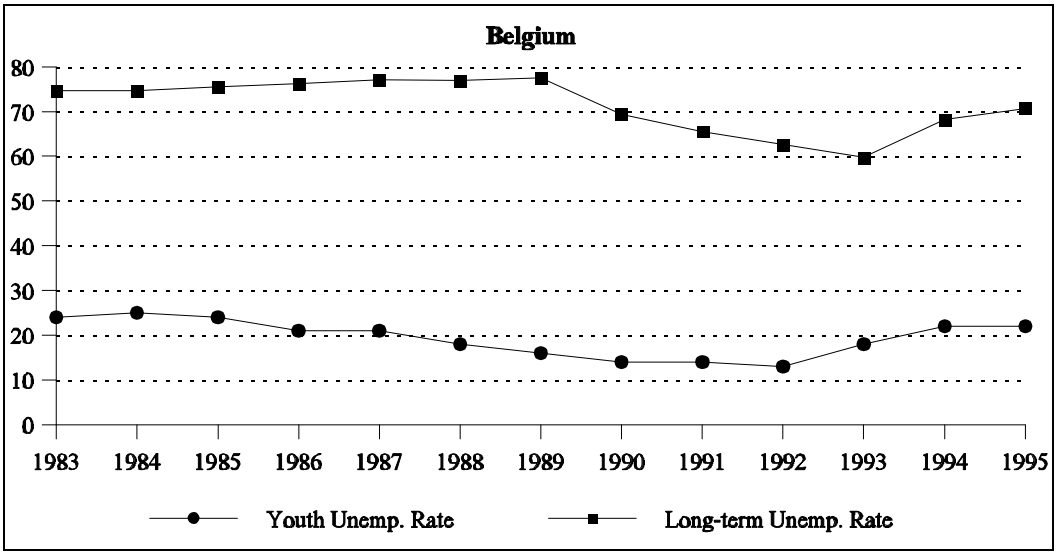
Country	Youth unemployment rates	% Unemployed for more than six months: youths	% Unemployed for more than six months: adults
Australia	14.4	44.0	52.4
Austria	5.9	10.2	27.7
Belgium	21.5	70.7	78.5
Canada	15.6	14.9	29.3
Czech Republic	6.8	43.5	55.7
Denmark	9.9	22.6	47.2
Finland	27.2	22.9	53.3
France	25.9	57.0	70.3
Germany	8.5	46.9	62.0
Greece	27.9	73.9	72.4
Iceland	12.2	13.3	37.9
Ireland	23.0	70.3	80.1
Italy	32.8	80.9	79.6
Japan	6.1	24.5	37.7
Mexico	9.3	6.2	9.2
Netherlands	13.1	68.5	76.4
New Zeland	11.9	27.8	41.2
Norway	9.4	27.4	47.5
Portugal	16.0	46.4	68.2
Spain	42.5	66.6	74.2
Sweden	15.4	22.8	34.0
Turkey	14.9	61.7	65.2
United Kingdom	15.5	48.7	63.1
United States	12.1	10.7	19.0

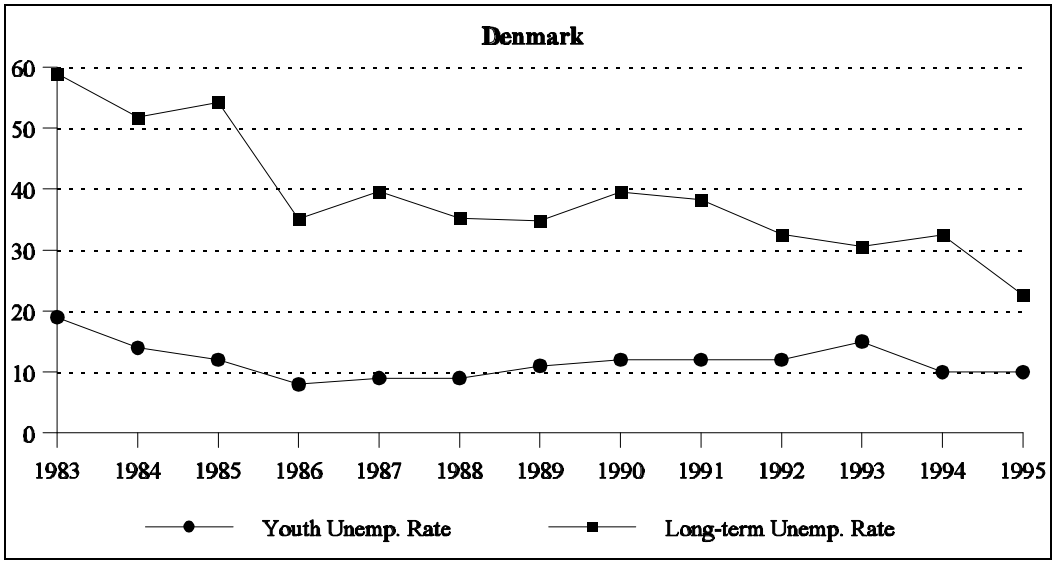
Source: OECD database.
Note: The long-term unemployment rate is defined as the proportion of the unemployed who have been so for at least six months.

Figure 8 plots the long-term unemployment rate against the unemployment rate for youths in several European countries. Although the correspondence is not as close as between youth and adult unemployment rates, the figure suggests that unemployment duration tends to broadly follow youth unemployment rates. This again provides support for the notion that variations in youth unemployment rates have largely been the consequence of variations in outflow rates from unemployment rather than inflow rates. Also, a few countries (most notably Denmark) appear to have been successful in reducing the long-term unemployment rate independently of the rate of youth unemployment itself.

