The Economist

Three articles from its print edition on Youth Unemployment

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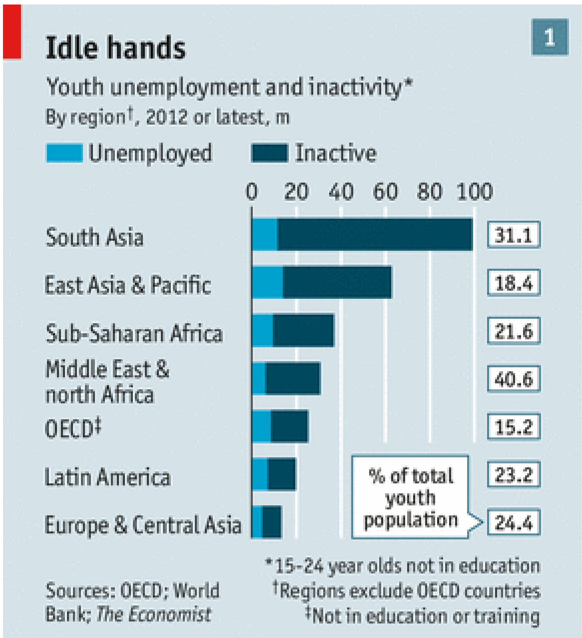
Generation jobless Youth unemployment

Around the world almost 300m 15- to 24-year-olds are not working. What has caused this epidemic of joblessness? And what can abate it?

Apr 27th 2013 |From the print edition

HELDER PEREIRA is a young man with no work and few prospects: a 21-year-old who failed to graduate from high school and lost his job on a building site four months ago. With his savings about to run out, he has come to his local employment centre in the Paris suburb of Sevran to sign on for benefits and to get help finding something to do. He'll get the cash. Work is another matter. Youth unemployment in Sevran is over 40%.

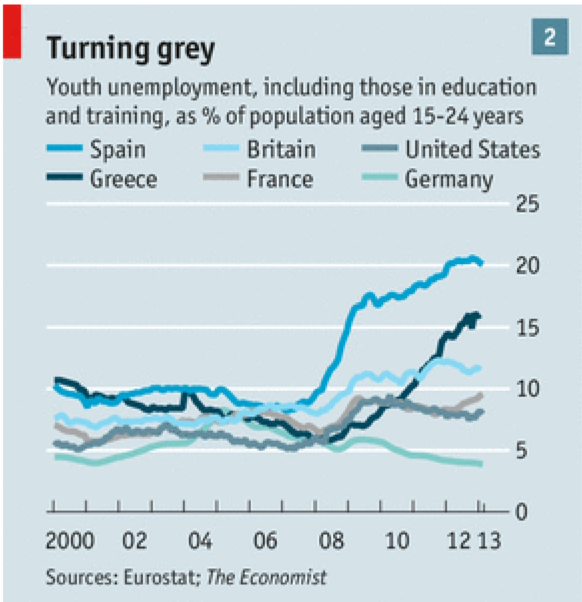
A continent away in Athlone, a gritty Cape Town suburb, Nokhona, a young South African mother of two, lacks a "matric" or high-school qualification, and has been out of work since October 2010, when her contract as a cleaner in a coffee shop expired. She hopes for a job as a maid, and has sought help from DreamWorker, a charity that tries to place young jobseekers in work. A counsellor helps Nokhona brush up her interview skills. But the jobless rate among young black South Africans is probably around 55%.



Official figures assembled by the International Labour Organisation say that 75m young people are unemployed, or 6% of all 15- to 24-year-olds. But going by youth inactivity, which includes all those who are neither in work nor education, things look even worse. The OECD, an intergovernmental think-tank, counts 26m young people in the rich world as "NEETS": not in employment, education or training. A World Bank database compiled from households shows more than 260m young people in developing economies are similarly "inactive". *The Economist* calculates that, all told, almost 290m are neither working nor studying: almost a quarter of the planet's youth (see chart one).

