Going to work

chapter 4

Once young people are in the labor market, they begin to reap the benefits of earlier investment in education and health, and continue to develop the skills needed for a productive livelihood. A successful transition to work for today's many young people can accelerate poverty reduction through better allocation of their labor, and boost economic growth. Some youth, however, encounter roadblocks: some go to work too early, others cannot enter the work force, still others get stuck in low productivity work.

Because most learning occurs at the beginning of the work life, initial experiences can have long-lasting effects. Difficulties in entering the labor market can persist and be very costly to mitigate. Poverty and slow economic growth can exacerbate poor youth outcomes such as child labor, school dropout rates, and joblessness. The lack of access to insurance and information and the unintended consequences of some labor market policies magnify the impact of household poverty and slow economic growth.

Correcting for these failures requires the right mix of policies to ensure that enough opportunities are available for young people, that their skills match employment opportunities, and that second-chance options protect those who fall behind. Some policies, such as improving the investment climate or enhancing the functioning of the labor market, are not youth specific, but have a disproportionate impact on youth. Other interventions are youth specific and should be designed to fit the country context. In most middle-income countries, the priority is to reform labor market institutions and to build more bridges between school and work to better accommodate new entrants. In most low-income countries building on basic skills and providing a springboard to reintegrate the most vulnerable will allow youth to gain productive employment.

The chapter starts by documenting the challenges youth are facing in their transition to work along with their consequences in the short and long terms. The next section shows why general policies will not solve all the constraints youth face so that a youth-specific approach is needed in the labor market. The last three sections discuss the policy options that could support the opportunity, capability, and second-chance pillars of the Report's policy framework in the transition to work.

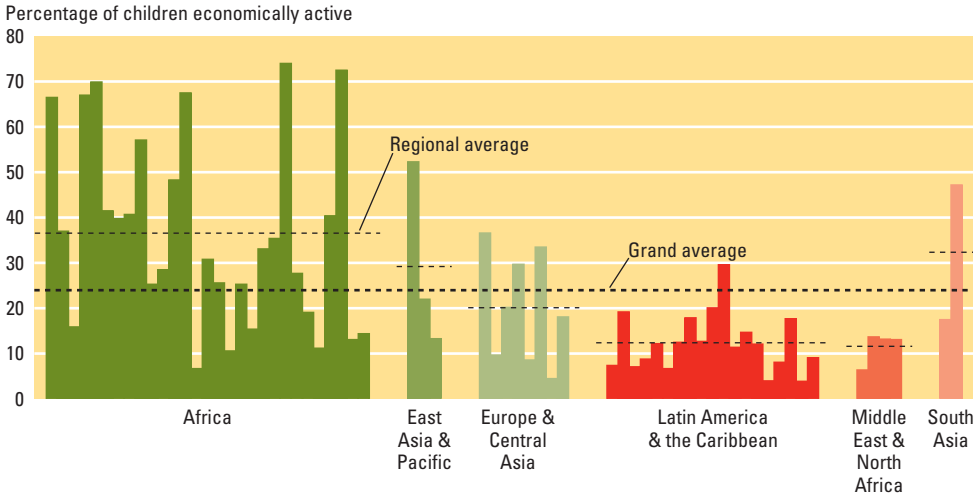
Youth challenges in the labor market

By age 24, almost all youth in developing countries have left school and entered a new stage in life—some to begin wage work, some to engage in home enterprise, some to form households and raise families, and some to do combinations of these activities. Over the past 30 years, the age of leaving school has risen in every region in the world except Africa.[1] The increased educational attainment associated with this should have improved the transition to work and led to greater success once employed. Indeed it has, but too many youth still face significant challenges in their path to work. The main obstacles are starting too early, failing to enter the labor market, and having difficulties moving across jobs and up the skill chain. The effect of these obstacles on skill accumulation, future performance in the labor market, and economic development are long lasting.

Starting too early

Some young people never attend school, and many others begin working at very young ages. An average of 14 percent of

Figure 4.1 Child labor is highest in Africa



Source: Fares and Raju (2006).
Note: Regional (dotted horizontal lines) and grand (solid horizontal line) means are calculated by weighting country child economic activity rates by country child population (7–14 years).

the population ages 10–30 in 82 developing countries have never attended school. Child labor is prevalent among this group, but it is also common among those who entered school. The International Labour Organization (ILO) estimates that despite an 11 percent drop in the incidence of child labor between 2000 and 2004, 218 million are still trapped in child labor.[2] In 65 countries, about 21 percent of children under age 15 are economically active (figure 4.1). The estimate likely understates child work because it is difficult to measure work outside the market and because child labor is characterized by short spells missed by surveys.[3] The highest reported rates are in Sub-Saharan Africa, averaging 35 percent. In seven of 29 African countries, more that half the children between ages 7 and 14 are working (figure 4.1).

A consensus against the very visible and worst form of child labor is reflected in the large number of countries ratifying ILO convention 182 on the Worst Form of Child Labor. However, the majority of children are not working under such harsh visible conditions. The reality is quite complicated. Many working children combine school with work. In 29 countries in Sub-Saharan Africa, an estimated 52 percent of children working were also attending school, while in 19 countries in Latin America as many as 78 percent of working children were estimated to be attending school.

About 70 percent of child laborers are in agriculture, predominantly in unpaid family work. Fewer than 10 percent are in manufacturing.[4] For many poor families, child labor represents a significant share of household income. For example, in Brazilian households in which children work, child labor represents 17 percent of urban household income and 22 percent of rural household income. The unfortunate tradeoff is that children who sacrifice schooling when young are likely to be poor as adults.[5]

Recently completed research has improved our understanding of the determinants and consequences of child labor.[6] Many adolescents work while in school, but the effect of doing so is unclear (chapter 3). For young adults, working may enable them to finance upper secondary and tertiary education that would otherwise be unaffordable. The problem is with younger people—work appears to be more damaging to school attainment because prematurely dropping out of school reduces the amount that youth learn while in school. A negative association between work and the test scores of 8th graders is found in a majority of countries. [7] Poorer schooling outcomes also lead to poorer earnings later in life. In Brazil, boys who entered the work

force before age 12 earned 20 percent less per hour and were 8 percent more likely to be in the lowest income quintile than boys who started working after age 12.[8]

Leaving school too early is costly for later productivity. The forgone earnings and the lack of skill accumulation can make it much more difficult to escape poverty as an adult. In 61 countries, the estimated average return per year of schooling was 7.3 percent for men and 9.8 percent for women.[9] The returns are highly correlated within countries, so markets that reward schooling for men also reward women, and markets that reward urban residents also reward those in rural areas. These returns suggest that across a wide array of countries at all stages of development, education offers substantial wage returns—not only to urban male youth, but to women and rural youth as well.

Children of parents who worked as children are more likely to work at young ages, holding other household attributes constant, suggesting that child labor recurs across generations and may be a means by which poverty is passed on from parent to child.[10] Child labor can also have temporary or permanent adverse health consequences that can hinder future earning capacity.[11]

Failing to enter the labor market

Many young males and females face significant difficulties entering the labor market. This employment difficulty can be measured differently depending on the country context and youth characteristics (box 4.1). According to most measures, youth are more

BOX 4.1 ***Measuring youth activity in the transition to work***

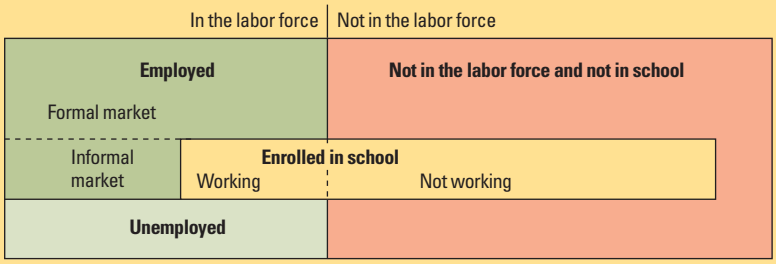
Conclusions about youth labor market outcomes differ depending on how youth time allocations are measured. For example, youth who are not employed in the formal market may be spending time productively in school or in informal production activities or they may also be actively seeking work (see figure below).

The standard labor market indicators in developed countries are the unemployment rate, the employment rate, and the labor force participation rate. Youth are considered employed if they work at least one hour for a wage in the weeks prior to the survey but also if they work in unpaid labor for an enterprise owned by their households. To be considered unemployed, an individual must be not employed but actively seeking work. The labor force participation rate is the share of the population either employed or unemployed, and the unemployment rate is the share of the labor force that is unemployed. The employment rate is the share of the population that is employed. Two other measures are used in developing-country settings: the proportion of the population neither in the labor force nor in school, and the proportion of the population neither working nor in school (the jobless rate).

No one measure provides a complete picture of the labor market for youth, so multiple measures are needed to analyze youth labor markets in developing economies. For a sample of 91 developing countries, these indicators are not perfectly correlated. There is an inverse correlation between the unemployment rate and the employment rate, and a weaker inverse correlation between the unemployment rate and the labor force participation rate. According to the level of country development and the gender and education of youth, the relevant indicator could vary. The following list indicates the caveats of each indicator and suggests alternatives:

- The unemployment rate is a measure of difficulty of finding work. In middle-income countries the ratio of youth to adult unemployment rate is telling, but short-term and long-term unemployment need to be distinguished. In low-income countries, the youth unemployment rate is very low, and relevant only for the more educated and better off portion of the population.
- The employment rate for youth does not account for school enrollment and the type of work. Using the population out of school as a reference group allows for better comparability with adults, while looking at the sector of work, hours of work, and measures of earning shed light on the quality of employment and underemployment.
- "Out of school and out of work" is a measure of unused human capital but not for girls involved in household activities. The relative ratio for males in this group indicates the extent of discouraged youth who withdrew from the work force.
- Youth employment is considered informal if the job is unpaid or if the job includes no benefits such as participation in the country's social security system. High rates of informality are a signal that youth are finding less permanent, low-quality jobs.
- Combining school and work is potentially harmful for the very young, and could be an indicator of the risk of early school exit.

An illustration of youth time use



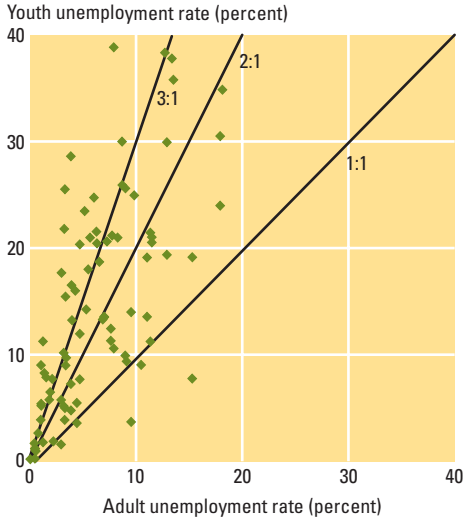
Source: Fares, Montenegro, and Orazem (2006a).

likely to be unemployed than adults. Significant variation in unemployment exists between urban and rural sectors, between developed and developing countries, as well as between poor and rich households. Young females are more likely than young males to stay out of the labor force. Early difficulties in finding employment can have long-lasting effects on employment later in life.