Figure 8: Long-term unemployment rates and youth unemployment rates: males and

females, 15-24





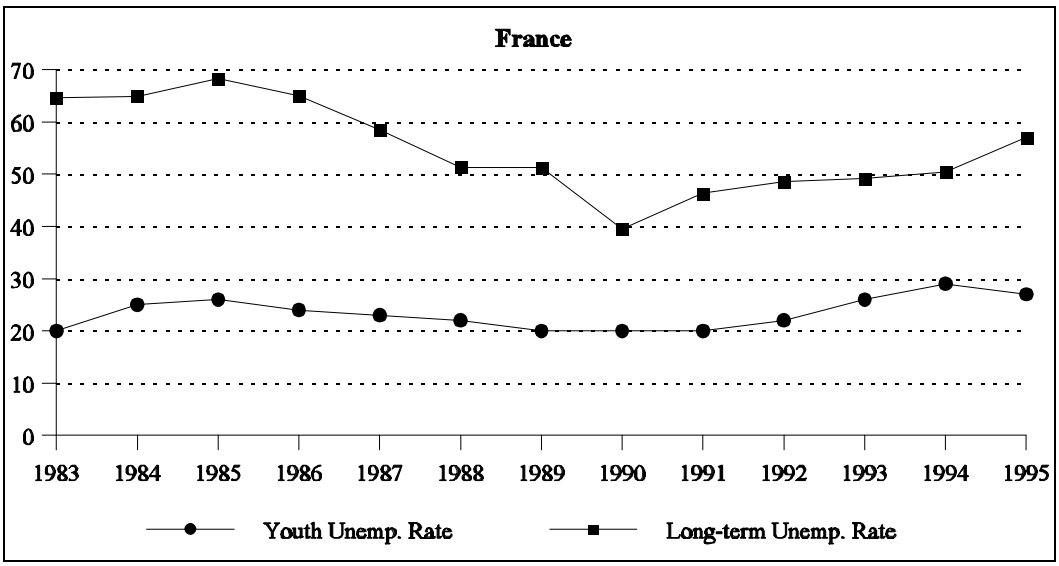
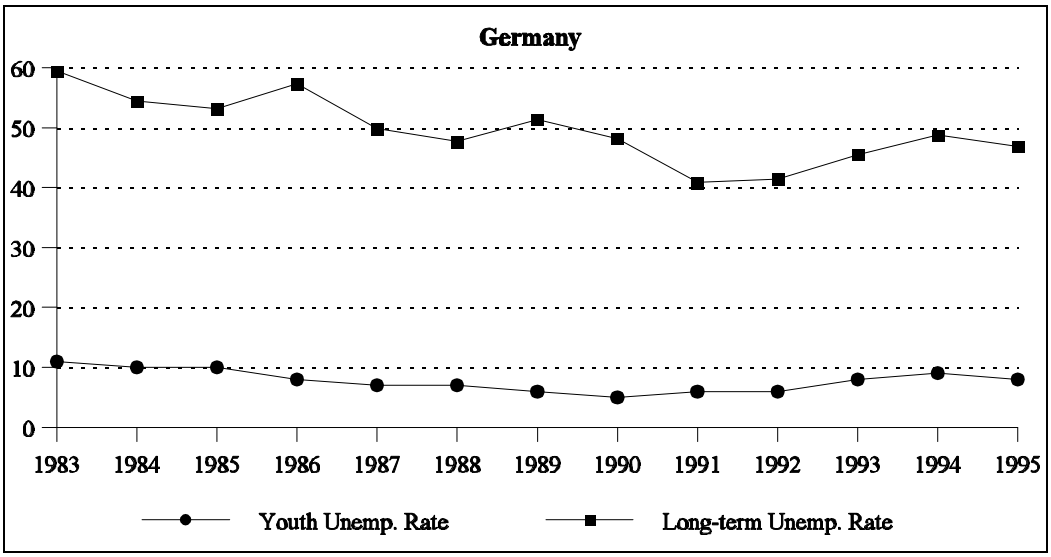


Figure 8 ctd.


Germany
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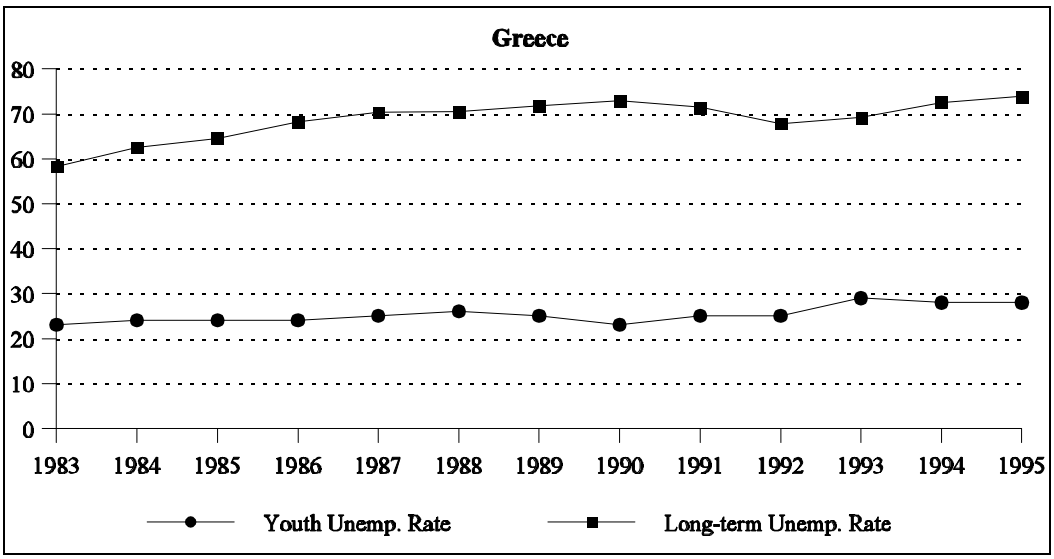
1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995
Youth Unemp. Rate
Long-term Unemp. Rate