If the figures did not include young women in countries where they are rarely part of the workforce, the rate would be lower; South Asian women account for over a quarter of the world's inactive youth, though in much of the rich world young women are doing better in the labour force than men.

On the other hand, many of the "employed" young have only informal and intermittent jobs. In rich countries more than a third, on average, are on temporary contracts which make it hard to gain skills. In poorer ones, according to the World Bank, a fifth are unpaid family labourers or work in the informal economy. All in all, nearly half of the world's young people are either outside the formal economy or contributing less productively than they could.



Young people have long had a raw deal in the labour market. Two things make the problem more pressing now. The financial crisis and its aftermath had an unusually big effect on them. Many employers sack the newest hires first, so a recession raises youth joblessness disproportionately. In Greece and Spain over a sixth of the young population are without a job (see chart two). The number of young people out of work in the OECD is almost a third higher than in 2007.

Second, the emerging economies that have the largest and fastest-growing populations of young people also have the worst-run labour markets. Almost half of the world's young people live in South Asia, the Middle East and Africa. They also have the highest share of young people out of work or in the informal sector. The population of 15- to 24-year-olds in Africa is expected to rise by more than a third, to 275m, by 2025.

In rich countries with generous welfare states this imposes a heavy burden on taxpayers. One estimate suggests that, in 2011, the economic loss from disengaged young people in Europe amounted to $153 billion, or more than 1% of GDP. And failure to employ the young not only lowers growth today. It also threatens it tomorrow.

A clutch of academic papers, based mainly on American statistics, shows that people who begin their careers without work are likely to have lower wages and greater odds of future joblessness than those who don't. A wage penalty of up to 20%, lasting for around 20 years, is common. The scarring seems to worsen fast with the length of joblessness and is handed down to the next generation, too.

The overall ageing of the population might blunt this effect by increasing demand for labour. But Japan's youth joblessness, which surged after its financial crisis in the early

1990s, has stayed high despite a fast fall in the overall workforce. A large class of *hikikomori* live with their parents, rarely leaving home and withdrawn from the workforce.

Economists know much less about “scarring” in poor countries. A big study by Richard Freeman of Harvard University and Wei Chi and Hongbin Li of Tsinghua University suggested any impact of joblessness on young Chinese earnings disappears after three years. But studies elsewhere have reported more troubling results. An analysis of the labour market a decade after Indonesia’s financial crisis in 1997 suggested that young people who lost their jobs then were less likely to be in the workforce, and if they were, to have only informal jobs. A study of Argentina and Brazil found that young people who joined the labour force during a recession fared systematically worse as adults.

The damage may be less in dynamic economies and greatest in stagnant ones where unemployment comes in long bouts—as in the swathe of countries around the Mediterranean. Spain, France, Italy and Greece have some of the highest youth joblessness in the rich world. Morocco, Egypt and other north African and Middle Eastern countries have among the worst rates in the emerging world. Though they are at different stages of development, these countries all suffer disproportionately from employment’s main curses: low growth, clogged labour markets and a mismatch between education and work.

Low growth is the most obvious of the three. Joblessness in southern Europe has surged as economies have shrunk. South Africa’s high jobless rate is stoked by the fact that it is now one of Africa’s slowest-growing economies. But rigid labour markets probably matter even more. Countries that let business cartels curb competition; with high taxes on labour and high minimum wages; and where regulations make it hard to fire people, are bad places for the young jobless. In India big factories and firms face around 200 state and federal laws governing work and pay. South Africa has notably strict laws on firing. Despite a few recent reforms, it is hard to fire older workers in southern European countries (young jobless, often living with parents whose livelihoods would be threatened, are wary of reform). North Africa and the Middle East suffer from a bloated and over-regulated public sector, heavy taxes on labour and high minimum wages.