Young people have a hard time finding employment. Survey data from 60 developing countries suggest that, after leaving school, youth spend an average of 1.4 years in temporary or intermittent work and spells of joblessness before permanently entering stable employment.[12] This estimated duration varies widely between countries and estimation methodologies, but could reach above four years in some instances. In many countries in Eastern Europe, Latin America, and the former Soviet Union, youth entering the labor market experienced long spells of unemployment.[13] Initial failure in finding a job can lead to persistent joblessness for young people, especially in weak economies.

In every region the difficulty youth face in entering the labor market is evident in higher unemployment rates for young men and women than for older workers. Youth make up 25 percent of the working-age population worldwide, but 47 percent of the unemployed. The estimated global unemployment rate for youth increased steadily from 11.7 percent in 1993 to 14.4 percent in 2003. It varies widely across regions, from a low of 7.0 percent in East Asia to 13.4 percent in industrial economies to a high of 25.0 percent in the Middle East and North Africa.[14] Across all markets the youth unemployment rate is two to three times higher than the adult unemployment rate, regardless of the level of aggregate unemployment (figure 4.2). The high unemployment rate among youth in some countries has made unemployment in these countries a youth problem. In the Arab Republic of Egypt, Indonesia, Qatar, and the Syrian Arab Republic, youth make up more than 60 percent of the unemployed.[15] In most developing countries, the youth unemployment rate is higher in urban than in rural areas, and is estimated to be higher for young women than for young men.[16]

Figure 4.2 Unemployment is higher for youths than for adults



Source: Fares, Montenegro, and Orazem (2006a).
Note: The 1:1 line represents the cases in which the estimated unemployment among youth and adults is identical. The 2:1 (and 3:1) lines represent cases in which estimated youth unemployment is twice (three times) as high as adult unemployment. Each data point in the graph represents one country.

In most countries, the less skilled youth are more likely to face difficulties in finding work compared with more skilled youth. However, in some developing countries the unemployment rate is very high even among educated youth, a great concern to many countries in the Middle East and North Africa. In Tunisia, where the unemployment rate for 20- to 24-year-olds is more than three times higher than the rate for those over 40, it is more than 40 percent for youth with higher education compared to about 25 percent for those with primary education.[17] The disadvantage faced by the most educated persists over several years after entry into the labor force. The cross-sectional pattern implies that it takes an estimated 10 years for the unemployment rate for Tunisians with postsecondary education to drop below that of the less educated.

Unemployment is only one symptom of problems in the labor market. Within poor countries, youth unemployment is concentrated among those who are educated and from high-income families. Other dimensions in the labor market must be examined to assess the ease or the difficulty for young people to integrate themselves in the labor market. Some youth are neither working

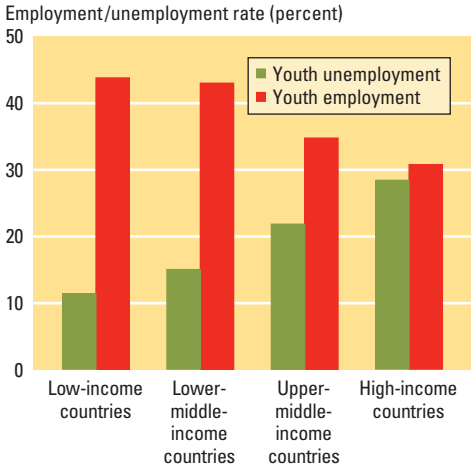
nor in school (box 4.2); other poor young people cannot afford to stay unemployed, most have to work. So the incidence of unemployment may be low, although youth are still mired in poverty. In the poorest countries, youth unemployment rates are very low and employment rates are very high (figure 4.3). As country income increases the incidence of unemployment among youth also increases—a likely reflection of available alternative income sources and safety nets that make it possible to be unemployed. Youth employment rates also fall as per capita income increases because youth devote more time to schooling.

The effects of these difficulties are lasting. An initial period of unstable employment upon leaving school is common and not of great concern if young people eventually move into more stable jobs, but this is not always the case. The duration of unemployment for some is very high. For example, in 2000, more than an estimated 60 percent of unemployed youth remained unemployed for more than six months in the Czech Republic, Hungary, and the Slovak Republic.[18] In both Brazil and Chile, youth cohorts that entered the labor market during recessions faced an atypically high likelihood of unemployment during the recession and persistently high unemployment for several more years even after recovery began.[19] In Bosnia and Herzegovina, youth's difficult entry into the labor market led to low future earnings (box 4.3).

Long spells of unemployment can discourage youth from remaining in the labor force, leading to a high incidence of youth out of school and work (see box 4.2). The delays in finding work are important at this age because young people need the early experience to build on their basic education and to continue to acquire skills relevant to the labor market. Being either unemployed or out of the workforce for a long time can limit the accumulation of human capital young people need to get better integrated into the workplace and find productive employment.

During repeated spells of unemployment, young men and women in Canada and the United States increase their uptake of training, stay longer in school, delay marriage,

Figure 4.3 Where young people cannot afford to be unemployed, youth unemployment is low and employment is high



Source: Fares, Montenegro, and Orazem (2006a).

BOX 4.2 *Some youths are neither in the labor force nor studying*

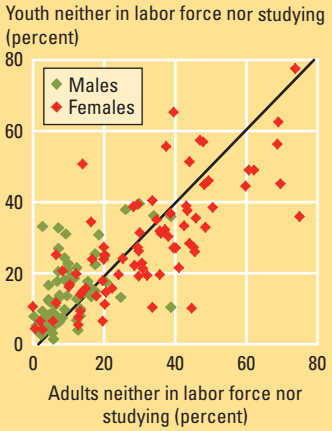
In many countries, the proportion of youth who are neither in the labor force nor in school is too large to dismiss as a problem of measurement or as a temporary phenomenon. A cross-country comparison of young men and women reveals important differences in these proportions across gender and relative to adults (see the figure):

- *Differences in levels.* Female observations almost always lie to the right of male observations, implying a higher incidence for females relative to males.
- *Differences in ratios.* Most observations for men lie above the 45 degree line, where the estimated incidences for youth and adults are identical, implying that young men are systematically more likely to fall in this group than adult men. The pattern is not replicated for females.

Some of the high estimates may be attributable to measurement problems, particularly for young women working in their households. In Tanzania, the main reason young women said they were not looking for work was their household responsibilities. For young men, it was the lack of market work.

The data reveal important differences between males and females in this group—males are predominately discouraged workers, while females are engaged in nonmarket activities. Youth who are neither attaining marketable skills in school nor using those skills in productive work are a wasted resource in the economy, so mechanisms need to be found to tap that resource.

The incidence of young females neither in the labor force nor studying is higher than for young males, which is higher than for adult males



Source: Fares, Montenegro, and Orazem (2006a).
Note: The 45 degree line represents the cases in which the estimated incidence of neither working nor studying among young and adults are identical. Each data point in the graph represents one country.

BOX 4.3 *Early unemployment persists in Bosnia and Herzegovina*

In Bosnia and Herzegovina, despite the end of the civil conflict in the late 1990s, youth have had significant difficulties entering the labor market and experienced excessive instability in their early years of the transition to work. In 2004, the unemployment rate was 62 percent for those between 15 and 19 years old, and 37 percent for those between 20 and 24 years old, compared to 22 percent for adults in the same year. These outcomes persist in the first few years of youth experience in the labor market. Among those 15–24 who were unemployed in 2001, 77 percent were jobless one year later, and 58 percent were still jobless three years later. Even among youth employed in 2001, a third of them were jobless in 2002, and a quarter of them were still jobless in 2004.[20]

Controlling for young workers' characteristics (for example, gender, education, marital status), those who suffered a spell of unemployment or inactivity at any point over the 2001–02 period were also found to have faced a greater likelihood of unemployment or joblessness (both inactivity and unemployment) in 2004. Among young workers, the experience of joblessness is associated with about 11 percent greater probability of unemployment and 30 percent greater probability of joblessness. The effect on earnings is also significant. For all workers in Bosnia and Herzegovina, a spell of joblessness is associated with lower wages.

Poor transition probabilities in Bosnia and Herzegovina, 2001–04 ***(percent)***

	Employment status in 2002			Employment status in 2004		
	Inactive	**Unemployed**	**Employed**	**Inactive**	**Unemployed**	**Employed**
Employment Status in 2001						
All						
Inactive	73	12	14	63	15	21
Unemployed	32	34	34	30	27	43
All employed	13	07	81	13	08	79
Ages 15–24						
Inactive	71	17	12	53	21	26
Unemployed	36	41	23	26	32	42
All employed	22	12	66	11	15	74

Source: Fares and Tiongson (2006).
Note: "Inactive" is defined as being out of school and out of the labor force.

and continue to live with their parents.[21] Not all these options are available in developing countries. When productive options are not available for jobless youth, there is a greater likelihood that they will enter activities damaging to themselves and society. Youth difficulties in the labor market increased crime rates in France, and increased the probability of incarceration in the United States.[22] Similarly, in Sri Lanka, where the proportion of long-term unemployed young people exceeds that of adults, high youth unemployment was cited as the main cause for large-scale unrest of Sinhalese youth from the rural south. The second insurgency from 1987–91 brought the country to the verge of collapse and left 40,000–60,000 dead or missing, most of them youth.[23]

Getting stuck in jobs that do not build human capital

Youth and adult employment are positively correlated—as adult employment rises, youth employment also increases. But youth are less likely to be employed compared to older men and women. Even after adjusting for school enrollment, the difference between youths' and adults' employment rates persists. Among youth, the employment rate for young men is always higher than the employment rate for young women, partly reflecting a stronger attachment to the labor force among males—but also reflecting the additional difficulties many young women face in going to work and the greater proportion of them engaged in home production, not included in measured employment.

When working, youth often are found in low-paying jobs or unpaid family work. For 74 developing countries with data, only 25 percent of working youth in low-income countries are in paid work, with the proportion rising with country income, to 57 percent for the middle-income group and 74 percent for the high-income group. Even those who are paid are less likely to have access to social security compared with

"I am positive for my future. I'm sure I will find a job sooner or later and the first job doesn't mean a job that I will do my whole life. The most important thing for me is to improve myself."

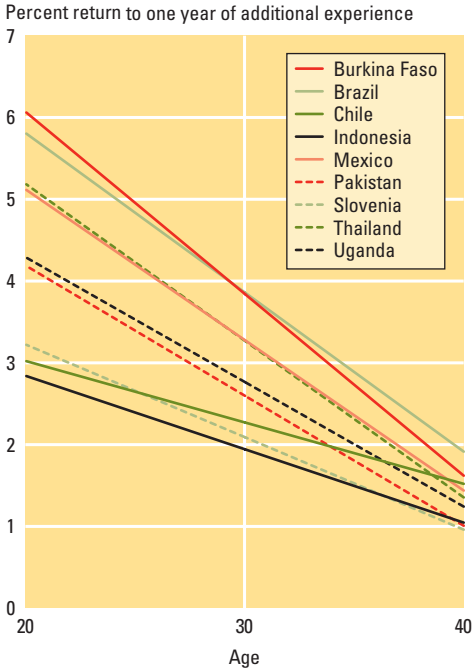
Xiangju, university student,
China
December 2005

older workers. In these 74 countries, it is not uncommon to find the incidence of unpaid work to be two to four times higher for youths than adults (chapter 1).