Greece
80
70
60
50
40
30
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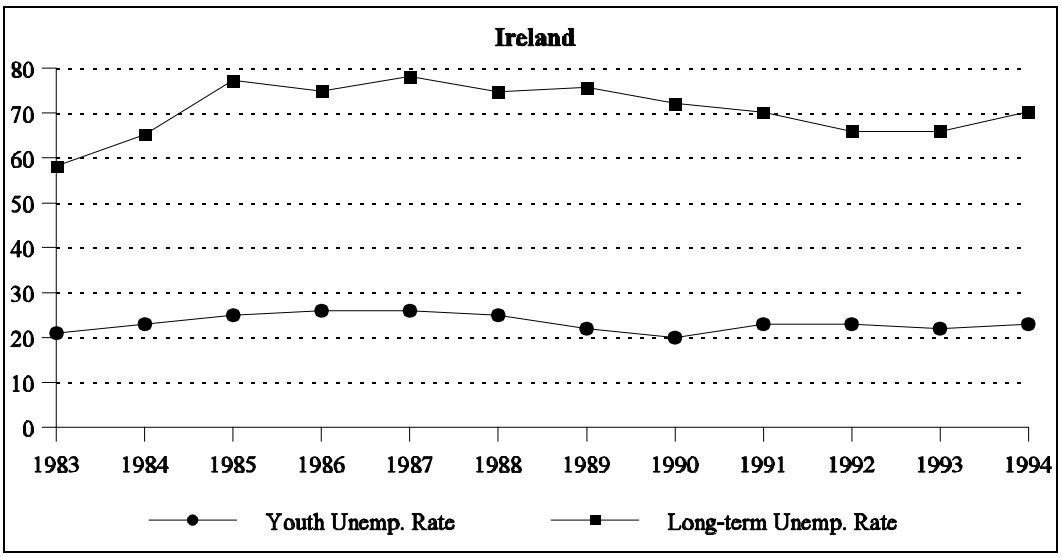
Youth Unemp. Rate
Long-term Unemp. Rate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Youth Unemp. Rate
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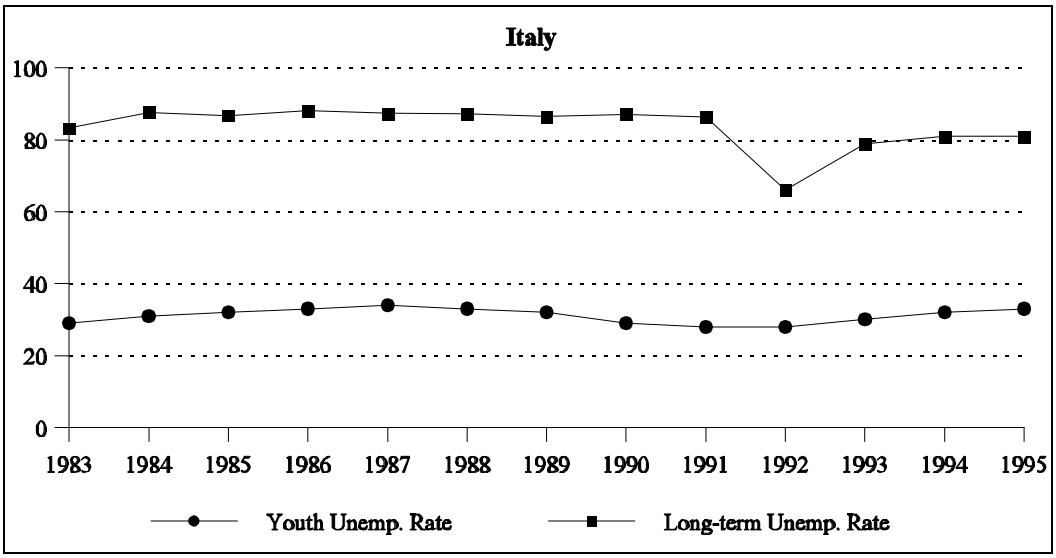
Figure 8 ctd.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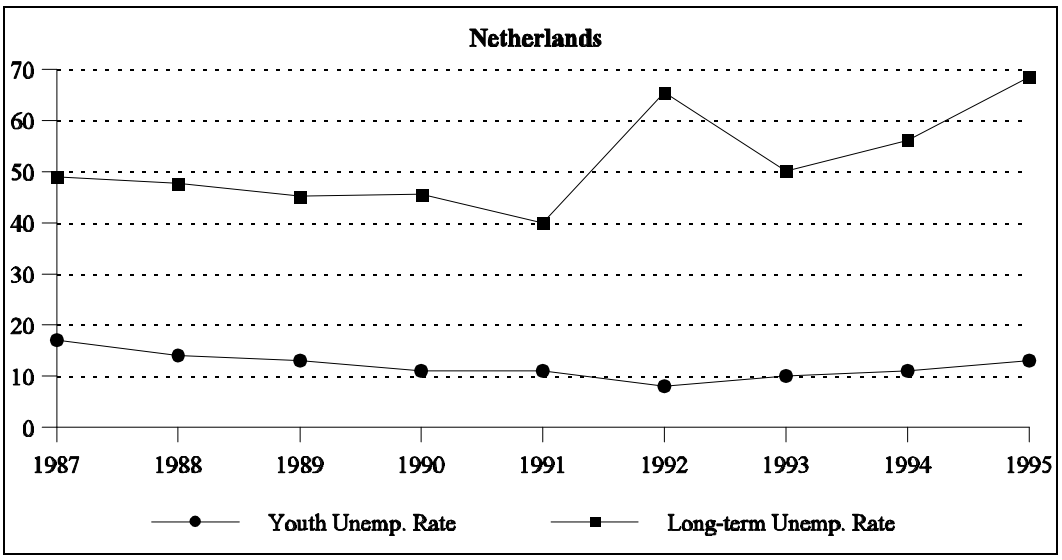
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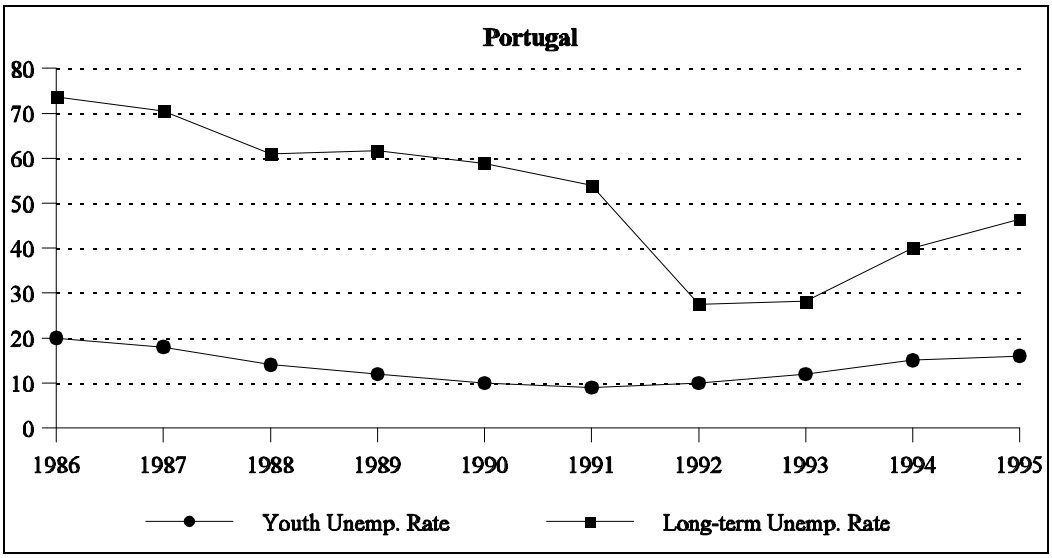
Portugal
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1986 1987 1988 1989 1990 1991 1992 1993 1994 1995
Youth Unemp. Rate
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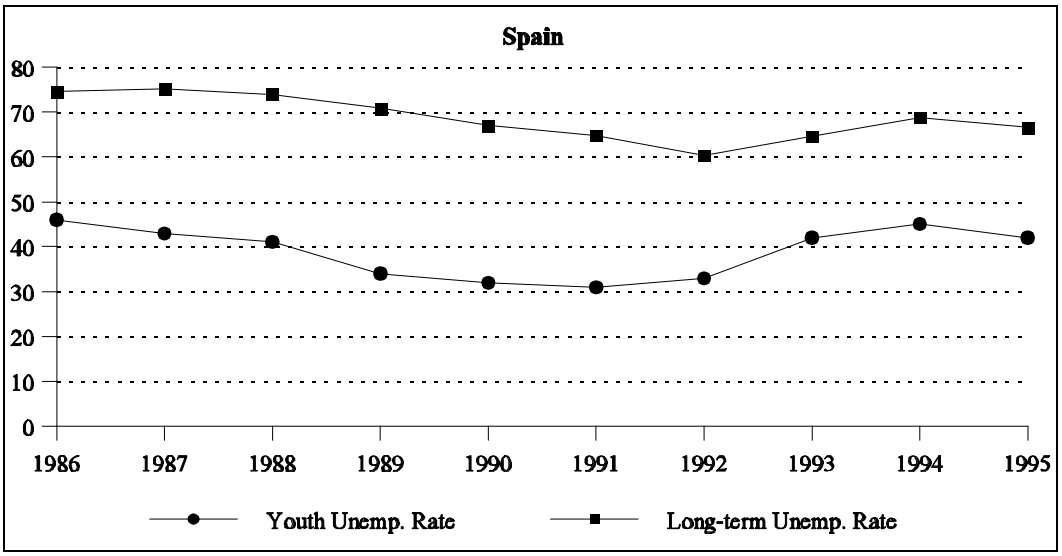

