

Productivity, Investment in Human Capital and the Challenge of Youth Employment

ADAPT LABOUR STUDIES BOOK-SERIES

International School of Higher Education in Labour and Industrial Relations

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**CAMBRIDGE
SCHOLARS**

P U B L I S H I N G

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FOREWORD

TAYO FASHOYIN AND MICHELE TIRABOSCHI

In an international and comparative perspective, access to the labour market on the part of young people is a complex issue with certain contradictory aspects reflecting the level of development of public policy, labour law and industrial relations in the respective countries.

In the most advanced economies there has been a steady increase in the age at which young people exit the educational system and enter the labour market, giving rise to significant economic and social problems. The increase in the levels of educational attainment is associated in some cases with an alarming rate of unemployment among those with academic qualifications, while employers encounter considerable difficulty in recruiting workers for unskilled and semi-skilled positions.

The economies of developing countries, on the other hand, are characterised by different trends, reminiscent of the early stages of modern labour law and their enforcement, resulting in large-scale exploitation of young workers and children. Many of such young entrants into the labour market join the flow of migrants towards the more highly developed regions of the world, with the consequent risk of impoverishing human capital in the country of origin.

In this connection, the *ADAPT LABOUR STUDIES BOOK-SERIES* has been set up with a view to advancing a better understanding of those issues in a global dimension through an interdisciplinary and comparative approach.

We wish to express our sincere thanks to Martina Ori, Barbara Winkler and Machilu Zimba for their editorial assistance.

YOUTH AND THE CHANGING WORLD OF WORK

PIETRO MANZELLA AND LISA RUSTICO

The labour market poses serious challenges in terms of youth employment, with this topic increasingly attracting the attention of many experts and policy-makers at an international level. Although from different perspectives, the provision of job opportunities to young people is deemed a priority in many countries. Far from being the direct result of labour reforms, adjustments in employment policies primarily stemmed from wide-ranging changes occurred in some production methods and work organisation, also considering the shift from an industrial-based to a service-based society. In this respect, by facing turbulent school-to-work transitions, unprofitable investments in education, joblessness and precariousness, the younger generations suffer the most from ineffective labour market dynamics and self-referential education systems, with such variables that are tightly intertwined, as shown, for instance, by the impact of the educational attainment levels on youth unemployment rates. When poorly educated, young people are more exposed to the effects of unemployment, even on the long run. Especially those who leave the school system without any formal qualification – dropouts – or those neither in employment nor in education and training – the NEETs – are at risk of suffering from bad economic conditions, social exclusion and lower participation in continuous training throughout their lives.

Young people still remain one of the weakest segments of the labour market, as particularly exposed to economic turmoil and changes, and this aspect is even more dramatic if we consider the increased dependency ratio, flowing from the ageing population. Moreover, while in employment, young people are often engaged in precarious jobs, therefore becoming more vulnerable to job loss than their adult counterparts. Besides facing employment instability, youngsters also lack adequate skills, and those qualifications the labour market longs for. In addition to formal qualifications, holding “the right skills for the right jobs” on the part of young people would represent a means to face such challenges and avoid risks of precariousness. However, matching labour demand and supply is regarded as a viable solution only through a dynamic and mutually

supporting relationship between educational and training institutions and the labour market.

On the basis of these considerations, and in an awareness of the seriousness of the foregoing questions and consequences that ensue, the papers in this volume aim at providing some valuable insights into the issue, taking as a starting point initiatives, policies and legislative measures adopted in different national contexts to tackle young people unemployment.

THE CHALLENGE OF YOUTH EMPLOYMENT

THE YOUTH EMPLOYMENT CHALLENGE: AN INTRODUCTION

TAYO FASHOYIN

Recent data on global trends in employment clearly suggest that unemployment remains perhaps the most serious labour market policy challenge for most countries of the world. Specifically, recent publications of the International Labour Office (ILO) demonstrate that the number of unemployed people around the world has increased over the pre-crisis years, reaching 205 million during 2009-2010.¹ The actual increase in global unemployment was 27.6 million over the pre-crisis figure for 2007. This translates into a global unemployment rate of 5.6% at the onset of the economic crisis, which rose to 6.3% in 2009, and marginally fell to 6.2% in 2010.² Evidently, the global crisis has caused a contraction of employment, leading to joblessness across the globe.