Starting in a low-paying job, or being mismatched early on with the wrong type of employment, would not have severe consequences if youth can move to more productive opportunities. Indeed, during the early transition to work, youth are expected to be experimenting with different types of employment, and evidence indicates that such early turnover will enhance subsequent job matches, reflected in higher productivity and higher earnings for youth.[24] However, not all youth are mobile. In Burkina Faso, more than 90 percent of teenagers between 15 and 19 with no education started working as family helpers in 1993, falling only to about 80 percent five years later.[25] Higher education does increase mobility. More than 80 percent of teenagers between 15 and 19 with some secondary education started working as family helpers in 1993, and this share fell to about 40 percent five years later. While initial differences were not as large, those with higher education moved out to find better productive work much more quickly.

Does starting in informal or unpaid work rather than formal-sector work lead to different employment and wage outcomes? Where informality is widespread, the informal sector is an important stepping stone in the transition from school to work for those who have the choice. In Latin America the vast majority of apprenticeship occurs in the informal sector, and new entrants might choose the informal sector to acquire the skills needed for the labor market.[26] In Albania, Argentina, Georgia, Hungary, Poland, Russia, Ukraine, and República Bolivariana de Venezuela, youth gain substantially when they move from the informal to the formal sector.[27] The wage gains from the move are significantly greater for youths than for older workers. Youths also benefit from faster wage growth once in the formal sector, both in comparison with older workers and in comparison with their counterparts in the informal sector. Some, however, become stuck in informal low-paying jobs that offer no opportunity to further develop their human capital.

Figure 4.4 Returns to experience are highest for the young



Source: Fares, Montenegro, and Orazem (2006b).

On entering the labor market, youth may have the opportunity to obtain formal and on-the-job training, with a large impact on their eventual earnings. Young workers have the fastest wage increases during this period of learning on the job, and the rate slows as workers age (figure 4.4). Returns to an additional one year of experience at age 20 increase earnings by up to 6 percent. However, holding everything else constant, an additional year of experience at age 40 increases earnings by less than 3 percent. The more skills acquired in the early work career, the more the worker can earn later on. In more than four-fifths of the countries analyzed, earnings peaked after age 40, with an average peak in earnings at age 47. At the peak, earnings were on average 2.5 times the starting wage, indicating considerable skill development after leaving school, most of it in the first few years on the job. Youth who lose the chance to acquire these skills after leaving school because of early labor market difficulties may face a career of lower skills and poorer pay. Indeed, in Hungary, initial career success drives later labor market outcomes.[28]

The effect on poverty and social outcomes should not be understated. In many countries, some households with working youth are still poor, even after factoring in youth earnings. Because the most abundant asset of the poor is labor, if poor households are unable to escape poverty even when their youth work, it is unlikely that they will do so through other means. This puts the policy issues for poverty alleviation in stark focus. The overwhelming evidence is that better schooling helps youth make an easier transition from school to work and enjoy greater success. More stable employment and earnings also ease the next transition into marriage and household formation. However, the poorest households cannot meet their current consumption needs without the income earned through their children's labor, so their children's schooling and potential escape from poverty is sacrificed for current subsistence.

What makes youth vulnerable in the labor market?

Youth labor market outcomes are affected by general trends in poverty and economic growth. Because of the severe income constraints in low-income countries, households may have no choice but to send children to work, while in slow-growing economies, youth have significant difficulties in finding work.

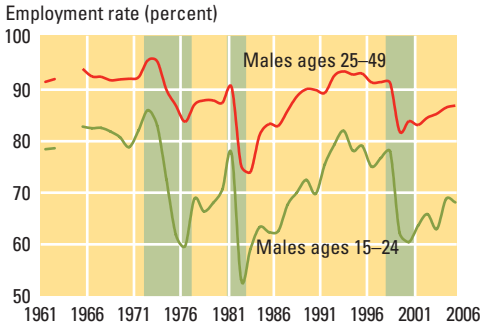
The incidence of child labor is high in the Sub-Saharan Africa and South Asia regions, characterized mostly by low-income countries (see figure 4.1). This relationship, however, is not linear and indicates that at very low levels of income, the effect of changes in per capita income on the incidence of child labor is the highest. Significant variation also occurs in the incidence of child labor even at similar levels of income, which indicates that factors other than poverty could increase or reduce the incidence of child labor. Some families and children have low perceived returns to education, while others face borrowing (and other) constraints to finance their children's schooling. Microanalysis for Burkina Faso and Guatemala shows that the incidence of child labor increases when poor families are faced with income shocks.[29] Conditional cash transfer programs such as PETI (Program to Eradicate Child Labor) in Brazil were shown to be successful already in reducing child labor incidence by providing support to income-constrained families conditional on their children attending school and after-school programs.

Young people suffer disproportionately from weakening labor markets. Cross-country analyses from developed and developing countries show that increased labor demand always improves employment and increases labor force participation among youth.[30] In Brazil in the 1980s and 1990s, employment rates for adults during economic downturns and expansions varied only slightly from the trend, but movements were much greater for young males and females.[31] The differences in employment fluctuations are even more apparent in Chile. The employment rate for young males is consistently below that of adults, partly because a large share of those between 15 and 24 years old are enrolled in school and also because of the greater difficulties youth face in their transition to work. However, the difference is not constant and varies widely over time. During the economic slowdowns of 1974, 1982, and 1998, the employment rate for young males, adjusted for school attendance, declined at least twice as much as that for adult males (figure 4.5).

What is contributing to the vulnerability of youth in the labor market? Four factors:

- In some countries, large cohorts of new entrants and higher female participation rates will continue to add pressure on the youth labor market.

Figure 4.5 In Chile employment is more responsive to demand fluctuations for young males than for adults



Source: Fares and Montenegro (2006).
Note: Shaded portions represent periods of economic slowdown. Employment series are adjusted for school enrollment.

- Poor access to information and credit leads to premature exit from school, perpetuating skill mismatches.
- Policy failures have unintended consequences on youth employment and widen the gaps between youth and adults in the labor market.
- Social institutions hinder the full participation of many youth, particularly girls, in skill acquisition and work.

Large youth cohorts

Several developing countries around the world are experiencing larger youth cohorts (see spotlight on differing demographics following chapter 1). In some, particularly in Sub-Saharan Africa, the share of youth in the population will continue to rise for the next few decades, adding pressure on the youth labor market. Indeed, earlier baby booms in developed countries increased youth unemployment (see spotlight on baby booms following chapter 4).

In 32 developing and transition countries, a 10 percent increase in the youth share of the population increased youth unemployment by an estimated 6 percent between 1980 and 2000.[32] In Ethiopia, local labor markets with the largest share of youth in the population had the lowest youth employment rates, with the effect more pronounced among uneducated youth.[33] Thus, countries with rising youth cohorts will face increasing challenges in absorbing youth in jobs.

Even where the youth share of the population is decreasing, the underlying increase in female participation rates will limit the impact of slower population growth as larger shares of young females in these cohorts look for employment in the labor market.[34] Rising educational attainment has had a particularly important effect on the labor supply choices for women. As women acquire more education, they increasingly move out of traditional household or agricultural production activities and enter wage work. Rising female education levels and the associated rise in female participation in wage work have another effect—they are strongly inversely correlated with country fertility rates.[35]

Lack of access to information and credit

Leaving school to start work before acquiring the relevant skills limits the ability of youth to take advantage of future work opportunities (chapter 3). Poor households with limited access to credit, facing income or health shocks, might have no option but to withdraw their children from school and send them to work. Low expected returns to education might also cause early school dropout and entry to work. Because of information failures, households may undervalue the potential returns from schooling, particularly when jobs requiring education are in urban areas and the household is rural. These information failures are greatest in households with poorly educated parents.

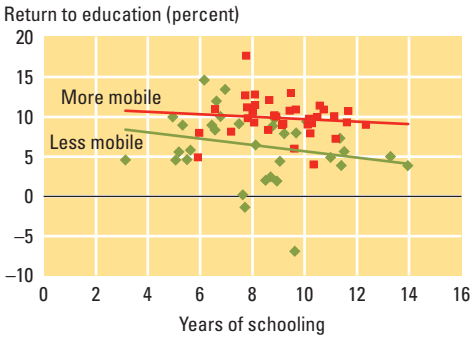
Another reason for low expected returns is that policies restrict youth from moving easily from one job to another, from one area to another, or from one industry to another. The Heritage Foundation Economic Freedom Index measures how a country's economic institutions allow people to work, produce, consume, and invest in the ways they feel are most productive.[36] Returns to schooling average 9.9 percent in the group of developing countries where workers are freer to seek economic advantage, but 6.4 percent in the less mobile group (figure 4.6). This is consistent with theoretical work that ties returns to human capital to economic mobility across alternative sectors and occupations.

Lack of access to information reduces the effectiveness of job search and prolongs joblessness among youth. Not knowing the available opportunities in the labor market and how to prepare for them reduce the likelihood of youth developing the right skills and finding the appropriate job for their skills. The information asymmetry makes employers less confident in hiring new entrants because they are not certain about their productivity. It also increases turnover as youth and employers learn more about the quality of their employment relationship.

Restrictive labor market institutions

Labor market institutions—such as unemployment insurance, employment protec-

Figure 4.6 Returns to education are higher for workers who are more mobile



Source: Fares, Montenegro, and Orazem (2006b).
Note: "More mobile" countries have an average return to education of 9.9 percent; "less mobile" countries have an average return to education of 6.4 percent. Countries are classified as "more mobile" and "less mobile" according to the Heritage Foundation Economic Freedom Index. Each data point in the graph represents one country.

tion laws, and the minimum wage—came into being in response to the suffering of the unemployed and the exploitation of workers. Despite good intentions, those institutions are less than optimal in many countries. Their design might have been poor to start with, circumstances and the economic environment might have changed, and political considerations might have given institutions a life and shape of their own. Reforming these institutions has long been on the agenda in many countries.[37] Some of these institutions have a disproportionate effect on youth.

Employment protection laws are effective in protecting jobs and preventing job loss, but also raise hiring costs, putting young people at a disadvantage.[38] *World Development Report 2005* and *Doing Business 2006* show that employment regulations can be more stringent in developing countries than in industrial countries. High firing costs reduce layoffs as well as job creation in firms and limit the entry of new firms, disproportionately burdening youth in the labor market.[39] Furthermore, reduced turnover increases the duration of unemployment. This effect, combined with the lasting impact of long, early unemployment spells, impairs youth outcomes and future prospects. In Chile, where job security provisions depend on job tenure, employment was biased against young workers. Stricter employment protection laws meant lower wages and employment rates for young workers.[40] The adverse impact of such regulations on young workers' employment rates was more than twice that on prime-age male workers in 15 Latin American and Caribbean countries and 28 Organisation for Economic Co-operation and Development (OECD) countries in the 1980s and 1990s.[41]

Because youth are more likely to be at the bottom of the wage distribution, changes in the minimum wage will naturally have a larger impact (positive or negative) on them. In Brazil, an increase in the minimum wage led to greater job loss for female, young, and low-skilled workers whose wages were clustered around the minimum. In Chile, minimum wages reduced the overall employment probabilities of youth, particularly the unskilled.[42] Even when the informal sector is large, as in Latin America, minimum wages in the formal sector spill over into wages in the informal sector.[43] As a consequence, youth in the informal sector are also affected by changes in the minimum wage.