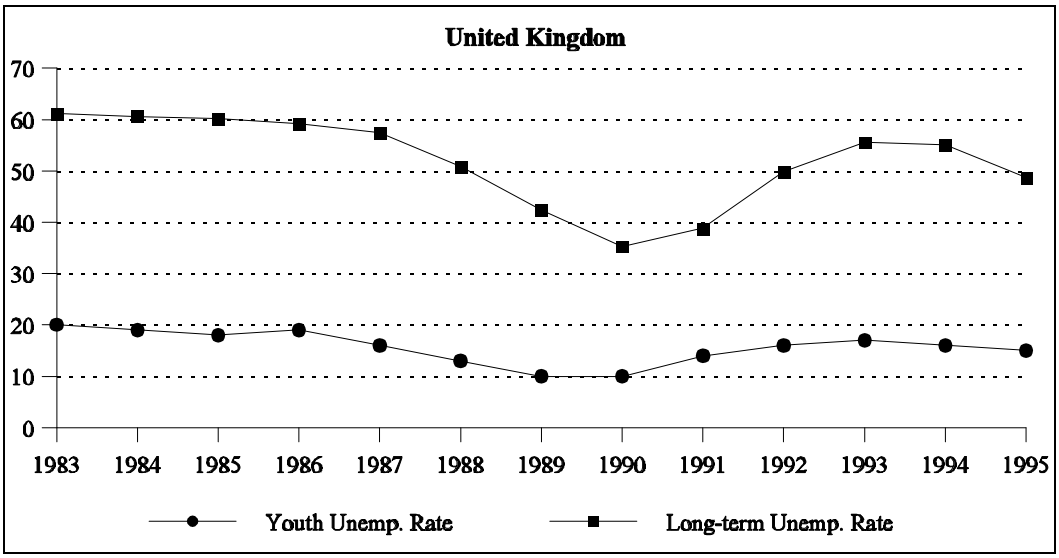

Note: The long-term unemployment rate is defined as the proportion of the unemployed who have been out of work at least six months.
Source: OECD Database.

Even if youth unemployment durations are somewhat shorter than for adults, there is still a strong case to be made for paying particular attention to the plight of unemployed young people. Unemployment early in a person's "working" life may permanently impair his or her productive potential and therefore employment opportunities. Human beings are, by their nature more flexible and therefore more easily trained when young. The corollary to this is that patterns of behaviour established at an early stage will tend to persist later in life. Thus, whilst high aggregate levels of youth unemployment may be a (relatively) temporary phenomenon, falling naturally through the projected decrease in the size of youth labour force and with an increase in economic activity in the economy[37], the consequences for the specific individuals facing sustained periods of unemployment are decidedly not. They may suffer permanent damage to their employment and income prospects as a result of a period of unemployment early in their "working" lives[38]. Youth unemployment is also particularly associated with drug abuse and crime[39]. Both forms of behaviour which tend to be persistent and which have high social as well as individual costs.

1.5 Implications

The principal implications of the preceding discussion which I wish to highlight here are as follows:

1) attention needs to be paid to the demand as well as the supply-side of the youth labour market;
2) the youth unemployment problem is not going to disappear of its own accord through demographic change in the near future;
3) the consequences of youth unemployment are a cause for concern. Furthermore, a case may be made for concentrating attention on young people with those specific groups of young people in the labour market who face particular difficulties in obtaining employment. Thus, particular attention should be paid to those leaving school with no or poor qualifications, ethnic minorities, the disabled, those in areas of high unemployment and, in many countries, more attention should be paid to redressing the imbalance in opportunities facing young women and young men.

[37] The persistence of the phenomenon of high levels of youth unemployment may lead one to question the extent to which even this is true.

[38] For example, Narendranathan & Elias (1993) find that the odds of becoming unemployed in the current year of young people who were unemployed in the previous year was more than twice that of those youths who had not previously been unemployed.

[39] See, for example, Britt (1994), Graham & Bowling (1995) and Freeman (1996).

2. The response: Government policy and youth unemployment

This section looks at some of the experiences of European countries with policies aimed to promote youth employment, concentrating on the role of Active Labour Market Policy (ALMP). The section is is comprised of a brief consideration of the experiences of the UK from a comparative perspective and then goes on to briefly outline the German case.

2.1 An example: the UK

The UK is fairly representative of the experiences of European countries with ALMPs designed to integrate young people into employment, both in terms of the nature of the schemes implemented as well as many of their effects. A brief analysis of the UK's experience will serve to raise some of the issues concerning Youth Employment Policy.

Since 1975, the UK has operated a series of work experience and training programmes: the Work Experience Programme(WEP, 1975-78); the Youth Opportunities Programme (YOP, 1978-83); the Youth Training Scheme (YTS, 1983-88); and, most recently, Youth Training (YT, 1988-) and the Modern Apprenticeship (1995-)[40].