In relation to the youth, defined as being between 15-24 years old, the unemployed youth accounted for about 81 million in 2009, which represented an increase of 7.8 million unemployed over the figure for the pre-crisis year of 2007.³ Thus, while youth unemployment increased by 1.1 million between 2007 and 2008, the increase in the following year was 6.6 million.⁴ This yielded a youth unemployment rate of 11.9% in 2007, which rose to 13% in 2009, nearly twice the size of the total increase in unemployment.⁵ Accordingly, compared to global unemployment during the same period, it is evident that the impact of the crisis on the youth was far more severe. Taking account of the fact that most of the jobs being performed by young people are of inferior quality, the youth suffer comparatively poorer working conditions, such as long hours, short-term contracts or informal arrangements. Also, because they are comparatively

¹ International Labour Organization. 2011. *Global Employment Trends 2011. The Challenge of a Jobs Recovery*. Geneva: ILO, 12 and Table A4.

² Ibid., Table A2.

³ ILO. 2010. *Global Employment Trends for Youth 2010*. Geneva: ILO, 4.

⁴ Ibid.

⁵ Ibid., Table A5.

low-skilled, they are found in unskilled and low-paid jobs, and virtually without social protection that they can fall back on.⁶

Poor employment prospects for the youth are in sharp contrast to the observable global recovery, as shown by a number of macroeconomic indicators, such as real global GDP, and world trade and investment.⁷ In other words, while the global economic recovery is improving, the employment generating capacity of economic recovery has lagged, and, for several reasons, young people will likely feel the pinch much more than adult workers. As the ILO reports emphasise, not only does this situation represent a worsening of employment prospects for young people, but full recovery might not provide much relief to this group of labour market actors as well, due to systemic and institutional difficulties in many countries. In this brief introductory note, I draw attention to some of the key challenges faced by young people and the public policy direction that needs to take account of the unfavourable labour market experience of the youth, and so improve their long-term employment prospects.

1. Trends in Youth Employment

In the most advanced market economies, the available evidence indicates that the youth population appears to be a declining proportion of total population. In such economies, the youth share of the population was 12.57% in 2010.⁸ In contrast, the youth accounted for about 20% of the population in the developing economies in 2010. In these economies, while the proportion of youth with respect to the overall population has declined marginally, it nevertheless ranged between 19.5% and 20.5% in 2010.⁹ Significantly, the majority of the youth were in Asia.¹⁰

With regard to the employment situation of young people, a somewhat brighter picture is provided at a global level: the number of youth that was unemployed declined from 79.6 million to 77.7 million or by 1.9 million between 2009 and 2010.¹¹ However, this otherwise favourable prospect

⁶ Ibid., 3. See also Weller, J. 2007. "Youth employment: characteristics, tensions and challenges," *CEPAL Review* 92: 73-74, Table 5.

⁷ ILO. 2011. *Global Employment Trends 2011. The Challenge of a Jobs Recovery*. Geneva: ILO, 4-5.

⁸ ILO. 2010. *Global Employment Trends for Youth 2010*. Geneva: ILO, 7.

⁹ Ibid.

¹⁰ Ibid., 8 Figure 2.

¹¹ ILO. 2011. *Global Employment Trends 2011. The Challenge of a Jobs Recovery*. Geneva: ILO. Table A4.

deteriorated rapidly as a result of the crisis. In other words, while the number of youth actively looking for employment decreased during this period, their employment prospects have not been as favourable. Most of the relevant literature enumerates the various reasons for this situation, including a lack of requisite education, skills and work experience, and discrimination of all sorts in the labour market.¹² For those youth who cannot afford not to work, this reality naturally pushes them to accept low-skilled and low-paying jobs, and often unremunerated employment in the informal sector.