When public sector wages and benefits are more generous than private sector compensation, a strong incentive arises for young (usually educated) school leavers to queue for government jobs and stay unemployed for some time after graduation. Substantial wage premiums in the public sector—coupled with job security, tenure, prestige, and other nonwage benefits—influence the decision to voluntarily hold out until a public sector job opportunity opens. In Morocco, the starting hourly wage in the public sector is 42.5 percent higher than in the private sector.[44] This leads to a strong preference for public employment among highly educated young Moroccans. In Tunisia, the public sector wage premium is 18 percent, again leading the young to queue for jobs in the public sector rather than accept less attractive private sector jobs.[45] In Ethiopia, a large share of the unemployed youth aspired to work in the public sector because of the perceived high benefits.[46]

These results are not unique to Ethiopia, Morocco, and Tunisia. Earnings regressions for 39 developing countries reveal a public wage premium in 25 countries, on average about 26 percent, controlling for individual characteristics. For other countries such as

"Young people are deprived of secure jobs; their unemployment rate is well above the national average."

Jérémie, law student, France

Cambodia and Vietnam, the public wage premium is negative.[47] In Latin America the public wage premium is much higher for women than men. In several countries in Latin America and in Indonesia, the public wage premium also varies with skill levels.[48]

Inhibiting social institutions, especially for young females

In all regions over the past three decades, labor force participation rates have risen for young women, coincident with rising female educational attainment and falling fertility rates. In some regions, however, rising female education levels have not translated into dramatic increases in labor force participation rates for young women. Social institutions and norms could be a reason. A simple cross-country regression for 128 countries shows that religion alone can explain about one-third of the variation in female participation rates.[49]

Social norms can also affect whether young women succeed in the labor market. In Egypt, women, whose average education level has increased enormously, stay close to home and refrain from driving—limiting their job mobility. While young males increased their commuting distance to work between 1988 and 1998, young women did not, limiting their access to paid employment outside government. The least educated women are the most disadvantaged, confined either to domestic work or to nonwage work in home-based enterprises and subsistence agriculture.[50]

Broadening labor market opportunities

In all countries, a good investment climate lets the private sector expand, helps trade flourish, and allows the country to attract foreign direct investment, all needed for job creation. Youth can contribute to the growth of these sectors, but steps are needed to mitigate the effect of market and policy failures that disproportionately affect youth. The steps will differ depending on a country's level of development. In middle-income countries and countries where labor market institutions are more binding and likely to be enforced, reforming labor market institutions is a priority. In low-income countries, with large informal sectors and dominance of the rural economy, reforming institutions will have limited impact. Thus, expanding alternatives in the rural sector, promoting sectoral and regional mobility, and reducing child labor are most urgent.

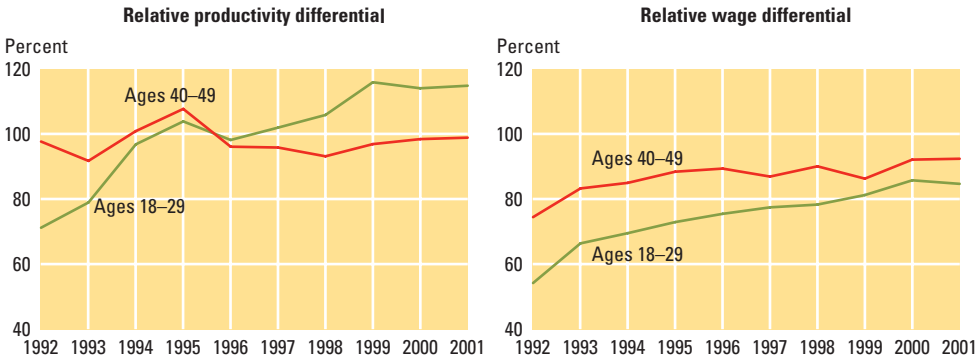
Improving the investment climate

Economic growth and job creation benefit most participants in the labor market, youth included. When labor demand is strong, youth employment and labor force participation for both males and females increases while the unemployment rate for youth goes down.[51] Because the private sector should lead in job creation, a good investment climate is needed to allow firms to form and expand. *World Development Report 2005* argued that governments should create a better investment climate by tackling unjustified costs, risks, and barriers to competition. They can do this by ensuring political stability and security, improving the regulatory and tax climate for investment, providing needed infrastructure, and improving information on vacancies for job seekers.

Expanding world trade has shifted production around the world. Because the young are the most able to respond to the growing demand for labor, these shifts favor young workers. In Indonesia, industries with youth employment shares more than twice the national average are concentrated in electronics and textile manufacturing, heavily engaged in exporting. The young workers in these youth-intensive exporting sectors are disproportionately well-educated—47 percent have completed secondary schooling, compared with 11 percent of other employed youth. Similarly, in Vietnam 20 percent of the young workers in those sectors have completed secondary school, compared with 8 percent in other sectors, and in Brazil 41 percent, compared with 15 percent.

Youth-intensive exporting sectors seem to target young female workers, who make up 74 percent of employed youth in those sectors in Indonesia and Vietnam, compared with 46–50 percent in other sectors. Young workers in exporting firms are better paid than their counterparts elsewhere.

Figure 4.7 Productivity and earnings increased faster for youth relative to older workers in Slovenia during the transition, (1992–2001)



Source: Vodopivec (2005).
Note: The figures show relative productivity and earnings of different age groups compared to a reference group of people ages 50 and above, whose productivity and earnings were normalized to 100 percent.

In Indonesia, young workers in the export sector were paid 30 percent more than young workers in other sectors and 20 percent more than young workers in other manufacturing. Young workers may also be attracted to exporting firms and those with at least some foreign ownership, because of the greater likelihood of training.[52]

The young may be particularly attractive to firms in the new and growing sectors of the economy because they are more adaptable than older workers to new production methods. During the Estonian transition, the relative share of employment and the returns to experience rose faster for the young.[53] In Slovenia, wages and labor productivity rose faster for the youngest workers (figure 4.7). In the early 1990s, younger workers were the least productive age group in the labor market. The productivity of those between 18 and 29 years old was about 70 percent of the productivity of those 50 years and older. Around 1996, young workers' productivity caught up with that of 40- to 49-year-olds, and by 2001 youth had become the most productive. At the same time, earnings rose at a pace faster for the young than for older workers, closing significantly the gap in earnings with older workers.

Industrial growth led by foreign direct investment was initiated partly due to the availability of cheaper young labor. However, the dynamic growth process increased the demand for a highly skilled and highly educated labor force able to adapt to new technology with appropriate knowledge, skills, and behavior. In several Latin American countries, this has boosted high-skilled wages.[54] The experiences of Thailand and Malaysia suggest that government has a role to play in reducing the negative production externalities caused by accelerating wage increases, in turn caused by shortages in quality labor.[55] Evidence suggests that opportunities in export-oriented sectors can provide incentives for youth to acquire more skills. Among 48 developing countries, increases in apparel and shoe exports as a share of GDP were found to be positively associated with subsequent upturns in both male and female secondary school enrollment. For the average country, a doubling of apparel and footwear exports as a share of GDP raises female secondary school attendance by 20–25 percent.[56]

Reforming institutions

World Development Report 2006 discusses why governments intervene in the labor market and how poorly designed or inappropriate policies can make conditions worse for equity and efficiency. As shown earlier, these policies disproportionately affect youth. In high-income countries, the result is a reduction in the employment rate for young people and an increase in the incidence and duration of unemployment (see spotlight on baby booms following chapter 4). In low- and middle-income countries, the result is a

BOX 4.4 *Reforming part of the labor market has been no substitute for comprehensive reform in Spain and France*

Spain and France have suffered from high unemployment among youth over the last two decades. Both governments have experimented with partial labor market reforms as a means to reduce the youth unemployment problem.

In Spain, the initial reform in the early 1990s was intended to increase employment flows among youth by making it less costly for firms to hire young workers. Lowering the firing costs for entry level jobs without changing the costs for regular jobs may have increased firms' willingness to hire new workers but also made them reluctant to retain these workers. The result of this policy was a systematic rise in the use of temporary contracts for young workers, without an increase in permanent and stable employment. Over 30 percent of employment became temporary, while unemployment remained as high as 24 percent. Spain had to move to broader reforms in 1997. Policies such as reductions of payroll tax and dismissal costs proved to be effective in reducing overall unemployment, particularly for the young. Youth unemployment decreased from about 40 percent in 1995 to 20 percent in 2000.

In France, youth unemployment rates have remained above 20 percent since the 1990s. In 2006, the government proposed a contract for first employment (Contrat Première Embauche, CPE) that would have allowed employers to fire workers under 26 within a two-year trial period without giving a reason. It was hoped that employers would be more likely to recruit young people if they knew they could be fired readily and that this would reduce youth unemployment. Students, with the support of workers' unions and opposition parties, demonstrated against the new law and forced a showdown with the government, leading to the withdrawal of the proposed law.

Some decried the lack of consultation. Analysts also argued that the CPE reinforced the market segmentation already in place since the introduction of the fixed duration contract, the Contrat à Durée Déterminée, CDD, a partial reform in 1979. The proportion of those employed under the CDD rose from 3 percent in 1983 to 17 percent in 2000. This substantially increased turnover without a reduction in unemployment duration.

The lesson: Because partial reform, as in Spain in the early 1990s, tends to reinforce market segmentation, it is a poor substitute for broad reform, and its public support and effectiveness are limited. Another alternative, suggested by analysts in France, could be a more gradual approach that deemphasizes the segmented labor market for different age groups—perhaps a progressive contract in which protection gradually increases as a worker's tenure rises.

Sources: Blanchard (2006); Blanchard and Landier (2001); Cahuc and Carcillo (2006); Kugler (2004); and Kugler, Jimeno, and Henanz (2003).

segmented labor market—one comprising a small number of workers who benefit from greater employment and income security and another comprising a large number of young workers alternating between short spells of employment and joblessness, with little access to security and opportunities to develop their human capital.[57]

Broad, not piecemeal, labor market reform. To protect those currently employed, some governments have experimented with modest labor market reforms, but because partial reforms tend to reinforce market segmentation, the results were not favorable (box 4.4). For policy makers, a move from partial reform toward more general and comprehensive reform will benefit employment creation with a disproportionate effect on youth. The level of protection has to be balanced with the flexibility needed to encourage job creation. In 1990, Colombia introduced a labor market reform that substantially reduced the costs of dismissing workers. The reform increased turnover for formal sector workers relative to nonformal but also reduced the length of unemployment spells, particularly for youth and for more educated workers.[58]

At any general level of protection, firms will need additional incentives to employ and train young inexperienced workers. Analysts advise against jumps in protection from one type of employment to another—jumps likely to segment the market (box 4.4). A more progressive contract is preferred, where protection increases gradually with tenure with no large discrete changes in protection.[59] Such contracts provide incentives for firms to invest in young workers as their productivity increases with longer tenure.