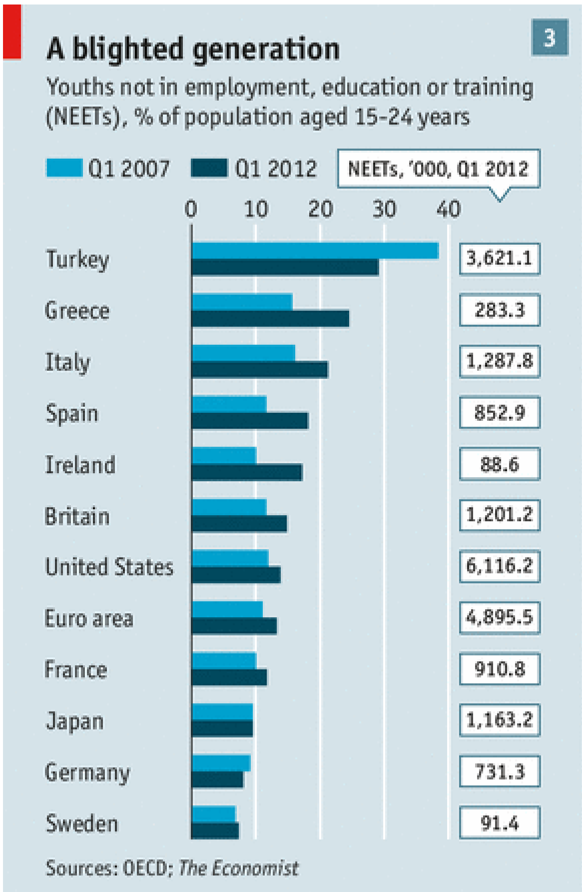
Where are the skilled ones?

Economists are now emphasising a third problem: the mismatch between the skills that young people offer and the ones that employees need. Employers are awash with applications—but complain that they cannot find candidates with the right abilities. McKinsey, a consultancy, reports that only 43% of the employers in the nine countries that it has studied in depth (America, Brazil, Britain, Germany, India, Mexico, Morocco, Saudi Arabia and Turkey) think that they can find enough skilled entry-level workers. Middle-sized firms (between 50 and 500 workers) have an average of 13 entry-level jobs empty.

The most obvious reason for the mismatch is poor basic education. In most advanced economies (whether growing or shrinking) the jobless rate for people with less than a secondary-school education is twice as high as for those with university degrees. But two more subtle reasons deserve attention, too.

Countries with the lowest youth jobless rates have a close relationship between education and work. Germany has a long tradition of high-quality vocational education and apprenticeships, which in recent years have helped it reduce youth unemployment despite only modest growth. Countries with high youth unemployment are short of such links. In France few high-school leavers have any real experience of work. In north Africa universities focus on preparing their students to fill civil-service jobs even as companies complain about the shortage of technical skills. The unemployment rate in Morocco is five times as high for graduates as it is for people with only a primary education. The legacy of apartheid means that young black South Africans often live and go to school many miles from where there are jobs.

Companies used to try to bridge that gap themselves by investing in training; today they do so less. Peter Capelli, of Wharton business school, argues that companies regard filling a job merely like buying a spare part: you expect it to fit. In 1979, he notes, young workers in large American firms received an average of two and half weeks of training a year. In 1991 only 17% reported receiving any training during the previous year. By 2011 only 21% reported gaining any during the past five. Accenture, a consultancy, says that only 21% of the 1,000 American workers they surveyed gained new skills from company-provided training over the past five years.



Mismatch and training gaps may explain why over the past five years youth unemployment in flexible economies like America and Britain has risen more than in previous recessions and stayed high. Britain, which has one of the world's most flexible labour markets, has around 1m NEETs. More than twice as many young Britons (11.5% of the labour force) are unemployed as young Germans (3.9%) (see chart three). Some blame the minimum wage, but Britain also has a long-standing prejudice against practical education. In 2009 only about 8% of English employers trained apprentices compared with up to four times that number in the best continental European countries. 29% of British employers say work experience is "critical" but the share of British children who get a shot at it has been falling for the past 15 years. Only 7% of pupils say they had any mentoring from a local employer and only 19% had visited one.