In periods of high unemployment and job scarcity, young people are disadvantaged in the labour market, as their skills are low and their job search so frustrating that they tend to give up seeking employment much sooner than adults. Therefore, the youth labour market experience generally represents a particularly significant challenge to public policy-makers. This case emphasises the need for a mop up of unutilised or under-utilised human resources, but also the risk of dangerous social and political consequences resulting from an army of unemployed youth in society. I shall return to this issue later.

Disaggregated national data can be helpful in evaluating the particular challenge of unemployment among the young people. As a number of studies have shown, unemployment among the youth has been a major policy challenge even before the advent of the global crisis. For example, a study of youth unemployment in Latin America in the 1990s indicates that unemployment among them was prevalent well before the onset of the global recession. The study found that, compared to an unemployment rate of 31.1% for this group in 1990, the percentage of young people not in employment had risen to 39.2% by 2004.¹³ Similarly, in South Africa, Mlatsheni and Rospabé show that unemployment among South African youth was twice as much of adults, at 50% in 2002.¹⁴ This is comparable to another study in Burkina Faso, also in Africa. The study points out that in 2000, about 40% of urban male youth and as high as 55% of female

¹² The ILO report on youth employment documents in various context, the nature of the discriminatory practices against the youth in the labour market. See ILO 2010.

¹³ Weller, J. 2007. "Youth Employment: Characteristics, Tensions and Challenges," *CEPAL Review* 92, 69, Table 5.

¹⁴ Mlatsheni, C., and S. Rospabé. 2002. "Why is Youth Unemployment so High and unequally Spread in South Africa?" Development Policy Research Unit Working Paper No. 02/65, University of Cape Town.

youth were out of formal sector wage employment.¹⁵ The study concludes that, over the 20-year period (1980-2000), unemployed youth had led to higher levels of informal employment. In East Asia and the Pacific, available information indicates that youth unemployment increased by 2.2% between 1998 and 2008.¹⁶ The ILO projects an increase in the youth population in most of the developing countries by 2015.¹⁷

There has been an increase in the entry of young people into the labour force, which reflects several other realities of the labour market, including population, school enrolment and length of study. However, this structural change has not been followed by an increase in the demand for youth labour. The reasons for this include the rate at which jobs are being created, a general lack of skills and experience among young people, and a contraction of modern formal sector employment, particularly in the context of the current global economic crisis. As a result, when employers respond to a slump in demand, young workers are hardest hit.

Even though some youth might have gained work experience, such experience acquired in occupations requiring low levels of education or skills is not always the passport to better jobs in the formal sector, more so when specific attributes or skills are essential to perform in the labour market.¹⁸ As is common among urban youth across countries, when they fail to find employment regarded as their first or preferred choice, normally in the modern wage employment sector, in the private or public sector, they naturally revert to the informal economy to earn a living. Available evidence and data reflect this tendency among the youth in the developing economies, and provide a picture of the challenges faced by public authorities across regions, and their need to find solutions and means of improving the labour market experience of their youth population.

¹⁵ Calves, A-E., and B. Schoumaker. 2004. "Deteriorating Economic Context and Changing Patterns of Youth Employment in Urban Burkina Faso: 1980-2000," *World Development* 32, No.6.

¹⁶ ILO. 2010. *Global Employment Trends for Youth 2010*. Geneva: ILO, 17, Table 3.

¹⁷ See in particular Godfrey, M. 2003. "Youth Employment policy in Developing and Transition Countries—Prevention as well as Cure," *Social Protection Discussion Paper Series* No. 0320, Social Protection Unit, Washington: The World Bank; and O'Higgins, N. 2010. "Youth unemployment and employment policy: A global perspective," *Munich Personal RePEc Archive, MPRA Paper* No. 23698.