A similar approach applies to the minimum wage, intended to protect workers' wages from falling to very low levels. In many developing countries, however, the minimum wage is high. In Chile, Colombia, Costa Rica, Nicaragua, Panama, Peru, and República Bolivariana de Venezuela, it exceeded 50 percent of the median wage for workers ages 26–40 between 1980 and 2000.[60] Yet many workers receive much less than the minimum wage because of weak enforcement. Young workers' wages tend to be concentrated at the lower end of the wage distribution anyway. For example, in Russia the share of young workers with labor market earnings below 30 percent of the median wage is estimated at 38 percent for 2002, in Indonesia at 35 percent for 2003, and in Ghana at 52 percent for 1998.[61]

Several countries have differentiated the minimum wage by age to mitigate the effects on youth employment. Setting a lower minimum wage for youth reduces the disemployment effects by keeping it profitable for firms to hire and train young inexperienced workers.[62] Below-minimum apprenticeship wages significantly increased the job opportunities for young graduates in Chile.[63] Lower wages should be intended to subsidize on-the-job training so youth can develop the skills needed to increase their productivity and future earnings.

In many countries where the public sector offers higher wages and more generous benefits and employment security, educated youth remain out of work while waiting for openings in the public sector. Closing the gap in pay and benefits between the public and the private sector, or at least reducing the incentive to wait for a public sector opening, will reduce youth unemployment among the most educated. Closing the gap in information, promoting opportunities in the private sector, and aligning higher education more with labor market demands will shorten the long queues of young men and women waiting for public sector jobs. Governments also have to signal a willingness to move from job guarantees (explicit or implicit) to a more competitive process for entry into the public sector, perhaps by making the application process merit based. In Turkey, the requirement of passing a set of examinations to apply for a government post shortened the queue for public sector jobs and shifted graduates to the pursuit of other careers.

Direct employment creation. Wage subsidies to private firms have sometimes encouraged employers to hire new entrants.[64] In a world where wages cannot adjust to compensate for the risks firms might perceive from hiring inexperienced young workers, subsidies will have an effect on hiring and dismissal policies of employers. Several evaluations of wage subsidy schemes in European countries are available. Almost all studies find a large beneficial impact on employment.[65] While encouraging, these findings do not usually take into account potential displacement effects or deadweight loss that may be associated with wage subsidy schemes.

Better design of wage subsidies and better targeting are needed to ensure that young hires do not gain employment at the expense of other employees, and that the subsidy goes to those employers who would not have hired young workers in the absence of this additional financial incentive. Evidence from the Czech Republic, Hungary, and Poland demonstrates that youth-specific wage subsidies can be of particular benefit if they are well targeted to the most disadvantaged, with females with lower educational attainment benefiting the most. In OECD countries, wage subsidies work best for unemployed youth, especially those from more disadvantaged backgrounds.[66]

Differences in the target group, eligibility criteria, assignment to participation, type of jobs, and duration and amount of subsidies will play a role in the effectiveness of these programs. These programs exhibit large variations. In Belgium, the "employment plan" offers two-year subsidies for employers through a reduction in social insurance contribution, of up to 25 percent of the gross wage in the first year and around 17 percent of the gross wage in the second year of the subsidy. In Sweden, a program targeting the long-term unemployed offers employment subsidies for six months. In the Slovak Republic, two-year subsidies were offered both in the public and private sector. Because wage subsidies are costly and less effective in economies with large informal sectors, their applicability is limited mostly to middle-income countries. Even in middle-income countries, however, the financial constraints mean that programs have to be well-targeted and be of limited duration.[67]

Expanding rural opportunities

In many developing countries, many youth still live in rural areas. For rural youth, employment opportunities are not only in agriculture but also off farm. Including rural towns, the rural nonfarm sector accounts for about 40 percent of full-time rural employment in Asia and Latin America and 20 percent in Sub-Saharan Africa.[68] The history of economic development has shown that development of the nonfarm sector is tied to improved productivity on the farm. As technological innovations raise

"[Working in government] is stable, with higher social status and more space for future development as a government official."

Jingxiao, university student, China
December 2005

BOX 4.5 *Off-farm opportunities for youth in Palanpur, India*

The nonfarm economy has expanded greatly in the North Indian village of Palanpur in the past decades. In the mid-1980s, more than a third of village income came from nonagricultural activities, and more than 70 villagers were employed regularly or semi-regularly in the nonfarm sector (of a working-age male population of about 250). Visits to the village in the 1990s and in 2005 indicate that the expansion of nonfarm occupations has not abated.

Many young male villagers from Palanpur hold semi-regular jobs in industrial workshops and bakeries in the nearby towns of Chandausi and Moradabad. Employment contracts are often piecework, offering fairly high incomes in return for hard work and, in some cases, exposure to health hazards.

Although employment outside Palanpur is highly valued by villagers, particularly the young eager to venture beyond the village, access remains limited. Why? Because of social status (proxied by caste and education levels), wealth (bribes need to be paid), and outside contacts (a "recommendation" is often required).

Palanpur is located in socially conservative rural Uttar Pradesh, and outside employment opportunities are generally confined to males. Elsewhere, nonfarm jobs are also accessible to women.

Source: Lanjouw and Stern (2006).

productivity on the farm, labor is freed up to move to the nonfarm sector.[69]

The range of opportunities in rural areas is far wider than might be apparent at first glance. The rural nonfarm economy generates 30–50 percent of rural incomes throughout the developing world, shares that continue to grow.[70] In some instances, the high share is a result of crop failures or other adverse shocks to the farm sector. In most cases, however, rising productivity growth in the agriculture sector raises farm income and hence the demand for goods produced outside agriculture. Rising agriculture labor productivity also frees up labor to work off farm.

The rural nonfarm economy, extremely heterogeneous, provides an important source of youth employment throughout the developing world. In Latin America, about half the youth population ages 15–24 in rural areas, and more than 65 percent of those ages 25–34, work in nonagricultural activities. In 15 countries in this region, the higher share of youth employment in several nonagricultural sectors compared to employment in agriculture bears out the importance of the rural nonfarm economy.[71] In rural India, the likelihood of moving into nonfarm casual occupations peaks at age 22, and in Brazil at around 33.[72]

Because young people are the most mobile, they are the most likely to switch sectors to take advantage of new opportunities, including those in other countries (see chapter 8). So policies to develop the nonfarm sector will have a particularly pronounced effect on youth, even if not targeted at them.[73] For example, the promotion of small and medium rural enterprises that use imported technologies could have a differential impact on youth, given their advantage in using new technologies, as with Taiwan, China's promotion of rural manufacturing. As subcontractors, rural firms can acquire inputs, technical know-how, and links to external markets, increasing their attractiveness to young workers.[74] As education levels for rural youth improve, they can enter a broader range of nonagricultural occupations. In rural India and in Brazil, better educated youth have a higher likelihood of moving into highly productive nonfarm work.[75] Some of these new off-farm opportunities involve physically demanding and hazardous work (box 4.5). As transportation and economic integration reach the small towns scattered throughout rural areas, rural youth gain better access to urban opportunities without the need to migrate.

Facilitating mobility

For 29 developing countries with data, youth are 40 percent more likely than older people to move from rural to urban areas or to move across urban areas. Those who move have better employment outcomes, with mobility correlated negatively with youth unemployment and positively with employment and labor force participation.[76]

The Chinese rural-urban migration typifies the pattern.[77] Rural migrants tend to be younger than 35. Two-thirds are male. Half are single. Female migrants are younger and less likely to be married. Rural migrants are more educated than rural residents who did not migrate: 66 percent had a lower secondary school education, compared with 40 percent of rural residents who did not migrate. Rural migrants are less educated than urban residents, and so tend to fill the least skilled jobs available in cities. Even so, the incentives to migrate are clearly economic. Per capita urban incomes are more than three times those in rural areas, and the gap is rising. Even though rural migrants are paid half of what similarly skilled urban resi-

dents are paid, their pay is still well above that of workers in rural areas. Many rural migrants send money back to their relatives in rural areas, representing 13 percent of Chinese rural income in 2003.

Rural migrants nevertheless face real disadvantages relative to urban workers. In China, migrant workers have little legal recourse to compel payment, few receive health insurance or pensions, and few have good access to social services. China makes this explicit by the restriction on establishing legal residency in urban areas. These restrictions imply that total employment in the city is artificially smaller than its most efficient size. Allowing employment to grow to its peak efficient level could raise production by as much as 35 percent.[78] Rural migrants without residency permits have to pay significantly more for education, health, and other public services.[79] The government clearly recognized these issues, and is making policy changes to gradually delink the residency permit system from its welfare program, and to strengthen enforcement of labor regulations.[80]

Restrictions on rural-urban migration, not unique to China, show up in various guises in many countries. Such restrictions tend to depress wages in rural areas relative to urban areas, whereas allowing population flows out of rural areas tends to raise wages for those remaining in rural villages, and benefits the country as a whole by improving efficient allocation of labor.[81] Many youth also pursue opportunities to work overseas, whether they are from rural or urban areas. Issues of international migration, including country policies, are taken up in chapter 8.

Choosing to work and developing the skills to do so

Young people around the world ask, when should I start to work? What kind of job do I want? How do I look for it? How do I get ready for work? Preparing youth for employment starts with general education that provides the foundation for later acquisition of vocational skills. These vocational skills are acquired in the formal education system and beyond—in apprenticeship, work experience, and nonformal training. Those who want to work on their own need information, mentoring, and credit.

Skill development beyond schools

In middle-income countries with growing industrial sectors, the bridges between school and work, meant to address youth's lack of work experience and severe skill mismatches, take the form of formal apprenticeships or bringing work experience into the school context. In low-income countries with limited formal schooling, traditional apprenticeships are more widespread and more likely to provide the initial experience and skills youth need. In all countries, training systems must not only prepare youths for entry to work, but provide pathways for continual learning over a lifetime in response to changing technologies and global economic requirements. Increasing the incentives for firms to train and to reform training systems is essential.

Formal apprenticeship schemes. Germany's "dual system" combines part-time schooling with work and apprenticeship. Employer involvement ensures that the skills offered fit the needs of employers, reducing the likelihood of skill mismatches. The program has wide coverage: more than half of all youth undertake an apprenticeship. As in Germany, alternative school-based paths to qualifications in France, the United Kingdom, and the United States are associated with rather selective improvements in early labor market experience.[82] Overall, the strongest evidence favoring formal apprenticeships is the positive impact on employment for young men, and on earnings for young women.

Do apprenticeships apply to developing countries? Probably not, in their current format, because of the small share of employment in the modern wage sector, the slow growth of wage employment and jobs for new apprentices, and the weakness of institutions.[83] Some developing countries have tried the dual system, but with no clear pattern of success. The Mubarak-Kohl initiative in Egypt, launched to introduce the dual system in 1995, illustrates the challenges to starting such initiatives. Early reports from the ILO indicated resistance in the public education system and the absence of private sector umbrella organizations to manage joint training courses.[84]

"Lack of experience is the main barrier that young people face while seeking employment, because most employers prefer a few years of work experience."