A more entrepreneurial British economy may have worsened the problem. The share of private-sector employees at big firms (with 250 or more workers) fell from 50% to 40% in 1998-2000. The share at micro-businesses (4 and fewer) rose from 11% to 22%. Small firms are less likely to provide apprenticeships or work experience.

Many countries are now trying to bridge the gap between education and work by upgrading vocational schools, encouraging standard schools to form closer relations with local companies, and embracing apprenticeships. In 2010 South Korea created a network of vocational “meister” schools—from the German for “master craftsman”—to reduce the country’s shortage of machine operators and plumbers. The government pays the students’ room and board as well as their tuition. It also refers to them as “young meisters” in order to counteract the country’s obsession with academic laurels. In Britain some further-education colleges are embracing the principle that the best way to learn is to do: North Hertfordshire College has launched a business venture with Fit4less, a low-cost gym. Bluegrass College in Kentucky and Toyota have created a replica of a car factory, where workers and students go to classes together.

But it is not enough simply to embrace the German model of training and apprenticeships: you need to update it. Some policymakers want to transform unemployment systems from safety nets into spring boards, providing retraining and job placement. The Nordic countries have been to the fore in this, introducing “youth guarantees”—personalised plans to provide every young person with training or a job. When Germany liberalised its labour market in 2003-05 it also created new ways of getting people back into jobs. For example, to make someone who has been out of work for a long stretch more employable, the state will pay a big chunk of his wages for the first two years of a new job.

Practicality constrains poorer countries’ ability to implement such active labour-market policies. The well-to-do Nordic countries found that they could hardly cope with the surge in unemployment after the crisis, despite spending up to 2% of GDP on training. Countries like Spain and Italy, with millions of unemployed people, could not hope to follow suit in a time of boom let alone one of austerity. Culture matters, too. Britain’s Labour government raised the number of apprenticeships but diluted their quality in order to keep unemployment figures down. The coalition government has tried to improve quality—but some firms have merely relabelled existing training programmes in order to obtain taxpayers’ money.

A deeper worry is that business is going through a particularly dramatic period of creative destruction. New technology is unleashing a storm of “disruptive innovation” which is forcing firms to rethink their operations from the ground up. Companies are constantly redesigning work—for example they are separating routine tasks (which can be automated or contracted out) from skilled jobs. They are also constantly redesigning themselves by “upsizing”, “downsizing” and “contracting out”. The life expectancy of companies is declining, as is the job tenure of chief executives. Policymakers are finding it more difficult to adapt their labour-market institutions quickly enough.

However, some firms are taking more interest. IBM has sponsored a school in New York. McDonald’s has an ambitious new training scheme (see article). India’s IT giant, Infosys, plans to train 45,000 new employees a year, including 14,000 at a time at its main campus in Mysore. Americana Group, a regional food and restaurant company with headquarters in Kuwait, allows trainees to spend up to half their time at work and the rest in college.

In addition, technology is also providing solutions as well as exacerbating problems. It is greatly reducing the historically high cost of vocational education. “Serious games” can provide young people with a chance to gain “virtual” experience at minimum cost: McDonalds uses competitive video games to teach people how to use the till and interact with customers, for example. Mozilla, the creator of the Firefox web browser, has created an “open badges” initiative that allows people to gain recognition for programming skills. Technology is also making it easier to take work to people who live in work-deprived areas or who are shut out of the market by cartels. Amazon’s Mechanical Turk, an internet marketplace, enables companies to hire workers to perform simple tasks such as identifying people in photographs. They can take part from anywhere.

It is hard to be optimistic about a problem that is blighting the lives of so many people. But it is perhaps time to be a bit less pessimistic. Policymakers know what to do to diminish the problem—ignite growth, break down cartels and build bridges between education and work. New technology gives them powerful tools too. Countries that make the investments and choices needed to grapple with their unemployed youth could see some dramatic improvement ahead.