¹⁸ Weller, J. 2007. "Youth Employment: Characteristics, Tensions and Challenges," *CEPAL Review* 92, 74.

2. Gender and Regional Differences in the Youth Labour Market

Generally, there are fewer economically active women than men in the labour force, which is the result of many factors, including relatively lower educational attainment and skills, or episodes of discrimination in the labour market. In several societies, particularly in the developing economies, this state of affairs may also result from customs and traditions, and other social norms or realities that put women at a great disadvantage in terms of job opportunities. Available evidence confirms this view; as the data indicate, while global labour force participation rate among men was 58.9% in 2010, the corresponding rate for women was 42.4%.¹⁹ This relativity between men and women is generally true across regions, with the only exception represented by areas in East Asia. Here, labour force among women (61.6%) outpaced men's participation rate (57%) in 2010.

However, the labour market experiences of men and women are very different. Some evidence suggests that, as a subgroup, women in the labour market do face some disadvantages when it comes to finding a decent job. Such differences might indicate that unemployment among young women is lower than that of young men, but this could also have been the result of other labour market factors. This might simply mean that young women tend to give up job search far much quicker than their male counterparts, and might exit from the labour market altogether.²⁰ Although several of the reasons given above are common to both young women and men, there could be a considerable number of differences in their resilience to paid job search.

That said, labour force participation among women is particularly low in the case of North Africa, and the Middle East. In these regions, the labour force participation rate among women was about one-half of the corresponding participation rate for men. Thus, while the labour force participation rate among men in these regions was respectively 52.5% and 50.3% in 2010, the corresponding participation rate for women was 22.9% and 21.5% in the same year.²¹ In other words, either on account of unfavourable social and cultural norms, or of some social aspects, such as

¹⁹ ILO. 2011. *Global Employment Trends 2011. The Challenge of a Jobs Recovery*. Geneva: ILO, Table A8.

²⁰ ILO. 2010. *Global Employment Trends for Youth 2010*. Geneva: ILO, 21, Table 1.

²¹ *Ibid.*, 9, Table 1.

education, women in some regions and societies are generally disadvantaged in the labour market.

3. The Effect of the Global Economic Crisis

As shown, prior to the global crisis there had been a decrease in unemployment among adults (particularly in the period 2006-2007) and a more significant decrease in youth unemployment, corresponding to 3.4 and 4.8 percentage points, respectively.²² However, as the ILO estimates indicate, the number of unemployed among young people increased by 7.8 million, compared to an overall increase of 28 million. Unemployment among the youth rose from 11.9% to 13% between 2007 and 2009.²³ As data indicate, young women are far more adversely affected, as a result of the global crisis.

The effect of the crisis naturally led to a progressively loose labour market, where youth are generally disadvantaged. With low levels of education, little to no skills, young people are not competitive or attractive enough to operate in such labour markets. Accordingly, their employment prospects are worse in periods of contraction of employment opportunities. Apart from this, there are other labour market realities that might have accentuated unemployment among the youth during the current crisis. For example, the raising of the statutory retirement age and the re-entry of skilled workers into the labour market are bound to depress further the employment opportunities of young people, particularly when they are not employable for lack of education, skills and/or experience.

However, the consequences of the global recession vary across regions, with such impact producing different results even within the same region and usually being more relevant in the developed Western European countries. For example, the first full year of the crisis (2008-2009) produced unequal effects on the European regions. While the increase in youth unemployment was 4.6% in the advanced market economies, non-EU Member States and South-Eastern Europe countries reported a 3.5% increase over the same period.²⁴ Furthermore in 2007, that is before the crisis, young women were already experiencing high unemployment, and by 2009, unemployment among this group was even higher.

The situation is completely different as regards developing economies. In 2009, in Latin America, the Caribbean, and North Africa, the gap in

²² *Ibid.*, 31.

²³ *Ibid.*, 28.