Rahat, 24, Bangladesh

To succeed, these programs need to move beyond the traditional craft and technical trades and provide more general content as a foundation for occupational specialization. This could reduce mismatches in growing sectors, promote adaptability, and reduce gender bias. The United Kingdom's Modern Apprenticeship program offers apprenticeships in nontraditional trades in business administration, retailing, catering, personal care, and information technology; women constitute nearly half the apprentices. Australia's New Apprenticeships combine practical work and structured training, leading to nationally recognized qualification in more than 500 occupations. It is not clear how well these types of programs will perform in low-income countries.[85]

Traditional apprenticeships in low-income countries. Formal apprenticeships in the modern wage sector may be less relevant in many developing countries, where self-employment and the growth of microenterprises in the informal sector have accounted for an expanded share of employment over the past three decades. In Ghana, 80–90 percent of all basic skills training comes from traditional apprenticeships, compared with 5–10 percent from public training institutions and 10–15 percent from nongovernment sources.[86] Across West Africa, it is common to find more apprentices than wage employees in informal sector firms.[87] The strengths of traditional apprenticeships, while not carefully evaluated, are their practical orientation, self-regulation, and self-financing. They cater to individuals who lack the educational requirements for formal training (rural and urban poor), and they are generally cost-effective. However, they favor young men, screen out applicants from very poor households, perpetuate traditional technologies, and lack standards and quality assurance.[88]

"To avoid jobs like house servants and cleaners, youth programs can include training in other jobs like catering, carpentry, and building."

Jack, 16, Zambia

Steps to strengthen traditional apprenticeship include improving literacy and the basic education of apprentices, opening access to new technologies, improving the pedagogical and technical skills of master craftsmen, and certifying skills attained. In Kenya's Jua Kali, the informal sector, vouchers enhanced the access of master craftsmen to new technologies and upgraded their skills, improving the quality and relevance of the training they could offer apprentices.[89] The vouchers helped create a market for training that encouraged new sources of supply and competition. Providing literacy and basic education for apprentices and certifying their skills on completion also improve outcomes.

Training by employers. Bringing work experience into the schooling context can improve the youth transition to work (chapter 3); at the same time employers provide and finance training on and off the job long after youth exit school. As a source of skills for youths, employers are often overlooked in favor of public training programs. Surveys conducted by the World Bank in 37 countries covering 18,217 manufacturing firms show that enterprises are active trainers.[90] Nearly 60 percent of firms in East Asia and the Pacific provide training with the share falling to just under 20 percent in the Middle East and North Africa.

Leaving training to enterprises does not, however, ensure access for all to training. Enterprises often are less likely to invest in skills widely used by other enterprises for fear of losing trained workers and their investment. Thus, not all firms will train, nor will all workers in enterprises be trained. In Colombia, Indonesia, Malaysia, Mexico, and Taiwan, China, large manufacturing firms are more likely to train than smaller ones.[91] Kenya, Zambia, and Zimbabwe show a similar pattern, with manufacturing firms employing 151 or more workers being twice as likely to invest in external training for their workers as those employing 51 to 150, and more than 10 times as likely as those with firms of 10 or fewer workers. Firms with a higher likelihood of training are those that export, have foreign investment, and adopt new technologies—and they are more likely to train workers with more education.[92] Other firms will need financial incentives to train young inexperienced workers. Policies can also condition the participation in other programs (like wage subsidies for new entrants) on the provision of training for young workers.

Technical and vocational education and training. Because not all firms can pro-

vide training and because not all young workers benefit from employer training, public interventions are needed. Training offered by employers is relevant and effective, but that provided by the public sector is subject to question. Rigid, low-quality training systems disconnected from labor markets have led many countries to reform their programs. Nonformal training systems outside formal education are changing the way providers are governed, managed, and financed (chapter 3). China, Chile, the Islamic Republic of Iran, the Republic of Korea, Malaysia, Mozambique, and Singapore, recognizing the fiscal limits of public provision, have opened the doors to public-private partnerships to diversify financing for training, promote sustainability, and improve access and relevance. In Latin America, but also other regions, the roles of government as financier and provider of training (Servicio Nacional de Aprendizaje or SENA, for example) are being reassessed for national training agencies.[93] Specialized training agencies, responsible for training policies and strategies, are assuming a larger role in policy development and management of training expenditures instead of provision. These are also opening more competition between public and private providers to improve quality and relevance of the training offered.

In Mauritius, the Industrial Vocational Training Board has split the financing and provision of training and adopted a competitive model for procuring training services. Argentina and Chile have similar national bodies. In Chile, the Servicio Nacional de Capacitación y Empleo (SENCE), a specialized agency of the Ministry of Labor, maintains no capacity for the provision of training and instead procures training services from other public and private providers for target groups. Competition promotes efficiency in delivery and more closely links training to market demands, shifting the financing model for training from supply-driven to demand-driven.[94]

Overall, training systems are moving away from a narrow focus on inputs for training, with more instructors, workshops, and equipment—to a focus on outcomes, with attention to skills standards set by employers and competency-based delivery by a mixture of public and private provision, measuring performance in terms of job placement and increased worker productivity. Curricula developed in a modular fashion promote flexible entry and exit for training consistent with a lifelong learning model. Sound monitoring and evaluation programs are important in guiding reforms, policy development, and market operations.

Starting work on their own: Self-employment and youth entrepreneurs

Many young people in the labor market work in businesses they have started on their own.[95] Some are entrepreneurs by necessity, others by opportunity.[96] In Latin America, 13 percent of those 16–24 are in entrepreneurial activities, the great majority (12 percent) self-employed; only 1 percent are employers. The self-employed are generally less educated and poorer than employers. Women make up about one-third of the self-employed entrepreneurs and about one-quarter of the employers.

Of the unemployed in Peru in 1998, 18 percent became self-employed by 2001, compared with only 6 percent in Nicaragua (table 4.1). The higher self-employment in Peru explains part of the lower persistence of joblessness in Peru. About half the young

Table 4.1 Employment transitions for youth (ages 16–30)

	Status in 2001			
Status in 1998	**Unemployed or inactive (%)**	**Employee (%)**	**Self-employed (%)**	**Employer (%)**
Peru				
Unemployed or inactive	33	24	18	2
Employee	7	28	13	1
Self-employed	13	25	52	1
Employer	9	9	55	27
Nicaragua				
Unemployed or inactive	60	18	7	0
Employee	25	59	23	17
Self-employed	11	23	45	9
Employer	3	17	40	31

Source: Llisteri and others (2006).
Note: Not included in the table are students and those in unpaid family work.

"I do not want to be a babshahi [Bengali word for businessman, implying small businessman]. I want to be a bijnizman [after the English word, implying large scale business]."

Male young person, Bangladesh

people self-employed in 1998 were still self-employed three years later. Nine percent of the self-employed in Nicaragua had become employers within three years, but only 1 percent in Peru. And only a third of employers in 1998 continued to be employers in 2001, the majority becoming self-employed or paid employed. All in all, these patterns suggest that self-employment is a faster route to paid employment, but if it persists over the medium term, it is not likely to create additional jobs.

In Latin American countries, about half of entrepreneurs felt motivated to strike out on their own just after secondary and tertiary school and during their first labor experience, using the knowledge, skills, and contacts they had acquired.[97] They come mainly from middle- or upper-middle-class families, about half of them from families with at least one entrepreneurial parent. More than half are graduates starting their business within two years of leaving university. This small group is responsible for a disproportionate part of the jobs created by new companies. In Argentina, for instance, five years after their creation, about 6 percent of the new firms are responsible for 60 percent of the jobs in survivor firms from that cohort.[98]

These entrepreneurs face several constraints to creating and growing a venture: access to financing, to formal networks, and to clients, suppliers, and skilled workers. The Global Entrepreneurship Monitor indicates only a very small share of these entrepreneurships are able to succeed. Young Latin American entrepreneurs face higher transaction costs than those in East Asia. Most of them use their networks (mainly production networks of clients and suppliers and social networks of family and friends) to overcome obstacles and make their ventures grow. General policies that enhance the environment for doing business are not youth-specific but are needed to facilitate entrepreneurship in general.

However, because youth lack the networks, experience, and collateral of adults, they face additional constraints. Several new programs to promote entrepreneurship have been initiated in Latin America, but they are fairly new and have not been formally evaluated. They are targeted to entrepreneurs with high-growth potential, frequently founded by young middle-class people. Universities, business schools, private foundations, incubators, angel investor networks, and, more recently, some governments provide direct support to the entrepreneur—networking, incubation, mentoring, and financing. For example, Endeavor (a program in Argentina, Brazil, Chile, Mexico, and Uruguay) helps young ventures in a second round of growth mainly through networking (with private investors) and mentoring.

The public sector in some countries has started to support entrepreneurs close to or just after start-up. The Umsobomvu Youth Fund is a development fund in South Africa created by the government to support access to information, skills development, and financial support for people under age 35. Softex in Brazil, a public-private partnership, targets university students in software, providing training courses, technical assistance, and networking support. In Chile, a seed capital program led by CORFO (Corporación de Fomento de la Producción) provides finance and technical assistance to entrepreneurs, operating a public-private partnership with universities and incubators to identify and evaluate the most promising ventures and prepare them for seed capital. This program was replicated by the Buenos Aires Emprende 1 and scaled up by Emprende 2 by large public universities and trade chambers fostering software entrepreneurs.

Providing a springboard to reintegrate the most vulnerable

Vulnerable young people—those who started work too early, never attended school, failed to acquire literacy, or never made it to the workforce—need a second chance. Some disadvantaged youth—such as those with disabilities, ethnic minorities, and orphans—never had even a first chance. Providing them with the relevant skills to enter or reenter the workforce reduces inequities in the labor market and increases their productivity and ability to break out of poverty traps. Because second chances are costly, they have to be well-targeted, designed to increase youth skills,

and geared to labor market needs. Because young people in need of second chances are usually vulnerable along several dimensions, programs have to be comprehensive.

Second-chance programs are costly but needed

Policies and programs for second chances are typically costly and rarely successful. Meager and Evans (1998) observe that "it is rapidly becoming conventional wisdom in the policy evaluation literature that labor market training and re-training schemes for the unemployed have not lived up to expectations." A recent review of 19 programs, five of them in transition and developing countries, shows that training programs rarely improve the employment and earnings of young participants.[99] The results underline the importance of having universal access to first-chance policies and programs. In some cases, however, the costs of not intervening are overwhelming, and if well designed, second chances could be cost effective.

An estimated 8.4 million children are engaged in what international conventions call the "unconditional worst" forms of child labor, which include child trafficking, prostitution, and other forms of extremely hazardous work. About 10–12 percent of the population in developing countries is estimated to be disabled, and some evidence suggests they are disproportionately poor.[100] Young people with disabilities, as well as youth from ethnic minority groups, invariably face more difficulties finding employment, despite the evidence that they can be productive given the right support (box 4.6). From an equity perspective, public intervention is needed to support the most vulnerable and to offer them a second chance to reintegrate into the workplace. For the very young, some second-chance opportunities could reintegrate them into the education system (chapter 3). For the large pool of low-skilled unemployed youth, a second chance could help them move into productive work.

What might make for successful programs?

Not enough evaluations of youth employment interventions are available to provide guidance in selecting the right model.[101] Experience suggests, however, that interventions need to require that youth are either working or actively searching for work, provide the skills relevant to integrate or reintegrate them into work, and be delivered efficiently in response to local demand.