Generation jobless Work and the Young

The number of young people out of work globally is nearly as big as the population of the United States

Apr 27th 2013 |From the print edition

“YOUNG people ought not to be idle. It is very bad for them,” said Margaret Thatcher in 1984. She was right: there are few worse things that society can do to its young than to leave them in limbo. Those who start their careers on the dole are more likely to have lower wages and more spells of joblessness later in life, because they lose out on the chance to acquire skills and self-confidence in their formative years.

Yet more young people are idle than ever (see article). OECD figures suggest that 26m 15- to 24-year-olds in developed countries are not in employment, education or training; the number of young people without a job has risen by 30% since 2007. The International Labour Organisation reports that 75m young people globally are looking for a job. World Bank surveys suggest that 262m young people in emerging markets are economically inactive. Depending on how you measure them, the number of young people without a job is nearly as large as the population of America (311m).

Two factors play a big part. First, the long slowdown in the West has reduced demand for labour, and it is easier to put off hiring young people than it is to fire older workers. Second, in emerging economies population growth is fastest in countries with dysfunctional labour markets, such as India and Egypt.

The result is an “arc of unemployment”, from southern Europe through north Africa and the Middle East to South Asia, where the rich world’s recession meets the poor world’s youthquake. The anger of the young jobless has already burst onto the streets in the Middle East. Violent crime, generally in decline in the rich world, is rising in Spain, Italy and Portugal—countries with startlingly high youth unemployment.

Will growth give them a job?

The most obvious way to tackle this problem is to reignite growth. That is easier said than done in a world plagued by debt, and is anyway only a partial answer. The countries where the problem is worst (such as Spain and Egypt) suffered from high youth unemployment even when their economies were growing. Throughout the recession companies have continued to complain that they cannot find young people with the right skills. This underlines the importance of two other solutions: reforming labour markets and improving education. These are familiar prescriptions, but ones that need to be delivered with both a new vigour and a new twist.

Youth unemployment is often at its worst in countries with rigid labour markets. Cartelised industries, high taxes on hiring, strict rules about firing, high minimum wages: all these help condemn young people to the street corner. South Africa has some of the highest unemployment south of the Sahara, in part because it has powerful trade unions and rigid rules about hiring and firing. Many countries in the arc of youth unemployment have high minimum wages and heavy taxes on labour. India has around 200 laws on work and pay.

Deregulating labour markets is thus central to tackling youth unemployment. But it will not be enough on its own. Britain has a flexible labour market and high youth unemployment. In countries with better records, governments tend to take a more active role in finding jobs for those who are struggling. Germany, which has the second-lowest level of youth unemployment in the rich world, pays a proportion of the wages of the long-term unemployed for the first two years. The Nordic countries provide young people with "personalised plans" to get them into employment or training. But these policies are too expensive to reproduce in southern Europe, with their millions of unemployed, let alone the emerging world. A cheaper approach is to reform labour-hungry bits of the economy—for example, by making it easier for small businesses to get licences, or construction companies to get approval for projects, or shops to stay open in the evening.

The graduate glut

Across the OECD, people who left school at the earliest opportunity are twice as likely to be unemployed as university graduates. But it is unwise to conclude that governments should simply continue with the established policy of boosting the number of people who graduate from university. In both Britain and the United States many people with expensive liberal-arts degrees are finding it impossible to get decent jobs. In north Africa university graduates are twice as likely to be unemployed as non-graduates.

What matters is not just number of years of education people get, but its content. This means expanding the study of science and technology and closing the gap between the world of education and the world of work—for example by upgrading vocational and technical education and by forging closer relations between companies and schools. Germany's long-established system of vocational schooling and apprenticeships does just that. Other countries are following suit: South Korea has introduced "meister" schools, Singapore has boosted technical colleges, and Britain is expanding apprenticeships and trying to improve technical education.

Closing the gap will also require a change of attitude from business. Some companies, ranging from IBM and Rolls-Royce to McDonald's and Premier Inn, are revamping their training programmes, but the fear that employees will be poached discourages firms from investing in the young. There are ways of getting around the problem: groups of employers can co-operate with colleges to design training courses, for example. Technology is also reducing the cost of training: programmes designed around computer games can give youngsters some virtual experience, and online courses can help apprentices combine on-the-job training with academic instruction.