²⁴ *Ibid.*, 63, Table A5.

unemployment rates between young females and males increased by as much as 7.3, 10.5 and 11.4 percentage points respectively, ostensibly because tighter labour market pushed back women jobseekers.²⁵ Despite the scarcity of employment opportunities in the formal economy, the absence of social protection normally induces young people to engage in informal and vulnerable employment. In Sub-Saharan Africa, for example, as a result of a high youth employment-to-population ratio, the proportion of young people actively engaged in work increased by 33.3% during the 1998-2008 period.²⁶

However, such labour market activities were poverty-driven, undertaken in the informal economy out of desperation. These forms of employment are not necessarily “decent” in the sense that they provide meagre income, virtually without any form of social protection.²⁷ In other words, with low education, inexperience, little or no skills, the youth are not competitive or attractive enough to function in competitive labour markets. So their employment prospects are far worse in periods of contraction of employment.

In sum, and with special reference to developing economies, the global crisis slowly but steadily manifested in various forms, reversing, as it does, the economic development projections for poverty reduction, as anticipated in the Millennium Development Goals. The effect of the crisis is demonstrated, not only by the size of employment or unemployment, but perhaps by the corresponding increase in job opportunities that can be described—at best—as irrelevant to provide decent employment. This would obviously result in underemployment, that usually takes place in the informal economy, and various forms of atypical work in the modern sector.

4. Addressing the Youth Employment Challenge

In the future scenario of a post crisis recovery, there are prospects for a decrease in unemployment rates for young people over time. According to existing forecasts, the anticipated growth of GDP will lead to a decrease in the size of global unemployment. These estimates indicate a marginal decrease in youth unemployment rate from 13.1% in 2010 to 12.7% in

²⁵ Ibid., 29.

²⁶ Ibid., 14.

²⁷ Weller, J. 2007. “Youth Employment: Characteristics, Tensions and Challenges,” *CEPAL Review* 92. Calves, A-E., and B. Schoumaker. 2004. “Deteriorating Economic Context and Changing Patterns of Youth Employment in Urban Burkina Faso: 1980-2000,” *World Development* 32, No. 6.

2011.²⁸ But as studies show, there are various forms of discrimination which cannot be overlooked, particularly when explaining the unemployment dilemma faced by the youth. There is no doubt that disadvantaged young people risk marginalisation and social exclusion. Socially disadvantaged youth are more exposed to unemployment than others.

Obviously, existing evidence of the relatively poor employment status of young people calls for an integrated employment policy in which the promotion of youth employment represents a clearly defined element of the overall economic and social development agenda, with youth employment and employability that need to be regarded as key priorities. A considerable number of young people across regions are generally engaged in poor quality employment, including agricultural and casual employment in the informal economy, notably in the developing countries. The youth work long hours, usually on a short-term and informal basis, and under uncertain work arrangements characterised by decent work deficits, such as low pay, precarious working conditions and a lack of provisions in terms of social safety net.

The ILO report paints the following dilemma faced by the youth within the labour market, also explaining the perception of society at large, including policy-makers, when it comes to the youth employment challenge:

An inability to find employment creates a sense of uselessness and idleness among young people that can lead to increased crime, mental health problems, violence, conflicts and drug taking...idleness among youth can come at great costs. They are not contributing to the economic welfare of the country—quite the contrary. The loss of income among the younger generation translates into a lack of savings as well as a loss of aggregate demand. Some youth who are unable to earn their own income have to be financially supported by the family, leaving less for spending and investments at the household level.²⁹

Several years ago, the UN concluded that the social, economic and political consequences of youth unemployment represented a waste of valuable human resources and their potential contribution to social and economic development.³⁰ The document stated that failing to take decisive action was not an option for countries. Indeed, in countries where social

²⁸ ILO. 2010. *Global Employment Trends for Youth 2010*. Geneva: ILO, 46, Table 6.

²⁹ *Ibid.*, 6, Box 2.

³⁰ United Nations General Assembly. 2005. *Global Analysis and Evaluation of National Action Plans on Youth Employment*. Report of the Secretary General Sixtieth Session. United Nations.