The schemes have changed somewhat in form and content over the years. Most notably, the introduction of the Youth Training Scheme (YTS) in 1983 marked the introduction of a compulsory training component in the programmes. However, they have all, at least since 1983, been characterised by the aim of improving the employment prospects of, principally, 16-17 year olds through two mechanisms:

i) increasing the skills levels, or enhancing the human capital, of participants; and,
ii) reducing the wage expectations and consequently the reservation wage[41] of participants.

These mechanisms arose out of the government's analysis of the youth labour market "problem". This was not the absence of sufficient jobs, but rather an inadequately skilled young workforce with excessive wage expectations[42]. With regard to skills, the argument was, in particular, that firms had no incentive to pay for the acquisition of general or transferable (as opposed to firm specific) skills[43], since once acquired, a young person could reap the benefits of their enhanced productivity and move onto another firm, leaving the company which provided the training with no way of recouping its investment.

In any event, following from this type of reasoning, the programmes have been characterised by:

a) a period of government subsidised work experience and off-the-job training mainly

[40] For an account of the development of youth employment and training policy in the UK, see, for example, Deakin (1996).

[41] The reservation wage is the lowest wage at which a person would accept employment.

[42] See, for example, Department of Employment (1984, 1985). An additional argument in favour of low remuneration of trainees is that they should contribute to the cost of the training. This, at least initially, was not the government's position. For example, in his 1985 budget speech, Nigel Lawson, then chancellor of the Exchequer said,

> "Since it was first launched in 1983 the Youth Training Scheme has proved to be a very successful bridge between school and work. *It has also helped to make young people's pay expectations more realistic,"* (my italics, quoted in Main, 1987).

[43] This argument has a long history going back to the seminal work of Becker (1964). More recently, a number of researchers have sought to explain why firms generally do, in practice, provide general as well as firm specific training. A recent contribution to the debate is provided by Acemoglu & Pischke (1996).

with private employers; and,

b) low remuneration of programme participants.

2.1.1 Effects

Analyses of the effects of the schemes have found, in comparison to those who did not take part:

1) that participation on the programme had a small positive influence on the chances of finding work;
2) the benefits in terms of the effects of schemes on employment prospects were not evenly spread amongst individuals; and,
3) the scheme had a negative effect on the post-programme wages of those participants who succeeded in finding work.

Employment

Table 6 Reproduces the estimated effects from several evaluation studies carried out on the Youth Training Scheme (YTS). The first part of the table reports the employment effects of YTS participation for an individual with "average" employment prospects[44] between one and two years following programme participation (or two[45] to three[46] years after leaving school). The estimated effects appear to be of the order of 5-11 percentage points. That is, an individual with a 77% chance of finding a job would find this probability increased to 82-88% by participating on YTS.

In the second part of the table, the effects on the employment probability of other individual characteristics are reported[47]. This allows a comparison of the effects of YTS on labour market success with the effects of other factors. The first of these is "early employment experience".This refers to those young people who had moved straight from school into a job. That is, the table suggests that otherwise "average" individuals who moved straight into a job after leaving school increased the probability of subsequently being in employment from 77% to 95% . The implication of this is that, although propounded as an alternative to employment and not just a scheme for unemployed youths, YTS did not in fact compensate for a lack of success in finding a "real" job immediately after leaving school.

[44] The results reported here are all based on single equation probit models controlling for indiviudual characteristics in determining the effects of the scheme. Since the studies were all based on non-linear probability estimates, the effects of the scheme varied according to the pre-programme employment probability of the individual. The reported effects are my recalculations based on the authors reported coefficients in order to standardise the base probability. The table reports only the results of single equation models. O'Higgins (1994) also reports estimates for a switching bivariate probit model with a correction for heteroschedasticity. This controls for sample selection bias and produces a higher estimate of the average employment effect. However, for comparability, the simpler single equation results are reported here. It is becoming more common to see also duration model estimates of the effects of employment programmes. In this case they produce qualitatively similar results to those presented here. However, they do not lend themselves to such straightforward intuitive quantitative interpretation. Early examples of evaluations using this type of approach are given by Ridder (1986) on the Netherlands and Card & Sullivan (1988) on the USA. An example of an evaluation of YTS carried out in this manner is presented by Dolton et al. (1994b).

[45] Main & Shelley (1990) and O'Higgins (1994).

[46] Whitfield & Bourlakis (1991).

[47] Taken from O'Higgins (1994).

Table 6: The effects of the youth training scheme on the probability of employment for an "average" individual one year after programme completion

	Effect
YTS Effects :	
Main & Shelly 1990	.11
Whitfield & Bourlakis (1991)	.05
O'Higgins (1994)	.09
Effects of other characteristics:	
Early employment experience	-.18
Girl	-.13
Ethnic minority	-.13
Disabled	-.47

Note: The first three rows of the table report the shift in the probability of finding work brought about by participation on the Youth Training Scheme as estimated by the three authors. In order to maintain comparability, the effects are my re-estimates using the same base probability representing an "average"male individual who did not participate on the scheme. The base probability used is .77. That is, an "average" individual would have a 77% chance of finding work. The last four rows report the effects on an otherwise "average" individual of the addition of one further characteristic. Thus, for example an otherwise "average" female would have a probability of being in employment of 65% (= .77 - .12). These are based on the reported coefficients in O'Higgins (1994).

The table then reports the effect on the probability of being in employment of possessing one of three intrinsic characteristics. Thus, a young woman with otherwise "average" characteristics would have an employment probability of 65% or twelve percentage points lower than a comparable young man[48]. Ethnic minorities seem to face a similar initial disadvantage, whilst the chances of finding work for those with disabilities was less than half that of an "average" young man. The picture which emerges is that YTS did little to compensate for disadvantage on the labour market. Indeed, estimating the effects of YTS separately for the disabled, those from ethnic minorities, and young women, one finds that, for the first two of these groups, YTS had no statistically significant impact on the chances of finding work (O'Higgins, 1994) [49]. This implies that for the disabled and ethnic minorities, YTS had no beneficial effect on employment opportunities. Thus, for some disadvantaged groups in the labour market, the programme had the effect of widening the gap in employment

[48] The apparent contradiction between this lower employment probability of young women and the lower unemployment rates of females in the UK reported above is that this estimates holds other characteristics constant. In particular, an important determinant of labour market success was academic qualifications which tended to be higher for young women. Here we are comparing young men and young women with the same academic qualifications.