The problem of youth unemployment has been getting worse for several years. But there are at last some reasons for hope. Governments are trying to address the mismatch between education and the labour market. Companies are beginning to take more responsibility for investing in the young. And technology is helping democratise education and training. The world has a real chance of introducing an education-and-training revolution worthy of the scale of the problem.

From the print edition: Leaders

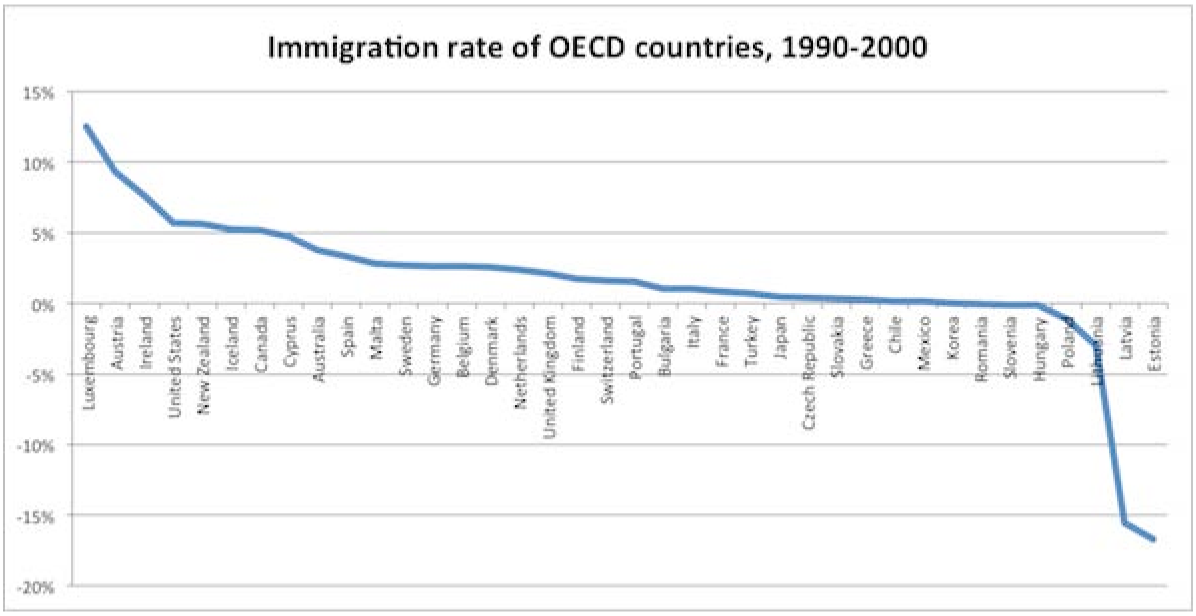
Forging ahead and falling behind

Oct 3rd 2013, 16:36 by C.W. | LONDON

PUBLIC discussion of immigration often circles round to the idea that it is bad for low-paid workers. And it rarely spends much time at all on the economic effects of emigration. But new research suggests that both these things need to change.