Beneficiaries have to work or look for work. Unlike other interventions, such as cash transfers or unemployment insurance, interventions targeting youth need to include either work or active search as conditions to benefit from the programs. Programs in the public sector that focus on the provision of public works to produce needed public goods and services provide good opportunities for young workers, particularly the low skilled and rural, to acquire initial work experience. Few evaluations have tested whether these programs improve the chances of participants to enter the labor market and enhance employment in the private sector. One positive example is Argentina's Trabajar program, which had a significant impact on participants' current income.[102] There

BOX 4.6 ***Employing youth with disabilities***

In addition to the usual challenges youth face finding employment, disabled youth face a lack of access to jobs and employment centers because of stigma and other barriers. In particular, disabled people have often been denied an education: About one-third of all children not in primary school have a disability. In Brazil, while 55 percent of 18- to 19-year-olds are employed, only 29 percent of physically disabled youths and 24 percent of mentally disabled youths have jobs. This lack of education and employment sets them up for a lifetime of poverty. In Serbia and Montenegro, 70 percent of disabled people are poor and only 13 percent have access to employment. In Sri Lanka, over 80 percent of the disabled are unemployed.

Evidence from OECD countries shows that disabled youth can be quite productive given the right attitudes and supports, doubly important because disabled youth have greater difficulty recovering from an unsuccessful school-to-work transition. Some OECD countries have instituted national policies on school-to-work transition for disabled youth.

Experience from low- and middle-income countries also demonstrates that disabled youth can be integrated into the labor market. In Egypt, Ethiopia, and Uganda, organizations are empowering disabled youths and their parents to plan for and pursue employment. In Pakistan many disabled youth are employed at Independent Living Centers.

The Salva Vita Foundation in Hungary has run a program since 1996 to integrate the disabled into the general workforce:

- The Supported Employment Service assists in job placement, offers training, and helps solve problems at work.
- The Employees' Club provides individual and group follow-up for clients who have found employment through the Supported Employment Service.
- The Work Experience Program integrates employment into the school curriculum.

Sources: Bercovich (2004); World Bank (2004c); Stapleton and Burkhauser (2003); Tudawe (2001); and www.salvavita.hu.

"Discrimination forms the biggest challenge given the social exclusion of disabled persons from society. Most of the disabled youth haven't accomplished their education due to lack of support, hence they have a skill deficit [relative to] the job market."

Frederick, 23, Kenya

is also some evidence of lagged gains from past participation. Among continuing participants in this program, about half felt that it improved their chances of getting a job, two-thirds that it gave them a marketable skill, and about one-third that it expanded their contacts.[103]

The African AGETIP (Agence d'Exécution des Travaux d'Intérêt Publique) programs combine efforts to build public infrastructure such as roads, buildings, and sanitation systems, with efforts to provide jobs and training for unemployed youth. Construction firms that get the contracts also agree to use relatively labor-intensive practices to use local inexperienced youth who receive training funded by AGETIP. The youth are hired on a temporary basis, but the training and work experience are important inroads to later, more permanent employment. Because the public works projects are local, they can be targeted geographically to assist relatively poor, uneducated, or unemployed areas of the population.

The evaluation of the first seven years of the AGETIP program in Senegal found that the number of engineering firms more than tripled, the number of construction firms increased fivefold, and 35,000 person-years of employment were generated. Unfortunately, governance can be an issue.[104] Public works projects require transparency and oversight to ensure that the projects are targeted to the poor, that only worthy projects are funded, that the money is used wisely, and that inexperienced youth are trained.

Public works provide good targeting for other youth interventions that could increase the likelihood of youth finding better employment opportunities beyond the program. Argentina's Proempleo experiment in 1998–2002 tested mechanisms to help participants in the public works program (Trabajar) find employment in the private sector. It assessed whether wage subsidies and specialized training could assist participants in the transition from workfare to regular work. The wage subsidy increased the probability of becoming employed in the private sector by 9 percentage points for young participants under 30.[105] The wage subsidy and training programs raised private sector employment by 13 percentage points. Interestingly, effects for older cohorts were insignificant, so the successes were confined to youth.

Public employment services should also require youth to be active in job searching. In Korea, the Philippines, and Thailand, however, young people make little use of state labor offices.[106] In those countries, employment offices have been transformed into one-stop centers giving job seekers access to job search assistance and placement in vocational training. In Korea, however, only 5.8 percent of the unemployed found jobs through the public employment services, and even that may overestimate the impact because there were no proper controls to measure the placement rate for people not using the service.

An interesting recent example of private involvement from Brazil is the First Job program started in Curitiba municipality, financed by the local government. It aims to link youth with firms in the municipality (no evaluation is available yet). Another promising public employment program is JobsNet, a quickly growing job-matching agency in Sri Lanka.[107]

Programs should provide the relevant skills. Comprehensive programs that provide training as part of a package that includes basic education, employment services, and social services are more likely to have better success. Entra 21, a global effort intended to prepare 19,000 disadvantaged youth for jobs requiring information and communication technology in 18 countries in Latin America, placed at least 40 percent of the targeted youth in employment. The programs offer a complete range of services, including not just technical and life-skills training but also job placement services, internships, and advice in developing self-employment initiatives. A meta-analysis of six Entra 21 projects revealed a higher than expected job placement rate among 2,890 youths.[108] Employment rates rose from 15 percent at the start to 54 percent 6–12 months later. Most jobs were in the formal sector, permanent, and paid the minimum wage or higher. Although most youth opted for salaried employment, in several coun-

BOX 4.7 ***Joven programs increased employment and earnings for some disadvantaged youths***

The Joven programs offer comprehensive training to unemployed and economically disadvantaged youths 16 to 29 years of age, aiming to improve their human and social capital and employability. The demand-driven model has been customized throughout Argentina, Chile, Colombia, the Dominican Republic, Panama, Paraguay, Peru, and República Bolivariana de Venezuela. Technical training and internship experiences with employers are combined with basic life skills and other support services to ensure social integration and job readiness (see table). Private and public institutions—contracted through public bidding mechanisms—provide the training and organize the internships.

The programs target the poor, and more than 60 percent of participants come from low-income families. The highest education level completed by beneficiaries was secondary, with significant participation by school dropouts (50 percent in Chile Joven). Other targeting criteria, such as employment, gender, and age, also applied. Most beneficiaries had precarious employment conditions before the program. In Argentina 83 percent of participants, and in Chile 57 percent were unemployed. Women were fairly equally represented in Chile, while Argentina had the lowest female participation (about 40 percent). Targeting focused on 16- to 24-year-olds, about 70 percent of all participants.[109]

Employment

The programs increased the probability of beneficiaries finding employment upon graduation, especially for women. In Argentina, the program increased the probability of employment for young adult women (21 years and older) by about 10 percentage points over a control group. In Chile the program increased the probability of employment 21 percentage points, with strongly significant results for youths 21 and younger.

Earnings

In Argentina the program increased monthly wages by about 10 percent over a control group, with results more favorable for young males and adult females. In Chile one study showed a negative impact on wages of -8.8 percent, led by a reduction of wages in the formal sector. Subsequent analyses found a positive impact on earnings approaching 26 percent, strongly significant for youths 21 and younger. In absolute terms the wage impact was higher for men, but in a comparison of pre- and postprogram earnings, women had a slightly higher increase relative to men.

Costs and benefits

With the given underlying cost per trainee and the impact on employment and earnings, the net present value (NPV) of the program can be calculated (given a discount rate, usually assumed to be 5 percent). While costly, these programs in Argentina and Chile have positive NPVs, with a higher NPV in Chile compared to Argentina. It is important to note that this calculation does not take into account the externalities from the program such as better health outcomes and reductions in risky behavior among participants. In this sense, the estimates are likely to provide only a lower bound of the NPV. It is also important to note that with the exception of forgone earnings, the party incurring the direct costs (public funds) is different from the party benefiting from the program—the participants.

Costs and impact of programs varies across countries

	Argentina	Chile
	Proyecto Joven	Chile Joven
Coverage (people)	116,000	165,000
Cost per trainee ($)	2,000	730–930
Private benefits		
Impact on employment (percentage point increase)	10	21
Impact on earnings (percentage point increase)	10	26

Sources: Aedo and Nuñez (2001); Aedo and Pizarro Valdivia (2004); de Moura Castro (1999); Elias and others (2004); Inter-American Development Bank (2005); and Santiago Consultores Asociados (1999).

tries as many as a quarter set up their own micro businesses.

Employers surveyed by Entra 21 value the combination of life skills and technical skills developed by the program, rating youths' life skills as satisfactory to highly satisfactory in meeting their companies' needs. More than 70 percent of employers said the graduates' potential as workers was equal to or greater than that of other employees in similar positions, and more than 90 percent in four projects rated graduates' overall performance as better than or equal to that of workers in similar positions.

In Argentina, Chile, Peru, and Uruguay the Joven programs have been widely recognized as successful in reaching disadvantaged youth (box 4.7). Their targeting of low-income youths has improved labor placement and earnings for their beneficiaries across Latin America. Critical to their success is the nature of the training—from technical to life skills and from lectures to internships—and the sound support services and course certifications that foster youth's continuing participation.

Skill development should respond to local demand and promote competition among providers. Among the important factors behind the success of the Joven programs are that the demand-oriented approach fosters private participation—and that

Table 4.2 Summary of youth employment policy directions and examples of programs

	Proven and successful	Promising but unproven	Unlikely to be successful
Opportunities			
Creating jobs	Trade openness: youth-intensive exporting sectors (Indonesia and Vietnam) Market-oriented reform (Slovenia and Estonia) General labor market reform (Colombia) When minimum wages are too binding, lowering youth minimum wage (Chile)	Wage subsidies and private sector incentives, targeted to unskilled and unemployed (Hungary, Poland, and the Czech Republic)	Schemes guaranteeing public sector jobs for the educated (Morocco, Egypt, Sri Lanka, and Ethiopia) Wage-setting institutions that compress wages (overly high minimum wages, Chile and Brazil) Overly restrictive employment protection laws (Chile, Latin American and Caribbean countries, and OECD countries) Partial labor market reform (reducing employment protection for youth only, or temporary contracts) increases youth turnover, but segments the market (France and Spain)
Reducing child labor	Conditional cash transfers for children vulnerable to child labor (PETI in Brazil, PROGRESA in Mexico, and Human Development Bond Project (BDH) in Ecuador)		
Facilitating mobility	Support for rural nonfarm employment (Taiwan, China's promotion of rural manufacturing)		Restrictions on rural migrants
Capabilities			
Skills development	Apprenticeship programs: successful in Germany, unproven in developing countries Traditional apprenticeship with access to new technologies for master craftsmen (Kenya's Jua Kali program) Enterprise-based training (Ghana, Kenya, and Zimbabwe)	New apprenticeship programs (the United Kingdom and Australia offering apprenticeships in new service sectors) Traditional apprenticeships in the informal sector (mixed evidence from Sub-Saharan Africa) Jobs Net, Sri Lanka matching agency Training vouchers (Malaysia) Reforming training institutes to introduce competition among private and public providers (Mauritius Industrial Vocational Training Board, Chile Servicio National de Capacitación y Empleo)	Slovenia's capitalization program (for entrepreneurs)
Self-employment		Self-employment assistance (Hungary and Poland) Promotion of entrepreneurship (Endeavor program in Argentina, Brazil, Chile, Mexico, and Uruguay) Softex (Brazil) public-private partnership for entrepreneurs Chile CORFO and Buenos Aires Emprende 1 and 2 Empowering youth with disabilities (Pakistan's Independent Living Centers)	
Second chances	Bundled programs (comprehensive) providing training, placement, mentoring, and the like (U.S. Job Corps, Joven programs in Argentina, Chile, Peru, and Uruguay) Public works programs (in low-income countries targeted to the low-skilled and unemployed youth) Proempleo program in Argentina combines public works and wage subsidies	Entra 21 programs including training, soft skills, internship (18 countries in Latin America and the Caribbean) Reintegrating youth with disabilities into the labor market (Hungary Salva Vita Foundation on supported employment and work experience program) AGETIP (Senegal) public works targeting youth Colectivo integral de Desarrollo in Peru Public employment services (Korea, the Philippines, and Thailand)	

competition is promoted among training providers. Transferring the Joven model to other developing countries requires strong institutions to manage a decentralized program and to coordinate the goals and operations of training institutions and participating companies. It also requires continual evaluation of the quality of the courses and internships and the performance of training institutions.