[49] This result is confirmed also by the duration analysis of Mealli et al. (1994b).

opportunities between them and "average" individuals[50]. For young women the situation was better in that their employment opportunities increased more than an "average" individual following YTS participation Thus, YTS went some way to redressing the imbalance between the employment opportunities of young men and young women.

But this is not the whole story. These types of evaluation take no account of deadweight, substitution and displacement effects[51]. That is they look at what happens to the individual and do not evaluate the net effect of the programme. Estimates of these effects vary enormously, Begg et al. (1991) estimates the total of the first two of these phenomena for YTS to be of the order of 80%[52]. If this is true, then the positive employment "effect" for individuals is almost entirely attributable to an improvement in participants employment prospects at the expense of other mainly young people rather than through an improvement in the demand for young workers.

Wages

Studies which have considered the issue (Main & Shelley, 1990, Whitfield & Bourlakis, 1991, Dolton et al., 1992, O'Higgins, 1995, 1996) have generally found that participation on YTS had a negative effect on post-programme wages[53]. Secondly, these studies find that when controls for non-random employment determination are introduced this negative effect tends to disappear[54]. This "disappearing" negative wage effect may be interpreted in terms of the two underlying mechanisms through which the scheme was to work. The increase in skills would raise both the post-programme employment prospects and wages of participants. On the other hand, the reduction in the reservation wage would improve employment prospects but **reduce** the wages of participants who subsequently found work. O'Higgins (1995) has demonstrated that the "disappearing"negative wage effect may be attributed to the existence of a reservation wage effect but no human capital or skills effect and O'Higgins (1996) has demonstrated that this finding is confirmed six years after the schemes completion. In other words, the apparent lack of success of the scheme in improving the wage (as opposed to employment) prospects of participants was not just due to insufficient time for the increased productive potential to be rewarded, but remained over time.

The implication is that YTS marginally improved the employment prospects of participants by lowering their reservation wages rather than through an improvement in the quality of their skills. This finding is in line with result of studies carried out also in other countries. Calmfors (1994) reports that analyses of Swedish active labour market policy have

[50] With regard to ethnic minorities this provides more formal evidence to support the qualitative picture presented by, for example, Fenton et al. (1984) and Pollert (1986).

[51] The deadweight effect refers to the fact that some of those employed as a result of YTS replace other young people who would have been taken on anyway in the absence of the programme. Substitution refers to the fact that some YTS participants replace older workers who would have been employed in the absence of the scheme. Finally, displacement refers to the loss of employment in other firms due to the competitive advantage gained by firms employing YTS participants.

[52] One must be a little careful here, since, deadweight and substitution effects are estimated in terms of YTS places rather than post-YTS employment. Indeed, whereas the scheme seems to have been of most value in terms of securing post-programme employment in periods of relative prosperity, it is precisely at these times that deadweight and substitution are greater.

[53] The studies were all based on linear regression models controlling for differences in individual characteristics. Negative wage effects of job training schemes for young people have also been observed in the USA. See, for example, Grubb (1995).

[54] The minor exceptions to this are Dolton et al. (1994a) who find a negative effect for females but not for males, whilst Whitfield & Bourlakis find that the effect of non-random employment determination is not statistically significant.

found both that training programmes, in contrast to direct job creation schemes, tend to exert a downward pressure on wages. He suggests that, rather than being explained by the training content in itself, the positive effect of training programmes on post-programme employment prospects may be due to such a reservation wage effect (as opposed to a human capital effect) and perhaps explains why such programmes appear to be more effective than purely job creation schemes characterised by higher levels of remuneration.

Variability in the success of the schemes

1) *Variation over time*: In Britain the success of the scheme seems to have varied much over time and individuals. Over time the scheme seems to have been most successful in placing participants when the labour market was relatively buoyant. Certainly the proportion of participants moving into jobs rather than unemployment following the scheme increased over the period 1986-1989 which corresponded to a period of relative decline in aggregate unemployment (Dolton et al.,1994a).

2) *Variation over individuals*: It was noted above that, at least some disadvantaged groups appear to have gained less out of the scheme. Mealli et al. (1994b) found young people from ethnic minorities and also those with low educational qualifications were more likely to move from Youth Training to unemployment whilst those with disabilities were more likely to leave the labour force. In part, this may be explained by the association between non-completion of the programme and low employment probabilities (Mealli et al. 1994a). Peronaci (1995) confirms the relationship between low completion rates and belonging to an ethnic minority or possessing a serious disability, although she finds a non-linear relationship between educational level and completion of Youth Training. The implication being that low educational performers were more likely to leave the scheme early and become unemployed whilst those with relatively high levels of educational qualifications were more likely to leave the scheme early because they found a “proper” job.
   A complementary explanation of this type of effect lies in differing qualities of the scheme. Dolton et al. (1994b) note that the scheme seems to have varied in its effects on the duration of post-programme unemployment duration according to whether the scheme was incorporated into a formal apprenticeship or not. Participants on those schemes which were incorporated into formal apprenticeships seem to have gained out of YTS with shorter post-programme unemployment durations, whilst those which were not incorporated into apprenticeships, if anything, faced longer unemployment durations than those who did not participate at all on the programme.
   The differential impact of the scheme is reflected also in research carried out in other countries. In particular, Try (1996) in an analysis of the Vocational Training Programme (VTP) in Norway, finds, at least for females, a significant programme duration effect at least up to a point. That is, young women gained positive benefits from staying longer on the VTP up to 22 weeks. Schröder (1996) analysing job creation programmes for young people in Sweden, found that the effectiveness of subsidised temporary jobs were largely dependent on the extent to which participants qualifications were strengthened during the supported period, and emphasises the importance of providing young people with work experience in areas in which they wish ultimately to work in.

Certainly more research needs to be carried out looking at the reasons for success or failure of schemes, however, the results thus far seem to indicate the importance of careful control of the quality and appropriateness of schemes. A second conclusion emerging from this section is that more attention should be paid to disadvantaged groups in the labour market.

2.1.2 Some explanations

So then one next needs to ask, why has Youth Training and Employment Policy had so little effects in the UK. A number of reasons may be identified.