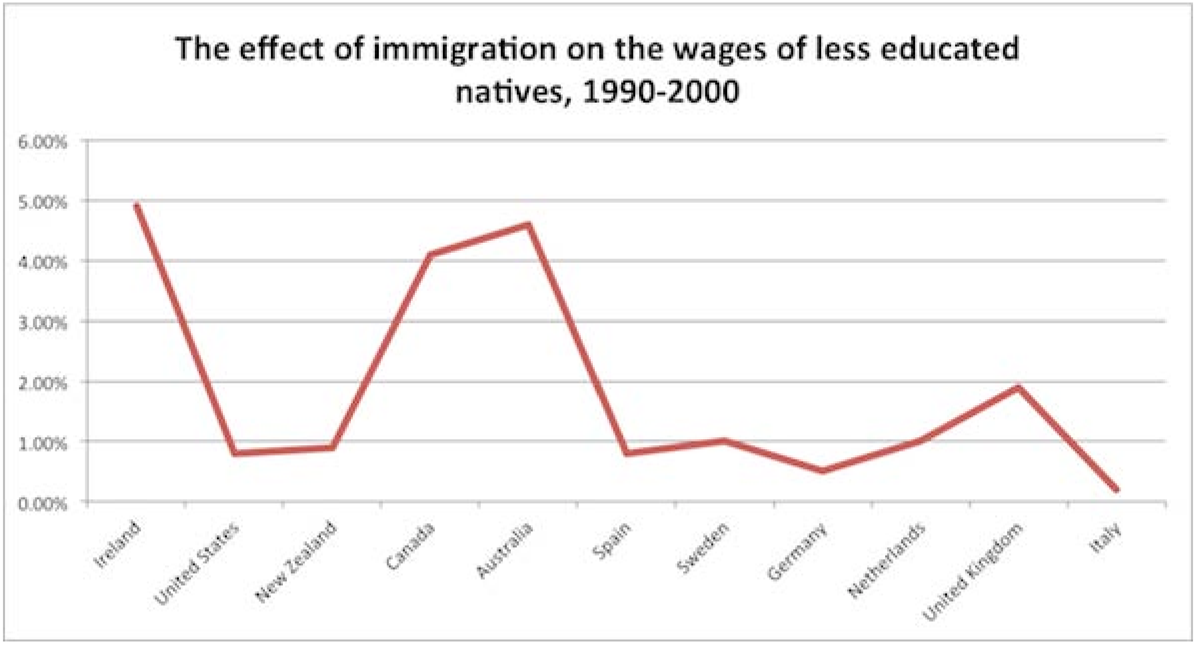
Using data from the OECD, a club of rich countries, a new paper (older, un-gated version here) examines the economic effect of immigration during the 1990s. Most interestingly, it looks at the effect of immigration on the wages of "less educated natives"—the group thought to be most damaged by new arrivals.

Countries in the OECD have very different immigration rates (the size of the immigrant flow relative to the population). From 1990 to 2000, the United States' immigration rate was 5.7%. At the other end of the spectrum stood Estonia, with a rate of -16.7%. A negative value means that more people left than arrived:



By 2000, foreign-born residents comprised 7.7% of OECD countries' populations—and about half of that group was from other OECD countries. In other words, there is a fair amount of within-OECD movement. What is more, in pretty much all OECD countries recent immigrants are more likely to be college graduates than are members of the native population.

The paper shows that immigration has positive effects on the average wages of less educated workers in OECD countries. (These increases tend to be higher than the corresponding figure for college-educated workers.) Here's a sample:



Explaining these results is straightforward. OECD immigrants are more educated than non-migrant natives. And educated people are job-creating. As a result, higher immigration leads to higher job creation—resulting in better wages for people further down the job ladder. Less educated workers in countries that favour more educated immigrants—like Australia and Canada—experience larger wage gains.

There are no prizes for guessing the economic consequences of emigration. For example, in Cyprus, Ireland and New Zealand during the 1990s, less educated workers suffered a wage decline of 3-6% due to emigration of the highly skilled. Fewer skilled workers meant fewer job opportunities.

But highly educated workers reaped the benefits of emigration. With fewer educated workers, there was less competition for skilled jobs—leading to higher wages at the top of the income ladder. For small countries with a large brain drain (such as Cyprus or Ireland), the positive effect of 1990s emigration on the wages of the highly educated was 15-20%.

The results suggest that immigration reduces wage differentials between the lowest and highest paid workers—and that emigration does the opposite. Other research suggests there are some offsetting benefits to workers of all skill levels in countries experiencing emigration; high rates of emigration of skilled workers tend to encourage "human capital formation"—or education and training—in the country of origin, for instance. But it seems clear that governments should worry less about new arrivals—and a little more about the plight of less-skilled workers in high-emigration countries—if they are really interested in doing something about income inequality.