In sum, roadblocks on the way to work have implications for youth themselves and on development and poverty reduction efforts. Policy makers need to consider strategies to delay youth from going to work too early, to smooth the entry to the workforce, and to allow movement toward better quality work (table 4.2). In all countries, a better investment climate, a well-functioning labor market, and an expanding nonfarm rural sector broaden employment opportunities for everybody, and youth could benefit more than adults. Other interventions are youth-specific, designed to fit individual country contexts:

- In middle-income countries, reforming labor market institutions to better accommodate new entrants and providing financial incentives for firms to hire young workers will broaden youth opportunities. Building more bridges between school and work and increasing access to information will enhance the ability of youth to take advantage of these opportunities.
- In low-income countries, building on basic skills through better-designed formal and informal apprenticeship will improve relevance to the needs of a changing labor market and facilitate youth transition to work. A mix of public work programs, wage subsidies, internships, and training provides a springboard to reintegrate the most vulnerable back into productive employment.

spotlight

Do baby booms lead to employment busts? Not in OECD countries

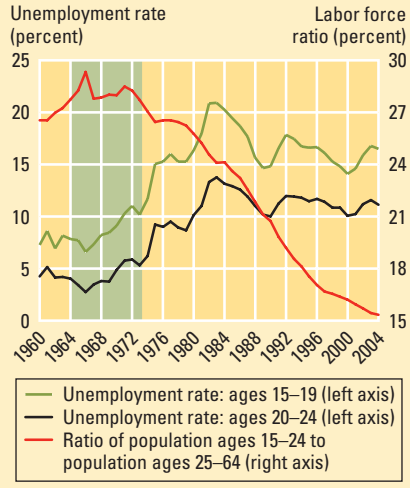
The post–World War II OECD baby boom offers lessons on how to absorb large youth cohorts into the labor market. What groups are most affected? What policies help youth most? Do bad policy choices cause more damage to youth employment prospects than large youth populations?

Youth unemployment in OECD countries is due to weak demand and bad policy and not the baby boom

One year after the end of World War II and for about 20 years thereafter, the G-7 countries experienced a surge in the birth rate relative to periods before and since. As a result, an unusually large share of youth entered the labor force from the mid-1960s until the early 1980s, with the peak occurring between 1967 and 1973 (figure 1). Since then, the youth share of the labor market has fallen steadily.

One might expect that youth in the baby boom cohorts would have had much more difficulty finding work than would the relatively small youth cohorts entering the labor market in the 1990s. The opposite is true, however: average youth unemployment rates across the G-7 countries are 7 percentage points higher than during the peak of the baby boom. In contrast, adult unemployment rates in the G-7 countries have risen less than 2 percentage points.

Figure 1 Youth unemployment rates for the G-7 countries are higher now than during the baby boom



Source: Authors' compilations based on data provided by OECD Database on Labour Force Statistics.
Note: Shaded portion of the figure indicates peak baby boom entry years.

Youth unemployment rates did rise modestly as the baby boom cohort entered the labor market. However, the unemployment rates are affected much more by the overall strength of the labor market.[1] Youth unemployment is extremely sensitive to the business cycle: youth benefit greatly when labor demand is increasing, but suffer disproportionately when the economy is in recession or growing slowly. One lesson from the Organisation for Economic Co-operation and Development (OECD) countries is that even a modest deterioration in the strength of labor demand, measured by the rising unemployment rate for older workers in OECD countries, has increased the difficulty in the transition from school to work.

The less educated and minority youth have the greatest problems with unemployment

Are youth receiving too much education so that they become overqualified for the jobs that are available? No. Evidence suggests that the least educated face the greatest mismatch between skills and job vacancies. In almost every industrial economy, average unemployment rates fall as years of schooling increase.

Nor does job training tend to reduce the disadvantage faced by the less educated. The gap in access to jobs continues as the cohorts age because the most educated get the most job training. College graduates in OECD countries are seven times more likely to receive training than are high school dropouts. Similarly dramatic gaps in access to training exist between the highest and lowest literacy groups.

Unemployment rates are uniformly higher for minority youth in OECD countries. Such groups are atypically disadvantaged by recessions and by policies that tend to limit new job creation. They are also atypically disadvantaged in completing education, compounding disadvantages related to discrimination in the labor market. In France, where government statistics do not recognize ethnicity, youth unemployment rates in predominantly ethnic urban enclaves are around 40 percent, nearly twice the already high French average.

High youth unemployment can cause youth and the country permanent harm

Does early unemployment cause permanent scarring of youth, resulting in employment difficulties later in life? Answers vary. In the United States, most studies find that spells of unemployment after leaving school do not result in persistent unemployment later in life. This corresponds to fairly high transition rates from unemployment into employment: 46 percent of unemployed youth are employed one month later.

Corresponding transition rates in France, Germany, and the United Kingdom are much lower, ranging from 4 to 14 percent, and more evidence indicates that early unemployment results in persistent unemployment. One-third of the unemployed in France have been unemployed more than a year, compared with 8.5 percent in the United States. The persistent adverse effects of early unemployment on later employment stability can last seven years in France, compared with two in the United States.[2] The degree of persistence appears to respond to business cycles, with less permanent damage from early unemployment in economies experiencing job growth. In addition, the scarring effect of early unemployment tends to be greatest for the least educated and for disadvantaged youth.[3]

Weak youth labor markets tend to delay other transitions. In Europe, the average age at which youth leave the home has increased, especially in southern European countries. In Italy, 80 percent of males ages 18–30 still live with their parents, compared with 25 percent in the United States. Across OECD countries, the average age of marriage has

increased while the average number of children per household has fallen.

Weakening youth labor markets have at least a partial role in explaining these changes in life transitions. Youth tend to delay leaving their parents' homes during recessions. Differences in the relative strength of country youth labor markets can explain observed differences across countries in the average age of home leaving.[4] In Germany and Spain, the likelihood of leaving home increases significantly with youth employment status and labor earnings.[5]

When youth face constraints in access to legal employment, they may engage in illegal activities. Studies in the United States and the United Kingdom show that weakening wages for low-skilled youth are correlated with increases in criminal activity.[6] Less consistent evidence links long-term youth unemployment with crime, although discontent with high rates of youth unemployment in minority communities has been cited as a contributing factor to unrest. One recent study in France shows that cities with higher youth unemployment have higher rates of burglaries, thefts, and drug offenses.[7]

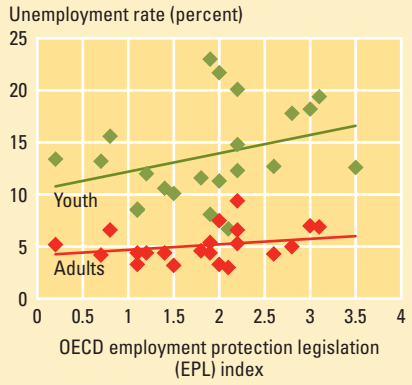
Efforts to protect job security do not help and may hinder youth

The youth unemployment problem appears to be exacerbated by policies aimed at preserving jobs. Many countries have enacted Employment Protection Legislation (EPL) that makes it more difficult or costly for firms to lay off workers. These policies are designed to insure workers against income loss from fluctuations in labor demand. However, such legislation also makes it more costly for firms to hire workers, thus stricter EPL tends to depress the rate of new job creation.[8]

These adverse consequences of EPL are borne mostly by groups that are disproportionately first-time job seekers, so youth tend to be atypically disadvantaged.[9] Because EPL appears to retard new job creation, it can also heighten the persistent effects of early unemployment on employment prospects later in life.

Stricter employment protection legislation does not appear to create unemployment problems for older workers and may even insulate them from competition with younger workers (figure 2). In eras of both large and small youth cohorts, stricter EPL is correlated with higher youth unemployment rates.

Figure 2 Employment protection hurt OECD youth, but not adults, in 2003



Source: Authors' compilations based on information presented in OECD (2004).
Note: In the figure, youth are those ages 15–24; adults are those ages 25–54. Correlation with EPL index is 0.32 for youth and 0.27 for adults. Each data point in the graph represents one country.

Similar findings hold for legislation that diminishes wage flexibility, such as high minimum wages or extending union-negotiated wages to nonunion workers. Such policies reduce wage inequality across workers, but risk making it too expensive to hire those lacking schooling or prior labor market experience.

Many of the countries with the strongest youth labor market outcomes over the past 15 years (Ireland, the Netherlands, New Zealand, the United Kingdom, the United States) have tended to be those with rising wage inequality. The implication is that wage flexibility has helped these economies to adjust to shocks and to create new job opportunities for youth, but at a cost of increased income disparities in the population.[10]

Countries with stronger EPL have experienced growth in temporary and fixed-term jobs that are frequently exempt from firing restrictions. This allows new job growth, but it creates dual labor markets with protected jobs held predominantly by "insiders" (older male workers) and temporary jobs held by "outsiders" (women, minorities, and youth). Insiders have an incentive to maintain and expand employment protection, which protects their jobs at the expense of youth and other outsiders. Perhaps that is why all but a few countries have found it so difficult to relax the employment protection, even when their youth unemployment rates are so high.

Efforts to fix the youth labor market have mixed success

OECD countries have used various policies to try to fix youth unemployment. One option that appears unsuccessful is to try to "make room" for youth employment by encouraging older workers to retire. The limited evidence suggests that older and younger workers may be complements and not substitutes in production. Countries with higher retirement ages for men and women have higher employment rates for male and female youth.[11] Similarly, efforts in France to limit hours of work to force firms to hire additional workers appear not to have resulted in appreciable job growth.

The average OECD country spends around 2 percent of GDP on active labor market policies, with training being the largest component of those expenditures. Public expenditures are only about one-tenth of the total, however, and private training is weighted heavily toward the most educated. Private training is unlikely to offer a significant second-chance option for those who failed to attain a sufficient level of prior education. Publicly subsidized training tends to have the greatest success with more-educated recipients.

The experience of youth training programs in Europe suggests that they have improved the transition to employment but that the impact on earnings is more mixed.[12]

Of other active labor market policies, job search assistance and wage subsidies appear to be the most promising for raising employment rates of disadvantaged youth, but public employment programs have not worked. Evidence also suggests that youth are more successful in transitioning to employment in countries where unemployment benefits are conditioned on active job search and willingness to accept jobs when offered.[13]