1) *Definition of the nature of the problem:* In the UK, the youth labour market "Problem" has, since at least the early 1980s, been identified as one of inadequate skills and excessive entry wages. In this view, young people are unemployed because they are not sufficiently skilled or, given their lack of skills and work experience, their wage expectations are too high. While it is true that skills requirements have been rising in the UK as elsewhere, such a focus tends to direct attention away from the importance of labour market conditions in general and place the responsibility for the problem on the individual's shoulder. In designing schemes one needs to bear in mind the constraints imposed by macroeconomic conditions.
2) *Lack of scheme monitoring:* At least initially, the levels of monitoring of schemes was very low. The emphasis being on getting young people out of unemployment and providing some sort of work socialisation[55] in the absence of adequate job opportunities. This meant that schemes varied very much in their quality and therefore their usefulness.
3) *Lack of universally accepted qualifications*: A related point is that, at least initially, little or no emphasis was placed on the certification of skills obtained. This has now changed, with the introduction of National Vocational Qualifications (NVQ). However, even here there are problems. Heavy reliance on employers in the certification of employee skills provides an incentive to certify low quality training as high quality (Ryan, 1994). Certainly, these qualifications have not been universally accepted. Robinson (1996) shows that the NVQs have by no means replaced traditional means of certification and have not lead to an increase in the overall level of training available to individuals. Again, insufficient attention has been paid to the quality of provision.
4) *Lack of integration of the educational system with youth employment policy:* The development of youth employment policy in the UK in the 1980s ran in parallel and sometimes in competition with the formal educational system[56]. Some steps have now been made to rectify this with the introduction of General National Vocational Qualifications and Youth Credits although again these seem to have done little to increase the amount of education and/or training available although they have increased the number of educational and training alternatives (Robinson, 1996, Croxford et al., 1996) .
5) *Lack of involvement of the social partners*: Youth employment policy in the UK has been developed very much with employer's requirements in mind with little or no involvement of trade unions. Workers organisations have, consequently, had an

[55] As well as reducing measured youth unemployment rates.

[56] An example of this is provided by the Technical and Vocational Education Initiative (TVEI) in the 1980s which was developed independently of YTS and with little or no reference to it (Finegold & Soskice, 1988).

ambivalent attitude to the scheme[57]. Experience in Germany has showed the importance of the involvement of all the social partners in programme development and implementation[58].

6) *Lack of targeting:* This relates to who gains and who doesn't. Youth employment policy seems to have done little or nothing to aid the integration of disadvantaged young people into the labour market. Much research has shown that the more closely targeted are programmes the more effective they are (Fay, 1996). Although targeting is a double-edged sword in as much as if one targets disadvantaged groups one runs the risk that participation will be seen as a negative indicator of potential productivity.

2.2 An example: Germany

Germany is often taken to be an example of good practice in youth employment policy although it is not without its difficulties which will be returned to below. Similar types of system may be observed in several other countries such as Austria, Switzerland, and to some extent Denmark. As noted above, Germany is characterised by relatively low levels of youth and, in particular, teenage unemployment. Although the situation of young (particularly male) adults seems to have rapidly deteriorated following reunification, the relative position of youths is still comparatively favourable with respect to other European countries. Numerous studies have been undertaken looking at the relative merits of the system[59] so I will concentrate on briefly outlining the principal characteristics and the advantages and disadvantages of the system.

The German system is a highly structured system with a high degree of integration between the educational systems and the labour market. Post-school routes are heavily influenced by the choice of the type of secondary school and so occupational choice or at least the range of choices available to individuals is decided very early on in life. Most German young people undertake some form of education or vocational training at least up to the age of eighteen[60], the principal route being apprenticeships which account for around 65-70% of young people (Finegold & Crouch, 1994). Apprenticeships are based on the so-called dual system with formal in-company training being complemented by day or block-release for theoretical training in schools. For those who do not enter higher education or an apprenticeship or who drop out from apprenticeships, remedial measures are available in the form of one year pre-vocational courses to aid young people who found it difficult to obtain an apprenticeship by offering general training and an elementary vocational year which provides instruction in subjects common to a range of occupations and which replaces from six months to a year of normal apprenticeship training. The system is characterised by:

i) Very high rates of participation in education and skills training, as noted above. This

[57] See, for example, Ryan (1995) for an account. Recently, Green et al. (1996) have shown that the presence of a trade union in a workplace increases the likelihood that workers there will receive training.

[58] OECD (1996a) also notes the positive role that can be played by tripartite involvement in the development and implementation of ALMP.

[59] For example, Steedman (1993) Oulton & Steedman (1994), Soskice (1994) and Shackleton (1995).

[60] By law, young people who leave education are required to attend a vocational college part-time up to the age of eighteen, although most states allow young people not in apprenticeships to satisfy the vocational college requirement by one year of full-time attendance, usually between the ages of fifteen and sixteen (Steedman, 1993).

is reflected in the relatively high average level of education and skills training.

ii) Relatively low level of apprentice remuneration. This stands at around one-third of the skilled workers wage as opposed to two-thirds in the UK (Wagner, 1995). This implies that apprentices effectively contribute substantially to the cost of their training[61].

iii) Apprentice training comprises both general and specific elements.

iv) The system is highly regulated with a tightly controlled system of certification which produces a high degree of uniformity of standards in occupational qualifications[62].

v) There is strong representation of all the social partners at all levels of implementation and administration of the system.

2.2.1 Strengths

The German system has a number of strengths which might provide lessons for other countries with respect to the school-to-work transition and has been largely successful in combatting the problem of youth unemployment. Rates of **teenage** unemployment are very low, typically being significantly lower than rates of adult unemployment. Let us look briefly at the strengths of the system.

1) The system is based on nationally regulated and universally accepted skill certification with a high degree of standardisation. Young people are provided with institutionally defined and nationally recognised skills which are highly portable within occupations.

2) Employers and workers' organisations are involved in determining the content of training and overseeing its certification and, as a result, are committed to the success of the system.

3) The system has solved the financing problem. Training costs are born to varying degrees by firms, trainees and the state. Trainees are prepared to accept part of the costs of training because they are aware that they will emerge a high level of marketable skills. Larger firms, where the net costs of apprenticeships tend to be positive, know that they will usually be able to retain apprentices once qualified in as much as the wage determination system makes it difficult for other similar firms to use wage incentives to "poach" skilled workers[63]. In smaller firms, the net costs of training are more likely to be negative which in itself provides an incentive to provide training.

2.2.2 Weaknesses:

The German system is not without its weaknesses.

1) The system is highly structured and inflexible and precludes upward mobility into higher skill and wage strata (Buechtmann et al., 1993). Young people's career patterns are decided very early on in life. Although it might be born in mind that this

[61] Soskice (1994) notes that many companies make a net profit out of apprentices although this not true for apprenticeships in higher skills.

[62] Although Shackleton (1995, ch. 7) argues that there is significant variation in the quality of training, particularly that provided by small firms.

[63] A second, theoretical justification for the lack of poaching in the German system has been suggested by Acemoglu & Pischke (1996). In essence this suggests that, because firms know more about the productivity of their employees than do other potential employers and they are able to pay workers less than their marginal product due to labour market imperfections there is less incentive for other firms to try and poach workers.

is perhaps more due to the structure of the three-tier schooling system than that of post-school dual apprenticeships.

2) Whilst the system has gone a long way towards solving the teenage unemployment problem, deteriorating labour market conditions following reunification have lead to an emerging problem of young adult unemployment. This in part is due to a reduction in the retention rates by firms of graduating apprentices (Wolfinger, 1996). This also raises the question of the ability of such a rigid system to cope rapidly changing economic environment.

3) The German system has not entirely solved the problem of disadvantaged or "hard-to -employ" youths. Early failure in the transition from school to work have long-lasting effects on later occupational careers and incomes. Also those young people who do not find work shortly after completing vocational training are likely to face a comparatively long period of unemployment (Franz & Pohlmeier, 1996). In the current poor labour market situation, such problems are likely to worsen.

2.3 Some concluding observations and two further issues

So where does this discussion lead us. Not certainly to a blueprint for resolving the problems of unemployed youths although some useful indications may be gleaned. In any event, I conclude this section with some observations and, finally, raise two additional issues.

1) Training and employment programmes for youths have had, in general, a small positive impact on the employment prospects and a variable effect on the incomes of participants.

2) The effectiveness of such programmes depends on the state of the economy. On the one hand, in the deadweight and substitution effects of such programmes is likely to be higher when the economy is buoyant, yet the usefulness of, in particular training programmes depends on there being adequate employment opportunities at the end of programmes. This implies that the role of programmes varies with the state of the labour market. When the labour market is relatively buoyant training programmes may be useful in resolving skills mismatches and such like. When the economy is in recession, however, many participants on such schemes will have little prospect of a job at the end of it. This implies that they function as temporary employment subsidies acting to maintain young people's attachment to the labour market. It is perhaps important to take this into account when considering the type of programme to implement and the type of training content. Finn (1988), for example, notes the danger of raising the aspirations and expectations of young people by providing them with skills and training which they will not subsequently be able to use.

3) Targeting is important for at least two reasons. Firstly, targeting tends to increase the effectiveness of programmes (Calmfors, 1994, Fay, 1996). Secondly, one may argue that those groups most likely to be affected by long periods of unemployment should be targeted in order to maintain their labour market attachment.

4) As the German experience has shown, the effectiveness of programmes is enhanced when employers and workers organisations involved in the design and implementation of programmes (OECD, 1996a).

5) A further point is that the effectiveness of interventions appears to increase when schemes are voluntary (Fay, 1996)

Two further issues

I will end with two additional issues which I feel need to be addressed.

1) We need to go further than simply the aim of employing young people at any cost. We need also to look at the quality of work. Perhaps in times of high youth unemployment, the temptation is to look only at the quantitative effects, however, shouldn't one also take into consideration the question of quality of work (and of life)? Or is that a luxury to be abandoned in times of difficulty?

2) Schemes are increasingly obligatory in nature, and young (usually unemployed) people are effectively compelled to participate. Yet, as was noted above, schemes which are voluntary tend to be more effective. I feel that there is a need to balance the roles of building or maintaining attachment to the labour market with the desirability of promoting individual choice in the labour market.

3. Conclusions

This paper has examined some of the issues related to the problem of youth unemployment and some of the approaches which have been adopted in seeking a solution to it. Although the analysis was principally based on experiences in Europe, and in Britain and Germany in particular, I hope that the initial sections have served to demonstrate that the basic characteristics of the problem are far more general and are relevant to the experiences of a wide range of countries.

Probably the most important finding of the first section of the paper was the overwhelming importance of general macroeconomic conditions in determining the level of youth unemployment. In terms of policy implications, this implies that the types of policies adopted must take this into account. Youth employment policy must be designed with the limitations imposed by economic conditions in mind. This applies equally to developing and transition economies as it does to the developed economies of Western Europe. Thus, for example, in the context of the Eastern European transition countries which have endured massive recessions during the reorganisation of their economies, the problem of youth unemployment cannot be tackled in isolation from the wider problems facing the economy. The wholescale introduction of training programmes for young people will do little more than temporarily ease the problem for that group unless measures are taken to ensure that they will be taken on by employers at the end of schemes. Failure to do so may be worse than doing nothing in as much as participation on such schemes may raise the expectations of young participants which are doomed to disappointment if wider ranging policies are not introduced.

Experience outlined in this paper has shown that schemes are more effective during times of relative prosperity. The type of scheme introduced needs then to take into account the constraints imposed by macroeconomic conditions.

The paper also noted the importance of targetting. One of the repeated findings of the evaluation literature is that schemes tend to be unequal in their beneficial effects. Being most helpful to those already in a position to help themselves. Close targetting of schemes and the tailoring of schemes to the participants needs are important both because it means that schemes are likely to be more effective in promoting post-programme employment opportunities and because, as the first section showed, youth unemployment is by no means spread evenly across the youth population. Programmes need to be aimed at those young people who are in most need of help in order to counter the dangers of social exclusion of specific groups. The experience of ethnic minority youth in inner city areas in the USA is a powerful reminder of this. On the other hand, there is a temptation to concentrate on the more able participants precisely because these are the groups which, using the superficial criterion of post-programme employment rates as an indicator of success rather than the improvement in employment prospects of specific groups brought about by programmes, are likely to prove the “success” of the programme. This also provides an argument in favour of evaluating programmes in a slightly more sophisticated manner, as is now common practice in a number of industrialised countries, most notably the USA. Evaluation must at least attempt to take into account what would have happened in the absence of the programme. And, thus, look at the improvement in the prospects of participants brought about by programmes.

The paper also noted the importance of tripartite involvement in the design and implementation of youth employment policy. Policies and programmes are much more likely

to be successful where there is broad based support for and commitment to the success of schemes.

Finally, two issues were raised. It was suggested that perhaps one should go further than simply aim at getting young people out of unemployment at any cost and look at issues related to the quality of work. Secondly, the usefulness of the increasing tendency to make participation on schemes obligatory was questioned. Both because the effectiveness of schemes appears to increase when they are voluntary and because of the inherent value in promoting individual choice in the labour market. The report of the Employment Policy Committee at the 83rd session of the International Labour Conference in Geneva, June 1996. Reaffirmed the commitment of ILO constituents to the promotion "Full, productive and ***freely chosen*** employment." Surely also the design of youth employment policy should take these criteria into account.

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